FEDERAL MINISTRY OF FINANCE

Austrian Stability Programme

Update for the period 2016 to 2021

Federal Ministry of Finance

Vienna, April 19th, 2017

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 for the period 2016 to 2021 are in line with the requirements of the Code of Conduct.

At the same time, this document covers the national medium-term budgetary plan according to Article 4 of the "Two-pack"-Regulation 473/2013.

Against the background of the current growth scenarios, the Federal Government pursues the objective of a further strengthening of growth and employment. This is supported by a sustainable and solid budgetary policy at all levels of government.

The 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 2016, the medium-term economic forecast by the Austrian Institute of Economic Research (WIFO) as of March 24th, 2016, and calculations and assessments by the Federal Ministry of Finance (BMF).

On January 30th, 2017, the Federal Government endorsed a comprehensive and ambitious reform programme, together with a detailed implementation plan, for the next 18 months. The total cost of the measures of cumulatively about 4 bn € will be financed within the medium-term expenditure framework. About 2.8 bn € should be financed by savings, expenditure cuts and reallocations. The economic growth and employment impact of the measures is expected to contribute about 1.2 bn €. All measures included in the work program will be considered within the medium-term expenditure framework 2018 – 2021 and the annual budget for 2018 – in line with the Maastricht criteria – and approved by the Federal Government in fall (September/October) 2017.

2. Economic situation in Austria

2.1. Economic development (2016-2021)

In 2016 real GDP growth in Austria accelerated to 1.5%. This ended a period of four years with growth rates below 1%. The strongest growth contribution came from private and public consumption and investment in equipment. The contribution of net exports was slightly negative for the first time since 2012. The investment ratio was again one of the highest in the EU. A large part of the increase in public and private consumption was due to the tax reform.

The number of persons in employment rose by more than 60,100 (1.5%) in 2016. At the same time, the labour force expanded by approximately 63,100 persons (1.5%). This was caused by several factors: an increase in the employment rate of older workers, the continuous rise in the employment rate of women, combined with a persistent inflow of foreign workers.

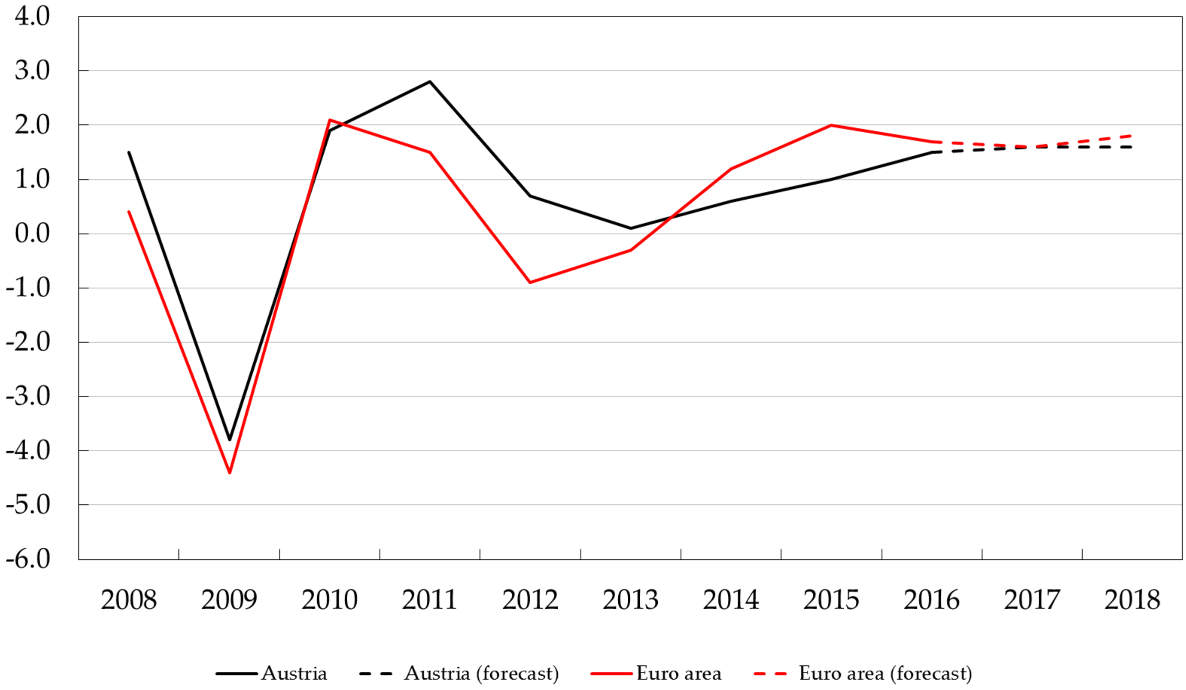
As a result, the unemployment rate as defined by Eurostat increased by 0.3pp to 6.0% in 2016.

In 2016 the inflation rate in Austria was 0.9%, with housing rents, restaurants and hotels being the main price drivers. In December 2016 the Austrian inflation was lower than that of Germany for the first time since 2010.

Over the period 2008-2013, real growth rates of GDP were at least as high in Austria as in the euro area. Until last year growth was lower than the average of the euro area, but increased continuously and should develop in accordance with the euro area from 2017 onwards.

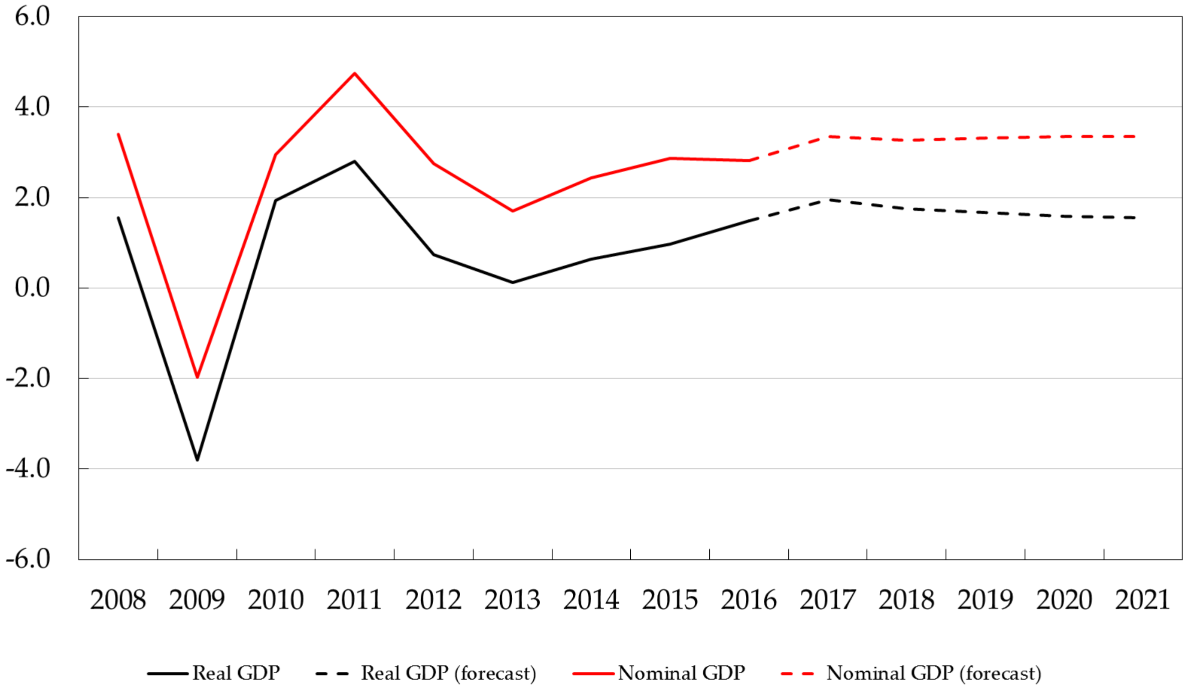
On March 24th, 2017, WIFO published it latest short and medium-term economic forecast, which forms the basis for this programme. The WIFO forecast does not yet take into account the measure of the government programme adopted in January 2017.

Figure 1: Real GDP growth (Austria and the Euro Area)



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

Figure 2: Real and nominal GDP growth

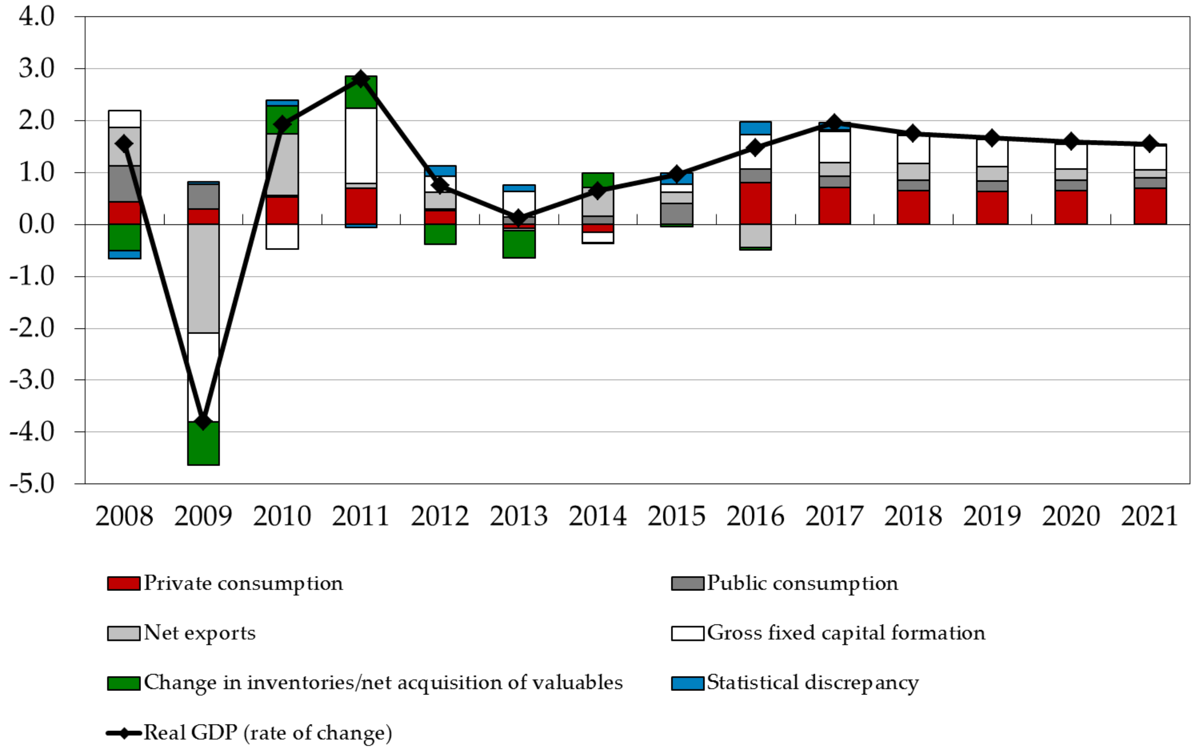


Left axis: Rate of change over previous year in %
Sources: STAT, WIFO

According to WIFO, the short-term economic outlook is favourable. Leading indicators for the Austrian economy have reached levels similar to previous cyclical peaks. Lively domestic demand is supported by strong growth in employment, while the better international environment should provide additional growth stimulus. In 2017 the Austrian economy is expected to grow by 2.0% and in 2018 by 1.8% in real terms.

In the medium-term until 2021, WIFO expects an average potential GDP growth rate of 1.5% per year, and an actual GDP growth rate of 1.7% per year. Driving factors are the increase of real exports by 3.3% per year from 2016 to 2021. The effects of the tax reform 2015/2016 on private consumption are expected to flatten. Private consumption is expected to grow by 1.3% per year between 2016 and 2021 – considerably higher than the 0.3% annual expansion from 2011 to 2016. Investment follows the stronger demand and is expected to grow by 2.2% per year on average between 2016 and 2021.

Figure 3: Contribution to real GDP growth



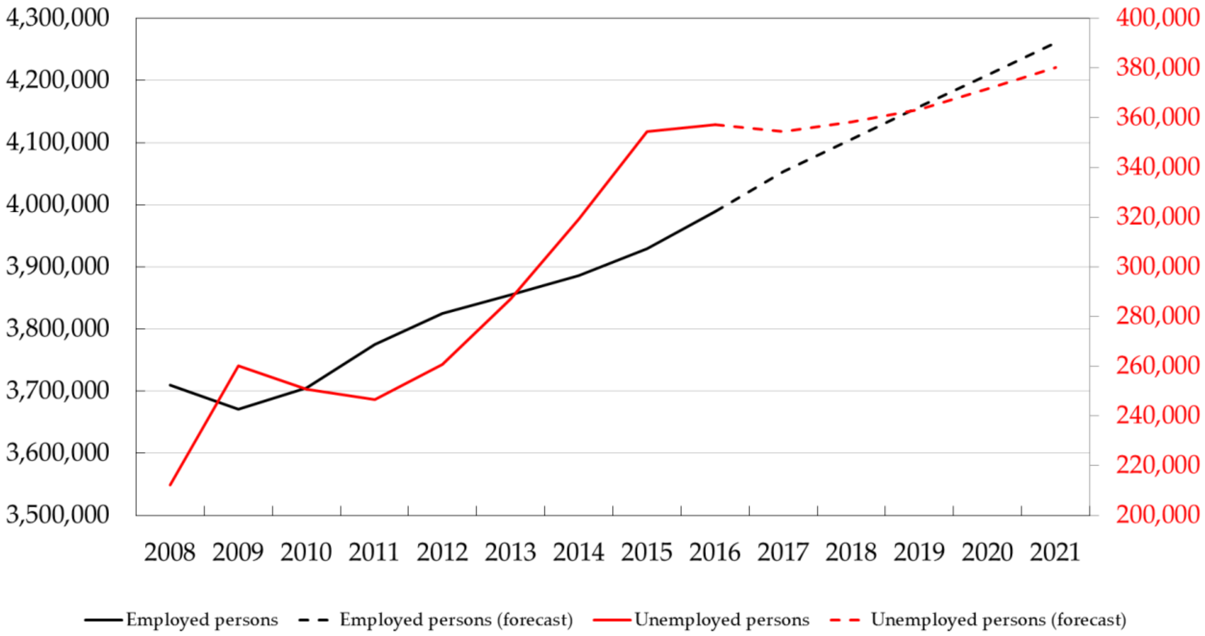
Left axis: Contribution to real GDP growth in percentage points
2017-2021 (forecast)
Sources: STAT, WIFO

Due to the economic recovery, capacity utilisation is expected to increase, yet the output gap will not be closed until 2018. The dampening effect on inflation will be reduced and price pressures will increase. Inflation is expected to reach 1.7% by 2019 and increase to 1.8% thereafter.

From 2012 to 2016 the labour market was characterised by dynamic employment growth but an even more significant increase in the labour force, which caused a notable rise in registered unemployment. The trend of increasing employment will continue. Labour supply will expand further because of immigration and the increase in the participation rate of older workers and women. Stronger inclusion of refugees into working life and the full opening of the Austrian labour market for Croatians with effect from 2020 are new challenges for the labour market. Their effect and extent are difficult to assess at this moment. Croatian citizens do already have access to the German labour market. From 2020 onwards, some of them might move to Austria because of higher geographical proximity. These people have the advantage that they speak the German language and they already had the possibility to acquire demanded qualifications. On the other hand, there is a possibility that poorer-qualified Croatians see this as an opportunity to come to Austria. Both scenarios have different effects on GDP growth and the labour market.

Because of stronger GDP growth, the higher labour supply will be absorbed easier and the unemployment rate is expected to stabilise at approximately 6%.

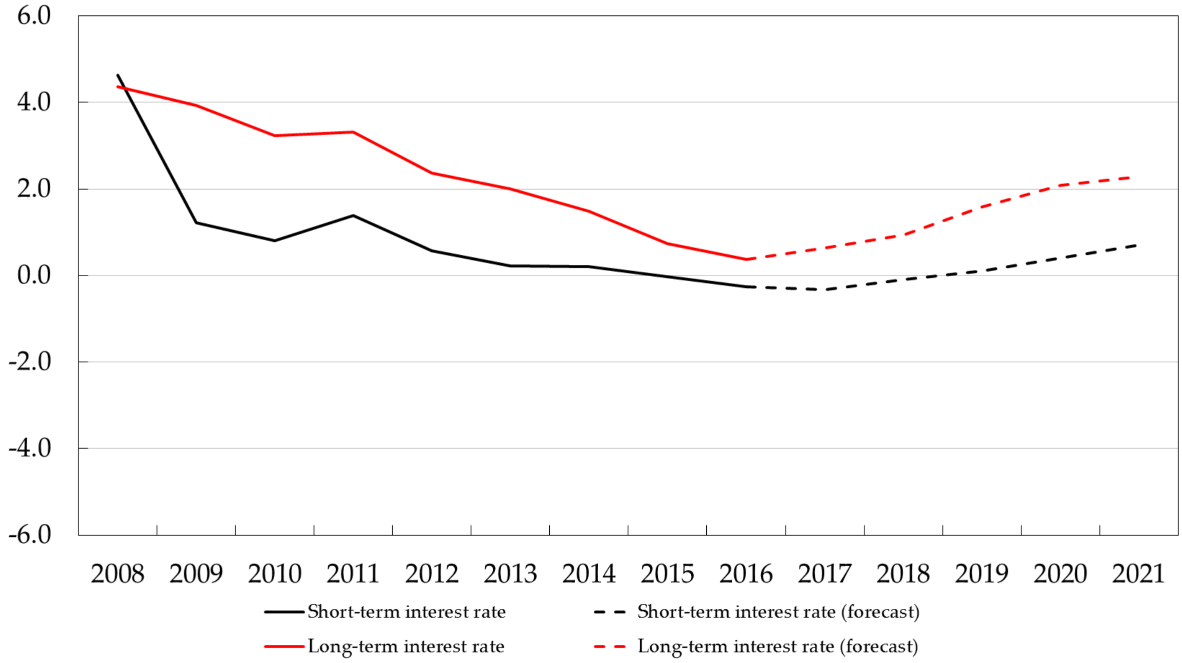
Figure 4: Employed and unemployed persons



Left axis: Employed persons
Right axis: Unemployed persons
Sources: AMS, BMASK, WIFO

Short- and long-term interest rates in Austria have decreased since 2008. This is due to the measures by the European Central Bank (ECB) and the good creditworthiness of the Republic of Austria. Long-term rates of Austria (10-year government bond yield) reached a record low of 0.11% in August 2016 and have increased since then. Against the background of the rate increase by the US Federal Reserve, the expectation of a normalisation of interest rates by the ECB and stronger economic growth, economic analysts expect a moderate increase in interest rates.

Figure 5: Development of short- and long-term interest rate



Left axis: Annual average (in %)
Source: WIFO

The European Commission (EC) published its Winter Forecast on February 13th, 2017 and the Institute for Advanced Studies (IHS) on March 24th, 2017. The EC expects real GDP growth rates of 1.6% in 2017 and 2018, respectively. The IHS expects real GDP to expand by 1.7% in 2017 and by 1.5% in 2018. Both forecasts are more pessimistic concerning real GDP growth in the short term than the WIFO forecast.

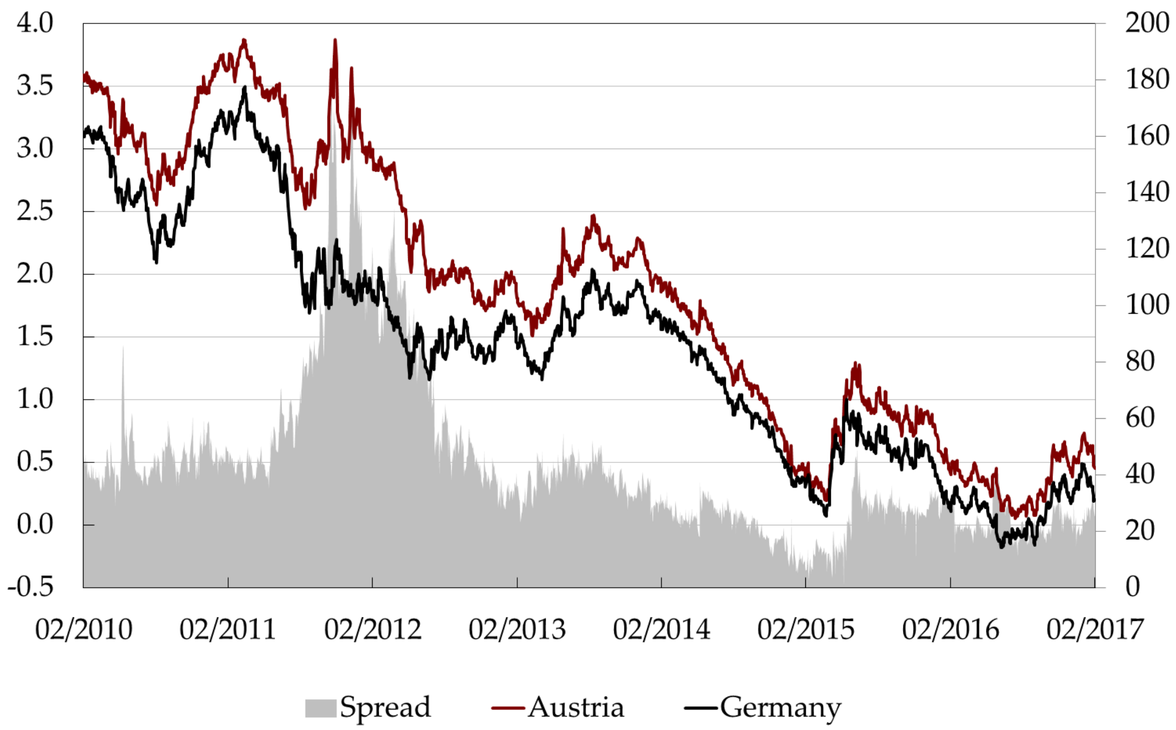
2.2. Financial sector developments

The global economic situation has evolved better than expected in 2016. Potential risks (especially concerns about the economic situation in China and some developing countries, as well as deflationary risks) have not materialised. Solid global economic developments and possibly expansionary policy measures in the US have contributed to positive expectations for 2017 as well. Monetary policy decisions and the expected more restrictive monetary policy in the US will play an essential role with respect to financial market developments in 2017.

Long-term interest rates

Austria´s long-term interest rate (10-year government benchmark bond yield) showed an upward trend since autumn 2016, owing to favourable economic developments, an increase in inflation and the expectation of more expansionary US economic policy. They increased from about 0.2% in fall 2016 to around 0.7% at the beginning of February 2017 – in the first two weeks of March 2017 the Austrian long-term interest rate fluctuated around 0.5-0.7%. These developments were influenced by expectations with regard to inflation and economic growth as well as a possible decrease of the ECB public sector purchase programme. The spread of 10-year yields over similar-maturity German Bund yields has remained relatively stable since autumn 2016, at 20-30 basis points.

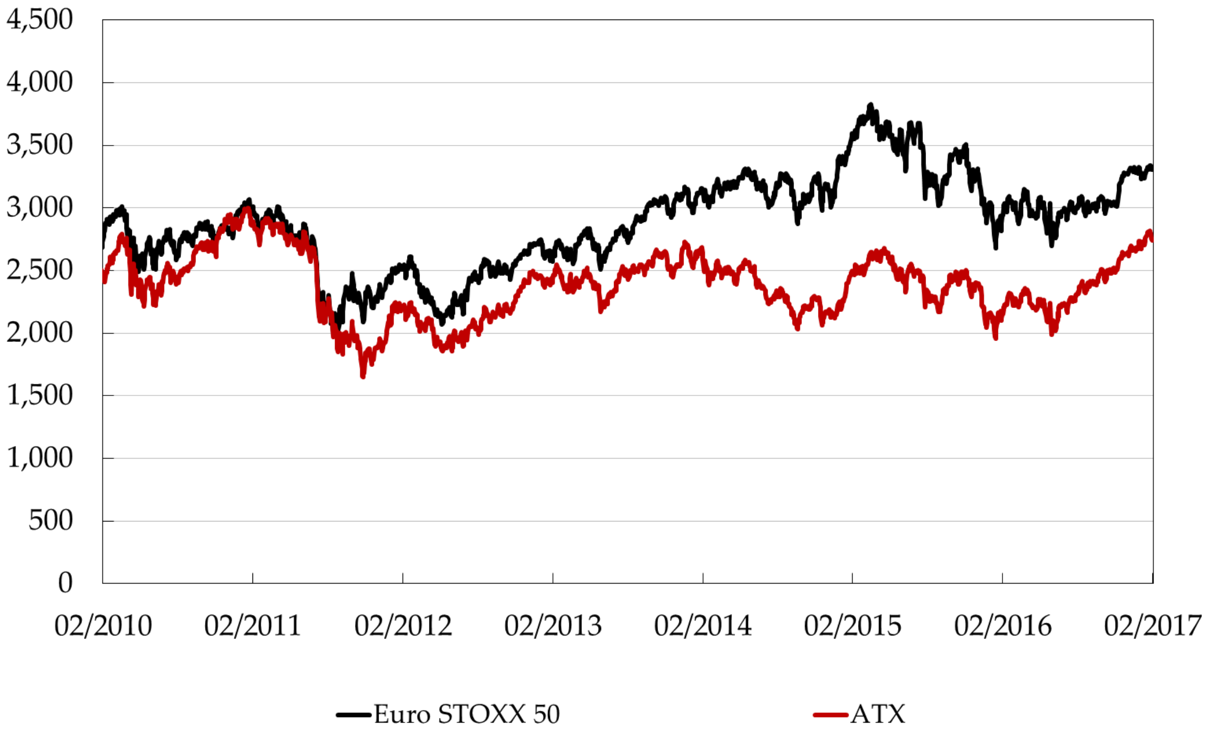
Figure 6: Long-term interest rates and spread



Left axis: Long-term interest rates in %
Right axis: Spread in basis points
Source: Macrobond (as of February 28th, 2017)

The Austrian equity market (ATX) has shown a significant upward trend since summer 2016 and the increase was steeper than that of the Euro-Stoxx-50-Index. Better-than-expected developments of Austria's economic indicators and corporate data as well as ongoing positive economic dynamics in Central and Eastern Europe explain the significant improvement in the equity market climate.

Figure 7: Equity market performance



Left axis: Index
Source: Macrobond (as of February 28th, 2017)

Banking sector (data as of 30 September 2016)

The consolidated balance sheet of Austrian credit institutions continued to decline in 2016. As of end-September 2016, total assets amounted to 1,054 bn €, about 2.0% lower compared to 2015. The decline was due to banks' efforts to improve their capital ratios.

The increase in lending to households and enterprises in Austria remained stable and overall positive. New lending to private households was increasingly driven by housing loans. The decline in foreign currency loans continued.

Credit exposure to the CESEE region is highly diversified. Austrian banks continued to reduce their activities in less attractive countries during 2016. UniCredit Bank Austria AG transferred all CESEE activities to UniCredit S.P.A., Italy.

Credit quality continued to improve in Austria as well as in the CESEE region. In the CESEE region it is however notably weaker.

The profitability of the Austrian banking sector improved in 2016 due to declining credit risk provisions.

The consolidated capital base of Austrian banks also improved, but remained below the average by international standards. The core capital ratio stood at 13.6%. The strengthening of the capital base pursued during the past few years needs to continue.

Insurance sector (data as of 30 September 2016)

The domestic insurance sector performed weaker than in 2015 in terms of premiums earned. Domestic premium income fell by about 2.86% to 13.03 bn €, driven by the life insurance sector.

The technical account balance totalled 549.16 m €. The financial result amounted to 2.48 bn €. The result from ordinary activities increased to 1.25 bn €, up by 14.5 %.

Investment funds, pensions funds und corporate provident funds (data as of 30 December 2016)

The investment volume of Austrian investment funds rose compared to the past year, from about 157.8 bn € to about 173.0 bn € as of 31 December 2016. The average performance of pension funds ("Pensionskassen") stood at 4.17%, compared to 2.3% in 2015. Total assets of pension funds increased slightly to 20.838 bn €. The number of prospective beneficiaries rose to 902,972 persons, a 2.55% increase. Assets held by corporate provident funds ("Betriebliche Vorsorgekassen") rose by 13.38% to about 9.41 bn €, primarily due to inflows as a result of legal requirements. The performance stood at 2.24%.

Assessment by rating agencies

In June 2016, the rating agency Moody's downgraded the rating for Austria to „Aa1" (second-best rating) with stable outlook. Among the strengths of Austria are the stable economy, the solid industrial base and the service sector, the low debt ratio of private households as well as a strong and independent judicial system. Weaknesses are low growth expectations, the high taxation of labour and sluggish productivity growth.

In February 2017, the rating agency Fitch confirmed the long-term rating of Austria at "AA+" (second-best rating) with an unchanged stable outlook. Supporting factors are the low debt ratio and the high savings rate of private households, the low unemployment rate and the decrease of indebtedness. Risks are related to the connection of the banks with Central and Eastern Europe, despite some recent loosening, very high contingent liabilities and the impact of demographic change.

In March 2017 Standard & Poor´s (S&P) also affirmed the Austrian long-term rating at "AA+" (second-best rating) and the rating outlook at "stable". Positive factors are the diversified, prospering Austrian economy and the increase in economic growth due to the inflow of the refugees. Net debt will decrease as a result of stronger economic growth supported by the government's reforms. The relocation of the Eastern Europe business unit of Bank Austria to the parent bank UniCredit is positive, although the definite effects remain unknown. Euro area Membership and a strong and independent judicial system are additional supporting factors. Austria benefits from the current low interest rate environment and was one of the first countries to implement the Bank Recovery and Resolution Directive (BRRD).

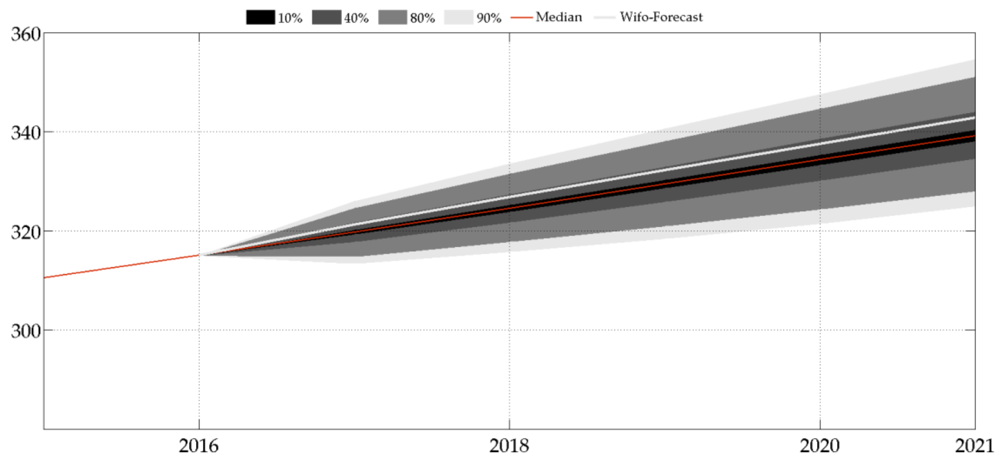
3. Economic and budgetary policy strategy

3.1. Implications from the assessment of economic developments for economic and budgetary policy targets

The medium-term forecast of the WIFO forms the basis for economic and budgetary policy planning. However, there are uncertainties around the external environment affecting the Austrian economy. Therefore, international research institutes often publish several scenarios with different probabilities of occurrence with respect to GDP growth. Since GDP growth is the most important reference value for public finances (both in terms of automatic budgetary effects as well as possible counteraction), Figure 8 shows alternative growth scenarios. The latter are based symmetrically on the historic variance of GDP growth, and the WIFO forecast is embedded in these scenarios (thick white line; see Figure 8 below). The symmetric approach is supported by the fact that the last cyclical peak in Austria occurred in 2011. At the moment Austria finds itself very close to a neutral position in the business cycle. There are no macroeconomic imbalances that have to be corrected and the public finances are almost balanced.

The current international environment allows for negative as well as positive shocks: important trade partners are currently growing, e.g. Germany and the CESEE countries. The impact of BREXIT on Austria is assessed as neutral by economic analysts. Shocks to global trade or the prices of raw materials would have a negative impact.

Figure 8: Scenarios for the real GDP until 2021



Left axis: Real GDP in bn € (based on 2010 prices)
Sources: BMF, WIFO

International comparisons suggest that Austria's GDP growth rates fluctuate relatively little. Figure 8 however shows that both a continuation of weak growth as well as a return to past growth rates of above 2% are possible. The probability of a low growth scenario appears relatively low, but to reach a high growth scenario, additional efforts are necessary.

After all, the Europe-2020 targets should also be implemented. On the one hand, this requires the commitment of resources as well as additional measures; on the other hand, economic payoffs can be expected. The details regarding the Europe-2020 targets are presented in the National Reform Programme (NRP). However, the targets are also related to economic growth and thus the main indicators will be presented in Table 22 in the Appendix.

Austria has set itself ambitious targets. Some have already been reached (early leavers from education and training and tertiary education attainment). The targets that have not yet been reached will not be reached automatically in the central economic scenario, but require budgetary reallocations, a stronger outcome-orientation of public finances and the implementation of additional measures.

Next to the Europe-2020 targets, there are new factors which have, however, the potential to negatively influence sustainable prosperity of the country. Migration flows and the danger of terrorist attacks increase security concerns of the population and require measures. Additionally, the opportunities presented by digitalization should be exploited and energy, climate and environmental issues have to be taken seriously. Also, the rural areas should be strengthened in a sustainable manner.

3.2. Economic and budgetary policy targets and measures

The Austrian Federal Government pursues the objectives of increasing growth and employment. Sustainable and solid budgetary policy at all levels of government support these objectives. Solid budgetary policy is not an end in itself, but widens the scope to:

- be prepared for the future,
- be able to react to new challenges without financially compromising other important policy areas, and
- prioritize policy targets and set new growth stimuli.

This budgetary policy course will also be maintained in the coming years. A structurally-balanced budget – after accounting for additional costs for migration and the fight against terrorism – will be met in each year. The medium-term target is a balanced budget of -0.5% of GDP over the economic cycle. In doing so, the public debt-to-GDP ratio will decrease at a reasonable pace towards 60%.

Against the background of the economic and labour market situation, the Federal Government has already started comprehensive growth stimuli in the current legislative period with a view to increasing private consumption, to support SMEs, crafts, and start-ups, to invest in infrastructure and education and to increase employment and social security, in addition to initiating structural reforms.

Since mid-2016 several decisions have been taken in the areas of employment, fiscal equalization, deregulation, support for start-ups, infrastructure, research and education, security, integration, and the reduction of non-wage labour costs and fees. At the end of January 2017, the Federal Government updated its work program.

Fiscal Equalization

On November 7th, 2016 a new fiscal equalization agreement was signed, which will govern the distribution of taxes between the federal level, states and municipalities from 2017 to 2021.

The November 2016 agreement on a reform of the Austrian fiscal equalization scheme is a first step into the direction of task orientation, simplification, and tax autonomy. It forms the basis for a fundamental reform of the financial relations between the federal level, states and municipalities. The target is to make the fiscal equalization scheme more transparent, efficient and task-oriented (see chapter 4.2.).

Deregulation/Reduction of administrative burdens

To strengthen Austria as a business location and to create a more flexible environment for entrepreneurs, the Federal Government promotes the reduction of bureaucracy. In November 2016, measures were approved to improve services for citizens, to reduce the burden on companies, to increase efficiency within the administration, and to extend e-government. In addition, innovative methods will be further exploited to develop new ways of reducing the burden on companies and citizens and advancing innovative solutions.

The communication of companies and citizens with the administration has been simplified and e-government extended. Digital services are being provided in a more user-friendly, personalized, regionalized and structured way. By 2021, the entire communication by citizens and companies with the public administration will be operated electronically.

The scope and quality of services offered by the public administration will be enhanced substantially. Cost savings will be achieved through standardization and internally shared services within the administration.

In the framework of modernizing the Commerce Regulation Act, numerous administrative simplifications were approved. It will become simpler and cheaper for companies. All registrations are now free of charge, ancillary rights have been enhanced, and procedures under the law on operating premises will be accelerated and shortened. Business start-ups have been simplified. In the area of environment and agriculture, simplifications have been implemented regarding environmental impact assessments and remediation of contaminated sites.

Beyond that, the Federal Government follows the principle of "one in, one out": For each new burden, an existing burden will be discarded. The target is to contain the number of new regulations. Sunset clauses will contribute to reducing the total number of norms. As far as possible, new regulations will be enacted for a limited time period only. Regulations which have proven unsuccessful will not be extended. When implementing EU regulations into national law, any higher level of regulation than foreseen at the EU level has to be duly justified.

The social insurance system will also be analysed with a view to increasing efficiency and effectiveness.

By establishing a digital monitoring system for deregulation and the reduction of administrative burdens in the form of a public web site, the general public will be provided with a clear and transparent view on the work of the Federal Government, without committing a high amount of resources (see chapter 4.1.).

Spending Reviews

The regular review of policy areas in the framework of spending reviews will support sustainable and forward-looking economic and fiscal policies (see chapter 4.4.).

Support to start-ups

The federal government is strongly committed to improving the framework for business start-ups. Austrian start-ups and spin-offs deliver an important contribution for Austria to advance into the group of innovation leaders in the future. In economically challenging times, it is more important than ever for start-ups as innovative driving forces of the economy to be provided with the framework conditions for success in Austria and at the global level. This strengthens growth and employment. A number of measures will help to further develop existing strengths, realize potentials and remove obstacles to the growth of start-ups. The package of measures approved by the Council of Ministers on July 5th, 2016 includes an increase of *Austria Wirtschaftsservice GmbH* (AWS) seed capital by 20 m € for the period 2016 to 2018, in addition to following measures:

- **Subsidization of non-wage labour costs**: In order to position Austria as an attractive location for start-ups, innovative start-ups with strong growth potential will receive support for non-wage labour costs. In particular, non-wage labour costs paid by the firm for up to three employees will be partially refunded during the first three years – at a total amount of 100 m €.
- **Financing for SMEs**: In the framework of an "SME financing package" a modernized system of SME financing agencies will be established. Equity from private as well as institutional investors will be bundled by SME financing agencies and be made available to target companies. Tax incentives will increase the attractiveness of this financing framework. As a flanking measure to the new system of SME financing agencies, supervisory regulation of the sale of alternative investment funds to private investors and qualified private investors will be made more practically relevant.
- **Risk capital premium:** In order to deepen the domestic risk capital markets, participation of private investors in start-ups will be subsidized. For this, a new support scheme called "Subsidized risk capital premium" was established, which is being implemented by *Austria Wirtschaftsservice GmbH* (AWS).

Infrastructure development

A high-performing economy like Austria's requires well-functioning and appropriate private and public infrastructure. This is why investment into infrastructure development will be promoted. Besides transport infrastructure, digital infrastructure is a crucial factor. Therefore, the Federal Government aims at positioning Austria among the global leaders with regard to the supply of digital infrastructure in the near future. Under the broadband network promotion programme, the Federal Government provides 1 bn € until 2021 for the extension of high-performance digital data networks. Annual budgetary appropriations have already been included in the medium-term expenditure framework. Further on, the Federal Government supports the quick and successful implementation of the next mobile network generation (5G technology).

Support to private and public investment

To trigger additional investment at municipal level and by this to contribute to infrastructure modernization and the creation of jobs in the short- and long-term, the Federal Government approved a stimulus package. The total budget for this support measure is 175 m €.

Private investment by SMEs should be strengthened via the introduction of a tax credit for incremental investment. For this, 175 m € will be provided in total during 2017 and 2018.

Furthermore, as part of the reform agenda 2017-2018 agreed upon on January 30th, 2017, incentives for investments by large companies with more than 250 employees have also been approved, in the form of a tax credit on incremental investment. The duration of the measure is limited from March 1st to December 31st, 2017, with a view to stimulating investment in 2017. A budget of 100 m € has been planned for this measure, which will impact public finances in 2018.

Training guarantee for young people up to the age of 25

Until the full effectiveness of the provision for compulsory education or training until the age of 18, a training guarantee until age 25 will be launched to address the target group of young unqualified unemployed aged 18 to 24. On average, about 18,000 adolescents with no more than compulsory schooling are registered as unemployed every year (about 46% of all unemployed of this age group). Since January 1st, 2017, corresponding qualifying programs have been provided in the framework of labour market policy for this target group: Skilled workers intensive training, apprenticeships for adults, the youth foundation or a combination of support for employment and qualification.

Education and Research

Following approval by the Federal Government on November 17th, 2015, a comprehensive education reform will be implemented including the following elements: pre-school education, reorganization of the school inception phase, language support, autonomy package, test regions for an integrated comprehensive school for pupils aged 6 – 14 years, reorganization of the school administration system including new education directorates, and a package for innovative education.

The Council of Ministers on May 16th, 2016 approved the first legal implementation steps in the areas of reorganization of the school inception phase, alternative performance descriptions and targeted language support with beginners groups and support courses.

Central aspects of the education reform are currently undergoing consultations, with a focus on the new administrative structure (education directorates), the increase in school autonomy, the establishment of clusters of schools, and the maintenance of quality management and monitoring of education.

The education reform is accompanied by a substantial upgrading of in-school day-care services, where a total of 750 m € will be invested in the coming years.

In addition, the further development of the universities of applied studies has been approved, financed by 100 m € coming from the bank levy, and an education foundation which will be endowed with 50 m €.

Research

Expenditure for research in Austria will be increased to reach the target of 3.76% of GDP. It is envisaged that one third of this increase will be financed by the public authorities, whereas two thirds will be leveraged by private entities (for instance by an increase in the research premium for companies). This increase in "inputs" will be accompanied by enhanced monitoring and evaluation of "outputs".

First intermediate results from the evaluation of the research premium show clear positive effects of this measure for Austria as a location for research. This is why the research premium will be increased from 12% to 14% starting from 2018 in order to support research of Austrian companies and to maintain and increase qualified employment.

Further on, the legal basis will be established to increase the budget of the national foundation for research, technology and development by 100 m € per year for the coming three years with funds from the Jubilee Fund of the Austrian National Bank.

The access to micro data for research institutions will be enhanced. Processing of EU funds from the ERDF[1]-program will be made simpler and more practical. The services provided by the support agencies AWS[2] and FFG[3] will be enhanced, the fragmentation of programmes reduced and the coordination between the two agencies optimized.

[1] European Regional Development Fund

[2] Austria Wirtschaftsservice Gesellschaft mbH

[3] Austrian Research Promotion Agency

The funding of the research fund (FWF) will be enhanced gradually until 2021 from its current level of 184 m € per year. Thus, significantly more resources will be made available in the future to finance excellent researchers.

The services offered by the Austrian Agency for International Cooperation in Education and Research (OeAD) will be improved and national co-financing of Erasmus subsidies increased in order to tap a maximum of EU funding. Finally, it is planned to further increase the effectiveness and efficiency of public procurement as a lever for innovation for the future.

Besides the already mentioned promotion of investment in broadband technology and the development of 5G mobile standards, the Federal Government supports digital innovation, in particular in quantum research and technology, and, within the project "Silicon Austria", research and investment in electronically-based systems. The instrument of "endowed professorships" should bring distinguished researchers to Austria, especially in the area of digitalization of production systems.

The cooperation of sciences, research, educational facilities, businesses, industry and the start-up environment should establish and reinforce networks of excellence and clusters, based on existing strengths and structures. The target is to increase international visibility and to create global market leaders.

Pensions

Through an amendment to the social security act (SVÄG 2016), measures were taken to further increase the effective retirement age. For instance, pension insurance contributions were halved for people who do not draw on their pension entitlement beyond reaching the statutory retirement age, i.e. during the so-called "bonus phase" (three years after reaching the statutory retirement age). Also, the introduction of a legal entitlement to rehabilitation should help to increase the effective retirement age. Other changes concern the independent pension entitlement for women, for instance by expanding voluntary pension splitting.

Security and integration

The latest migration flows confronted Austria with the challenge of dealing with the accommodation and provision for more than one hundred thousand asylum seekers. This is the biggest challenge for the society in decades. The successful integration and inclusion into the labour market as well as the sustainable fight against the root causes of migration created special challenges for the budgetary policies of the Federal Government.

Besides the necessary measures related to immigration dynamics, internal and external security are the focal points of additional stimuli.

As part of the reform agenda 2017 to 2018 agreed at the end of January 2017, an integration package was approved, which aims at the fast and successful integration, right from the start, of non-Austrians who entered the country on a legal basis. The objective of the integration law should be reached primarily through a continuous language support model up to level A2 for recognized refugees, people granted subsidiary protection, and for asylum seekers with a high probability of being recognized. In addition, compulsory courses in values and orientation have been established for recognized refugees and people granted subsidiary protection above the age of 15.

In addition, a compulsory integration year has been approved for recognized refugees, people granted subsidiary protection and asylum seekers with a high probability of being recognized. The programme covers measures to support language acquisition, competence clearing, preparation for employment, trainings for employment and job orientation, in order to increase the chances of sustainable integration into the labour market and participation in social life. The integration year provides a comprehensive integration programme, for which an additional 200 m € will be made available.

Taxes

On January 1st, 2016, the tax reform 2015/2016 entered into force. The tax relief for citizens amounts to more than 5 bn € per year, supporting purchasing power and strengthening the business location. The corresponding costs including counter-financing measures have already been integrated into the current medium term expenditure framework.

Another important structural measure is the reorientation and drastic decrease of the stability levy (or "bank levy"). Starting from January 1st, 2017, this levy was reduced to 100 m € per year. This will reduce competitive disadvantages of Austrian banks compared to other international business locations and a convincing signal will be sent to international investors favouring a competitive financial centre and further growth stimuli. At the same time a special levy was approved, which will bring in a total of 1 bn € and has been earmarked by the

Federal Government for the extension of full-day school forms and measures in the areas of science and research. The special levy will be split into four equal tranches and in principle be paid in over the years 2017 to 2020; payment of the first tranche was however advanced to 2016.

In order to cope with the changing environment of inner-European competition, the air travel levy will be halved with effect from January 2018. This will help to sustain the position of the airport of Vienna as an international transport hub, to increase the attractiveness as a business location, and to strengthen job creation. More than 10 million passengers will benefit, at a total of 60 m €.

Another important concern of the Federal Government is the compensation for income tax bracket creep.

On January 30th, 2017, the Federal Government approved a comprehensive and ambitious reform package for the following 18 months with a clear timetable for its implementation (see work programme and national reform programme).

Costs and economic impact

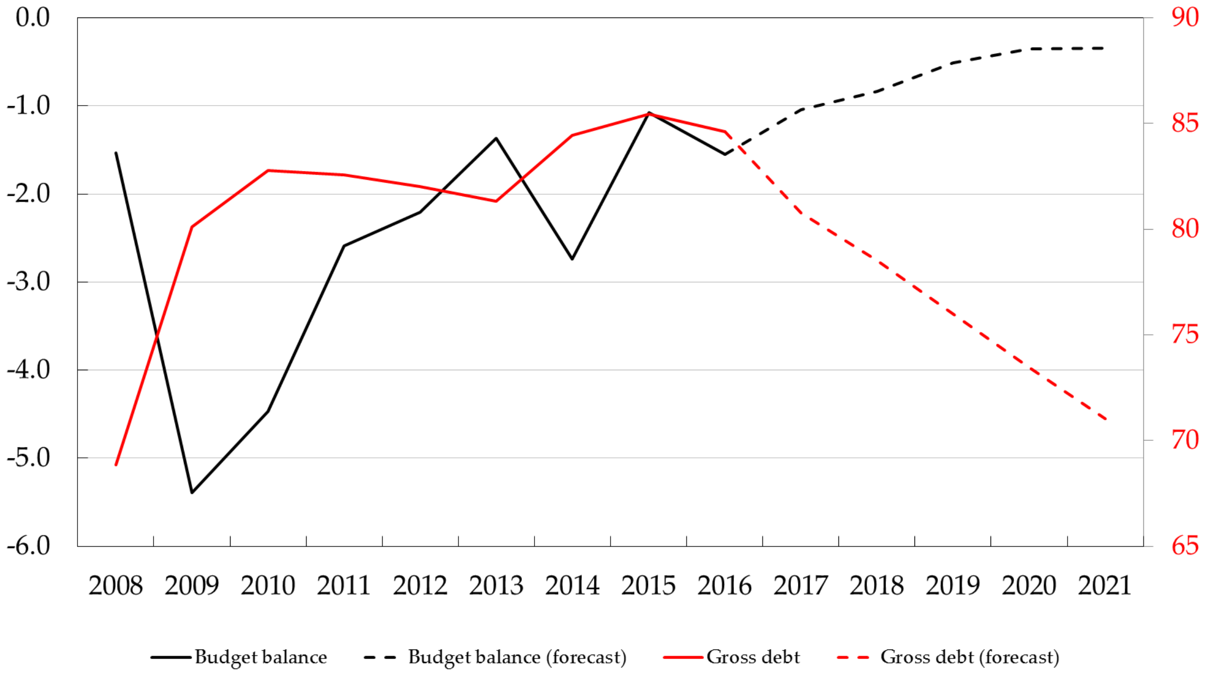
The total cost of the measures included in the government agenda 2017-2018 amount to almost 4 bn € and will be financed within the medium-term expenditure framework. Seventy per cent will be financed by savings, expenditure cuts and reallocations. According to the work program, about 30 % will be financed via positive growth and employment effects. All measures included in the current work program will be considered within the medium-term expenditure framework (MTEF) 2018 – 2021 and within the annual budget for 2018 – in line with the Maastricht criteria. The Federal Government will approve the MTEF 2018 – 2021 and the annual budget 2018 in fall (September/October) 2017. The financing of the measures will be provided via cost containment, e.g. more efficiency in public administration and subsidies, prioritization, e-government, and savings regarding outsourced agencies and material costs.

The medium term expenditure framework for the years 2018 to 2021 will be prepared and proposed together with the annual budget for 2018 in fall this year.

The existing budgetary means will be further targeted towards measures to foster growth and employment.

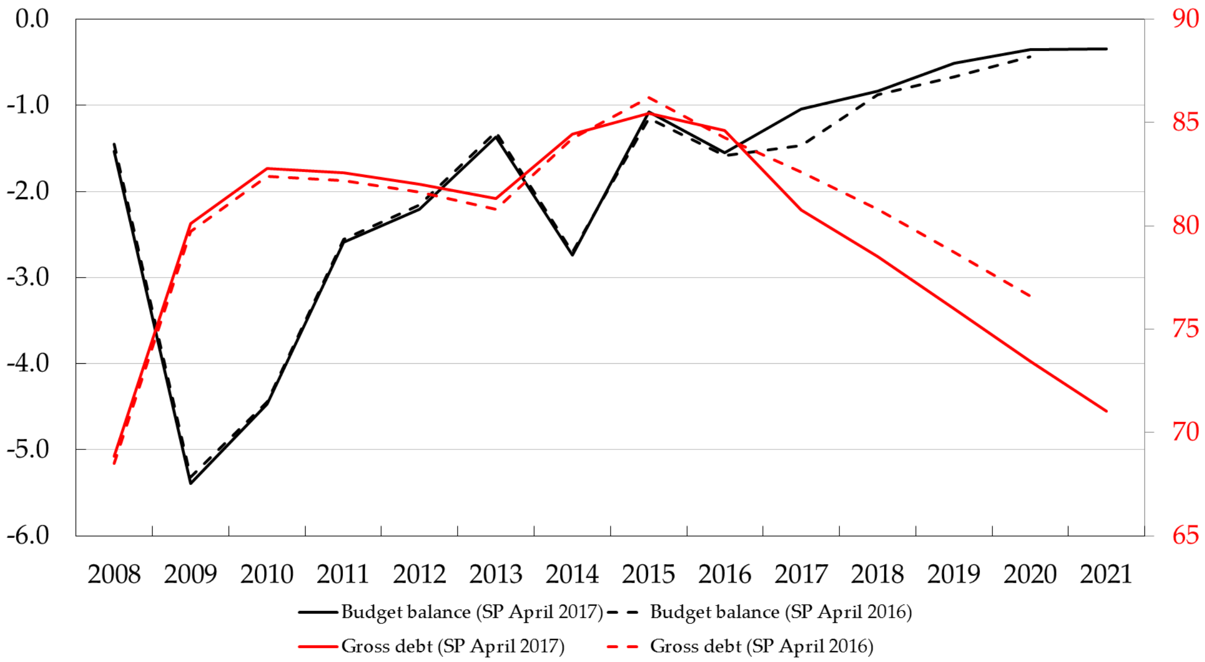
The debt-to-GDP ratio, which was pushed up due to pre-financing measures for HETA in 2016, will rebound to the planned trajectory in 2017 and decrease to 71% by 2021. With the structural deficit to stay at 0.5% and nominal GDP growth at 3.3% per year, debt-to GDP will decline below the 60% threshold by 2028.

Figure 9: General government net lending/net borrowing and gross debt



Left axis: General government net lending/net borrowing (in % of GDP)
Right axis: Gross debt (in % of GDP)
Sources: BMF, STAT, WIFO

Figure 10: Divergence from latest Stability Programme (April 2016)



Left axis: General government net lending/net borrowing (in % of GDP)
Right axis: Gross debt (in % of GDP)
Sources: BMF, STAT, WIFO

3.3. Budget execution in 2016

According to the current computations by Statistics Austria, the general government Maastricht deficit for 2016 stood at -1.55% of GDP. In fall 2016, the Maastricht deficit was expected at 1.4% of GDP. At the central government level, the Maastricht deficit turned out lower than expected (1.2% instead of 1.6% of GDP). The reason was the transfer of 1.2 bn € from the state of Carinthia to the "*Kärntner Ausgleichszahlungs-Fonds*" as part of the liquidation of HETA. According to ESA 2010, this fund belongs to the central government. The transfer, however, notably increased the Maastricht deficit of the state government subsector. Without this effect, the Maastricht deficit of the central and the state governments would be in line with expectations in the fall of 2016. The local government subsector (incl. Vienna) showed a Maastricht deficit of 216 m €. At the time of budget planning, a balanced budget was expected. The social security funds had a surplus in 2016 (like in the years before), which was however smaller than expected (0.04% instead of 0.14% of GDP).

The Federal Budget Plan for 2016 projected expenditures of 76.5 bn €, revenues of 71.8 bn €, and a balance of -4.6 bn €. According to the provisional results, expenditures reached 76.3 bn €, revenues 71.3 bn € and the balance stood at -5.0 bn €. Expenditures turned out 143.7 m € lower than expected. Revenues were 514.3 m € lower than budgeted. The balance was thus 370.6 m € worse than in the budget plan.

The macroeconomic performance was better than expected (lower unemployment rate, higher wage bill) and decreased the central government's transfers to the social security funds and therefore the central government's deficit. The financing terms were very favourable and interest rates at a historical low in 2016. Budget implementation was strict. In order to cope with the inflow of migrants it was necessary to increase considerably personnel and budgets for basic social services and integration as well as for internal and external security. Additional funds were provided for active labour market policies to fight unemployment. Despite these huge budgetary challenges it was possible to keep expenditures below plan in 2016, by 143.7 m €. Expenditures on operational public administration increased by only 0.7% in 2016 compared to 2015.

Tax revenues remained 0.7 bn € below plan. The main reason for this was the delayed implementation of the mandatory cash registers for enterprises. The constitutional court clarified that revenues in 2016 form the basis upon which the obligation whether to use cash registers needs to be determined; thus implementation only started on May 1st, 2016. Growth of private consumption was also lower than projected. In addition, changes to existing laws (*EU-Abgabenänderungsgesetz 7/2016*) led to additional tax reliefs. Revenues from VAT were 1.1 bn € lower than budgeted. Revenues from capital gains tax were also below the plan (by 0.6 bn €), because of substantial pull-forward effects in 2015. However, corporate income tax was 1.1 bn € higher than planned, mainly because of the better-than-expected economic situation.

The general government structural deficit – adjusted for the economic cycle and one-off measures – reached 1.0% of GDP in 2016. Excluding the additional costs for refugees and the fight against terrorism, the structural deficit was 0.67% of GDP in 2016. One-off measures were about 180 m € in 2016. The main part of it was related to bank liabilities, the smaller part was Austria´s contribution to the agreement with Turkey ("Turkey Facility").

The general government debt-to-GDP ratio decreased from 85.5% to 84.6%; the decline was slightly below expectations in fall 2016 (83.2%). The reason for the smaller decrease was the pre-financing of the HETA liquidation in late fall (3.6 bn € or 1% of GDP). Additionally, nominal GDP for 2016 was revised downwards considerably (-2.6 bn €), slowing the decline in the debt-to-GDP ratio. The pre-financing for the liquidation of HETA will be paid back in the first half of 2017.

3.4. Budget 2017

In 2017, the general government deficit according to Maastricht will decrease to 1.0% of GDP. The consolidation measures already approved and implemented by the Federal Government in previous years, together with the continuation of restrictive expenditure policy, will lead to a continuous decline in the structural deficit. The debt-to-GDP ratio will decrease to 80.8%. The structural deficit corrected for additional expenditure for refugees and the fight against terrorism will decrease to 0.5% of GDP.

The Federal Budget Plan anticipates expenditures of 77.5 bn €, revenues of 73.2 bn € and a balance of -4.3 bn €.

A security package was approved to support the Ministry of Interior and the Ministry of Defense, inter alia by granting additional funds for the police, the federal army and the administration of foreigners. The security personnel will be increased substantially, e.g. more staff will be provided for the Office for Administration of Foreigners and Asylum and the Federal Administrative Court. Additional budgetary funds are also foreseen in 2017 in the areas of integration and internal and external security. This prioritisation was necessary to cope with the current challenges of border management and new threats, together with the police forces.

The inflow of refugees is expected to decrease further in 2017. The situation on the labour market is expected to generate a further increase in expenditures on unemployment benefits.

With the budget 2017 the Federal Government sets further stimuli to support growth and employment. Non-wage labour costs for employers will be gradually decreased in three steps: In January 2016, the employers´ contribution to the insolvency contingency fund has been decreased by 0.1 pp. From 2017, the employers´ contribution to the family burden equalization fund has been lowered by 0.4 pp. In 2018, this contribution will further decline by 0.2 pp, generating a total reduction of non-wage labour costs of almost 1 bn € per year.

The salary increase for public servants was moderate at 1.3%. The increase of public pensions was 0.8% in 2017.

The 2017 Federal Budget continued to benefit from the extraordinarily low interest rates of the past years. Until 2009, the average interest rate was 4.2%, while since then it decreased to 1.8%. This development accelerated further in 2016; the interest level of debt issued in 2016 reached a historical low at 0.3% on average, down from 0.49% in 2015. The average remaining maturity of new debt almost doubled in 2016 compared to 2015, to 14.4 years. This was due to the issuance of a 70-year government bond by the federal financing agency (OeBFA) in October – the first of its kind in the euro area.

Tax revenues have developed favourably so far in 2017. VAT revenues increased by 6.4% in the first quarter. Corporate income tax revenues have shown increases as well and were more than 10% higher compared to the first quarter of the past year. All in all, tax revenues increased by 6.9% from January to March.

Budget implementation is restrictive. All possible budgetary instruments are being applied rigorously. Budgetary commitments ensure an adequate use of funds. Budget overruns and the use of reserves will only be approved after scrutinising necessary conditions.

The budget balance of state and local governments should be positive in 2017. This will be supported by the new fiscal equalization scheme approved in fall 2016, which will increase the central government´s transfers by 425 m €. In addition, the payment by Carinthia for the liquidation of HETA (1.2 bn € in 2016) was a one-off transaction.

The mandatory pension insurance system also benefits from positive revenue and expenditure developments; the federal transfer to the pension insurance system in 2017 will be notably lower than planned. The financial situation of the public health insurance scheme is also solid; in 2017, it should achieve a positive balance as well.

No one-off payments for banks are expected for 2017. The debt level will decrease from 84.6% of GDP in 2016 to 80.8% of GDP in 2017. There are several reasons for this shift: Prepayments for the HETA liquidation of about 3.6 bn € (1% of GDP), which temporarily increased the debt level in 2016. This increase will be neutralized in 2017. Furthermore, the liabilities of the three bad banks (HETA, Immigon, KA-Finanz) are being reduced quickly. Finally, the decline in the Maastricht deficit also contributes to the decline in the debt-to-GDP ratio.

3.5. Development of public finances until 2021

In 2016, general government tax revenues reached 96.7 bn € (27.7% of GDP) and contributions to the social security system amounted to 52.2 bn € (14.9% of GDP) – yielding a total revenue of 149.1 bn € (42.7% of GDP). These stem from three relatively equally-sized components: taxes on production and imports (i.a. VAT; 50.8 bn € or 14.5% of GDP respectively); current taxes on income and wealth (i.a. income tax or capital gains tax; 45.9 bn € or 13.1% of GDP respectively); and social contributions (52.2 bn € or 14.9% of GDP respectively).

According to medium-term projections by the Austrian Institute for Economic Research (WIFO), nominal GDP is expected to grow by 3.3% on average per year during the period 2017 to 2021 and real GDP by 1.7% on average per year. Nominal GDP is expected to grow cumulatively by 17.8% of GDP. Growth is broad-based; however, the contribution from net exports will slightly decrease revenue intensity.

Total tax revenues of the general government are expected to increase by 17.3% in the coming years, yet the composition will shift somewhat towards taxes on income and wealth (from 13.1% of GDP in 2016 to 14.0% of GDP in 2021). The increase by 25.4% (4.6% per year on average) is substantially above the growth rate of GDP. The growth dynamics of the other revenue categories will remain below that of GDP growth. Revenues from taxes on production and imports will decrease slightly from 14.5% of GDP (2016) to 13.9% of GDP (2021). Contributions to the social security system will also develop less dynamically than GDP growth, at 16.5% (3.1% per year on average).

Total expenditure by the general government will grow by about 14.5% and therefore also below the expected increase in GDP. Again, there are different trends for the various components: According to the projections, social transfers in kind will grow by 22.4% (4.1% per year on average) and therefore considerably faster than GDP. Social transfers in kind include expenditure by the social security funds for drugs (medicines) and medical care and other social services. These cost items have developed particularly dynamically, increasing by 5.5% per year since 2013. In the coming years, this dynamic is expected to flatten, inter alia because of cost containment measures in the area of medicines. Also expenditure for refugees in this area is expected to diminish due to the lower number of new arrivals. Expenditure on subsidies is expected to grow faster than GDP (about 20.1% over the period considered). Subsidies have been increasing by 3.7% on average during the past three years. This dynamic might continue during the coming years, as several subsidy programmes have been extended. For instance, the research premium was increased from 10% to 12%. To support the development of broadband networks, substantial funds will be provided during the years 2017 to 2021. Also funds for active labour market policy measures will be extended. Public investment is expected to increase in line with GDP growth. Salaries will be increased only moderately and personnel management will be strategic and sustainable. The only expenditure category that is expected to decrease during the years to 2021 is spending on interest, which should decline by about 12% nominally, due to the historically low interest rates of the past years.

The ratio of public expenditure to GDP will decrease from 51.1% in 2016 to 49.7% in 2021. The continuous decrease in the expenditure ratio underlines the expenditure discipline of the Federal Government.

The revenue ratio will remain almost constant during the period under consideration. In 2016 it stood at 49.5% of GDP; until 2021 it should decrease to 49.3%. The ratio of taxes and fees is of the most important in this regard. It was 42.7% of GDP in 2016 and should reach 42.8% of GDP by 2021.

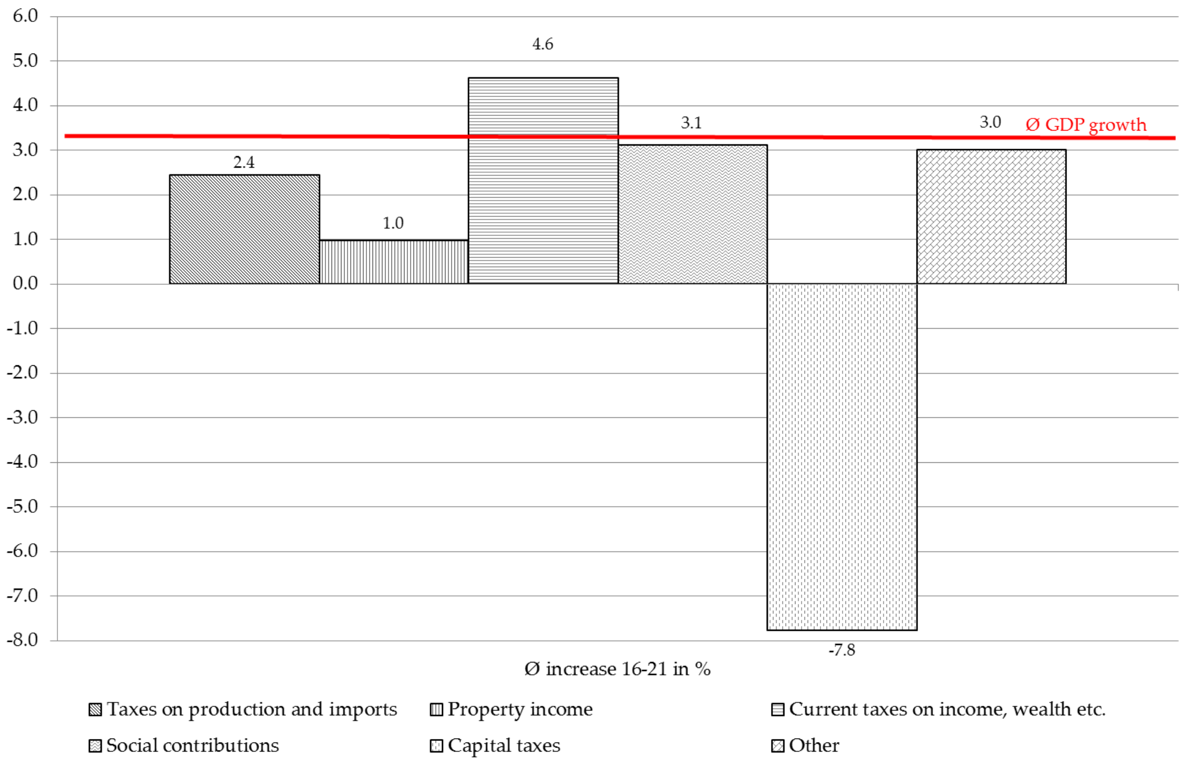
The interest-to-GDP ratio shows the level of interest expenditure in relation to GDP. The interest-to-GDP ratio was 2.1% in 2016 and will decrease to 1.6% of GDP by 2021. Thus, the downward trend of the past years will continue.

The primary balance is the difference between public revenues and expenditures less interest payments on outstanding public debt. This indicator offers a perspective on the public finance situation without legacies from the past and new borrowings. In 2016, the primary surplus was 0.5% of GDP. Until 2021, the primary surplus should increase to 1.2% of GDP.

The Maastricht deficit is the balance of general government expenditures and revenues. The Maastricht deficit in relation to GDP was at 1.6% in 2016 and will decline until 2021, as a result of sustainable budgetary policies. An important indicator is the structural deficit, which is adjusted for the effects of the economic cycle and one-off measures. This indicator stood at 1.0% of GDP in 2016 and will decrease continuously to 0.3% of GDP by 2021. In order to evaluate the sustainability of budgetary policies, additional expenditures for refugees and the asylum system in the years 2015 and 2016 are deducted from the structural balance. The adjusted structural deficit was at 0.7% of GDP in 2016 and should decline to 0.5% or less in the coming years.

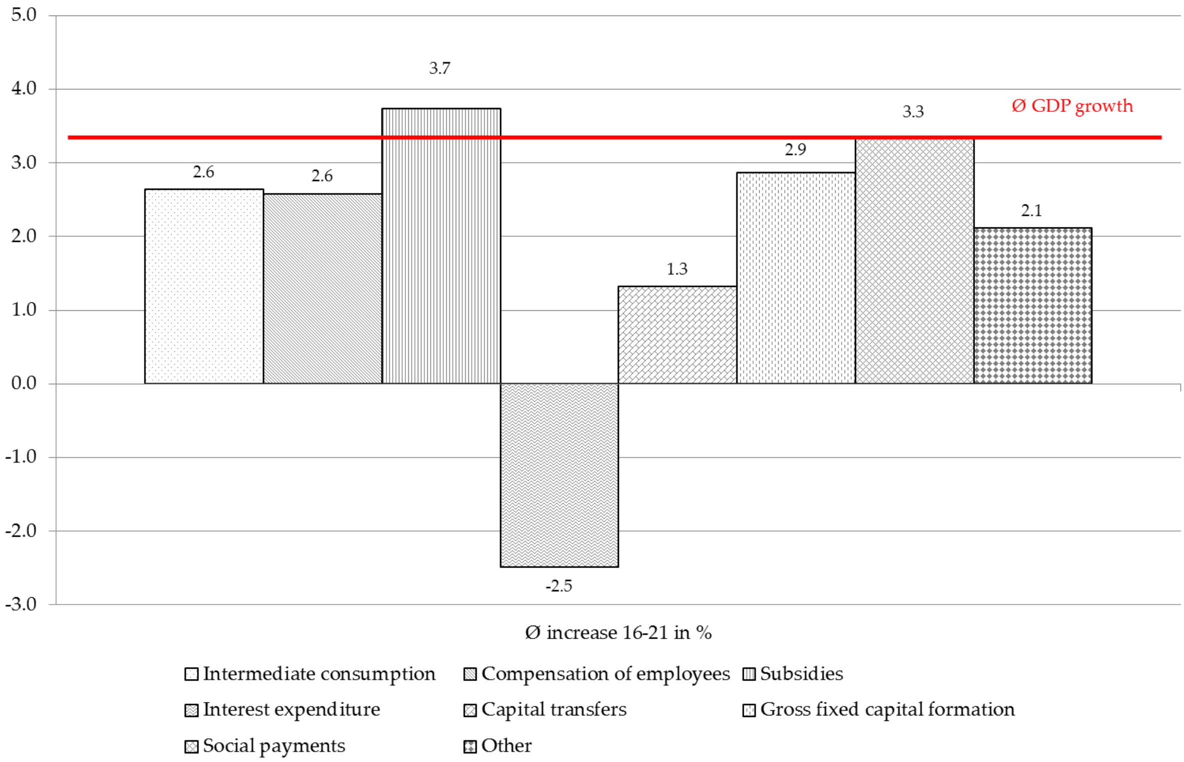
The public debt-to-GDP ratio was 84.6% in 2016 and will decrease to 71% in 2021. This decrease is mainly due to the positive development of public budgets and the continued liquidation of the portfolios of the defeasance structures (HETA, immigon, KA-Finanz).

Figure 11: Revenues according to ESA



Left axis: Ø increase 2016-2021 in %
Source: BMF

Figure 12: Expenditures according to ESA



Left axis: Ø increase 2016-2021 in %
Source: BMF

3.6. Restructuring of the banking sector

State-owned banks and asset management companies

Based on the Austrian Financial Market Stability Act (FinStaG), Austrian Banks have been granted capital and liquidity-supporting funds totalling 21 bn € since 2008, including participation capital subscribed by the Republic of Austria. Taking into account all repayments to date, the net amount was 17.1 bn €. In 2016, the legal limit for measures aimed at strengthening the Austrian financial market pursuant to FinStaG has been increased by 1.5 bn € to 23.5 bn € in order to fund the purchase of statutorily-guaranteed debt instruments of Heta Asset Resolution AG (HETA) by the Kärntner Ausgleichszahlungs-Fonds (KAF) (see below).

Out of FinStaG funds, 7.4 bn € have been used for the subscription of share capital, shareholder contributions and other capital measures. As at 30 September 2016, Austria still held participation capital amounting to 10 m € issued by immigon portfolioabbau ag (immigon, the legal successor of Österreichische Volksbanken AG - ÖVAG). The general agreement between Austria and the Free State of Bavaria for settling legal disputes related to HETA included a payment of 1.23 bn €. Federal guarantees issued under FinStaG summed up to 7.4 bn € as of end-2016. Claims under guarantees amounted to 1.3 bn €.

In 2016, revenues from guarantee fees relating to the banking sector accounted to nearly 67 m €. Since the Austrian Financial Market Authority (FMA) in its capacity as the designated Resolution Authority ordered a haircut on due fees of HETA and deferred the remaining liabilities until end of 2023 (see below), guarantee fees were only paid by Hypo Group Alpe Adria (the former SEE network of Hypo International), KA Finanz AG and immigon in 2016. As at 31 August 2016, immigon terminated the guarantee of 100 m € provided by Austria without calling.

On 10 April 2016, FMA in its capacity as the designated Resolution Authority ordered immediate resolution measures on HETA by administrative decision in accordance with § 3 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). Among other measures, core Tier 1 capital and subordinated liabilities including interest due on 28 February 2015 were reduced to zero, and senior debt was reduced to 46.02 per cent. Moreover, interest from 1 March 2015 was cancelled and the maturity date of all eligible liabilities was harmonised to 31 December 2023. Though the wind-down of HETA shall be completed by 2020, the termination of legal claims will take until end of 2023, according to FMA.

The Republic of Austria as owner of HETA has been affected manifold by the FMA administrative decision: the reduction of core and participation capital to zero, the reduction of guarantee fees due as of 1 March 2015 to 46.02 per cent, and the calling under the guarantee of the 1 bn € HETA subordinated notes 2012-2022 plus interest payments.

In January 2016, KAF placed a tender offer pursuant to FinStaG to holders of HETA bonds to purchase statutorily guaranteed debt instruments. However, the acceptance rate was lower than legally required. Following intense negotiations with major creditor groups and the conclusion of a Memorandum of Understanding between the Republic of Austria and creditors in May, KAF launched a second tender offer on 6 September 2016, which was accepted by 98.7 per cent of the creditors. Carinthia contributes 1.2 bn € to the funding; 4.6 bn € will be granted as loans pursuant to § 81 Federal Budget Act (BHG) 2013 via ABBAG-Abbaumanagementgesellschaft des Bundes; the remaining amount of up to 3.6 bn € will be covered by FinStaG funds.

KA Finanz and immigon shall wind down their assets within a certain period of time as agreed with the European Commission, and end up in liquidation. Within the framework of state aid approval, the sale of parts of business or portfolios is also possible.

KA Finanz has successfully continued its wind-down in 2016. Total assets were reduced by nearly 2.5 bn €. Around 4.5 bn € out of total FinStaG guarantees refer to KA Finanz. The bank's liabilities have been retroactively included in the government sector as of 2009.

Immigon runs as asset management company pursuant to § 162 BaSAG. In 2016, assets were again reduced according to plan (-1.4 bn €).

In 2016, the restructuring of Volksbankenverbund (Volksbanken association) has continued as expected. By 2017, the former more than 40 local banks should be merged into 8 regional banks. 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, as compensation for the haircut of the state-held participation capital of ÖVAG in 2015. By the end of 2016, Volksbankenverbund already paid 54 m € to Austria. After servicing of the profit participation right is completed (by spring 2024 at the latest), the shares will be re-transferred to the Volksbankenverbund.

3.7. Migration and integration

In 2015 over 88,000 applications for international protection were registered in Austria. In autumn 2015, Austria addressed a request to the European Commission to take into account these extraordinary costs when assessing budgetary developments. The European Commission committed to take into account ex-post the appropriately substantiated costs, whilst only the increase compared to 2014 would be considered and the flexibility would be applied in 2015 and 2016 only. For 2015 the European Commission considered costs amounting to 0.09% of GDP. Since Austria was not able to benefit from the provision in 2015, there will be spillover effects into 2017 and 2018. However, public budgets will clearly be affected beyond 2017. Therefore, Austria requests the European Commission to take these costs into account also for the year 2017.

The EU and Austria reacted to the inflow of refugees. Since May 2016 the number of asylum seekers is below its corresponding value of 2015. About 42,000 applications for asylum were registered in 2016. Less than 37,500 cases were allowed entering into the respective procedures.

The Federal Government has notably increased its personnel to deal with the asylum procedures.

Tables 16 and 17 in the annex show the corresponding data for asylum expenditures.

3.8. Fight against terrorism

The number and brutality of terrorist attacks in Europe has drastically increased since 2015. Therefore, the European Commission in spring 2016 decided to treat security-related costs for the years 2016 and 2017 as exceptional expenditure in the assessment of budgetary developments. Though Austria has largely escaped open terrorist attacks until now, proper preparation and defensive measures are needed. In particular, the protection of public institutions, better equipment and the extension of security personnel, as well as higher expenses on the fight against cyber-crime, are needed.

Tables 18 and 19 in the annex show respective data on incremental expenditure items in the areas home affairs and national defense for the years 2016 and 2017 (estimated data) compared to 2015.

4. Quality of Public Finances

4.1. Administrative reform

Domestic factors such as demographic change and international developments such as the economic crisis or globalization require prioritization and structural change in order to cope successfully with these challenges. This is why the Federal Government combines the consolidation of the federal budget with the continuation of structural reforms, inter alia in the areas of administration and subsidies.

With that in mind, the Federal Government continues to promote administrative reforms while setting political priorities. All levels of government have to be included into this reform process, as public interventions are implemented at different levels of government and often there are shared responsibilities. Successful administrative reform is only possible if all levels of government combine their efforts.

In line with the work programme of the Austrian Federal Government for 2013 to 2018, a task and deregulation commission was established. 245 concrete reform proposals with an enormous potential for savings were elaborated and proposed to the Federal Government. In the framework of the "Reform Dialogue on Administrative Simplifications" of June 2015, the implementation of some of the proposals by the task and deregulation commission was approved: e.g. simplification of administration and the reduction of barriers to entrepreneurship.

In November 2016, the working group on "Deregulation and Debureaucratization" approved measures to improve services for citizens, relieve companies, and increase efficiency within the administration (with a focus on e-government). For instance:

- Expansion of electronic communication of companies and citizens with the administration
- Simplification and elimination of contacts with the administration in relation to the procedure regarding family allowance
- Automatic income tax assessment without application
- Simplification of public procurement processes via a continuously digital process
- Development of one-stop or no-stop procedures, e.g. for changes of names or addresses
- Reduction of the number of fee-based transactions or the amount of fees
- Simplification of the procedures to found a sole proprietorship or a one-person limited liability company and shortening of the duration to start a business
- Abolition of redundant or outdated obligations on reporting, publication, information and display for companies.

The Federal Government proposed legal measures for debureaucratization to Parliament, inter alia in the form of the deregulation law 2017 and changes to the commercial code. The establishment of a digital public monitoring system (https://entlastungsmonitor.gv.at/) of these measures enables the general public to have a clear and transparent view on the work of the Federal Government without binding too many personnel, infrastructure or financial resources.

The new work programme of the Federal Government for 2017/2018 also includes concrete measures to reduce the number of regulations, which should lead to a sustainable relief for citizens and companies. For each new regulation, an existing regulation should be abolished (one in, one out). As far as possible, all new regulations will only be enacted for a certain amount of time ("sunset legislation"). When transposing EU legislation into national law, any higher level of regulation than foreseen at the EU level has to be duly justified (to avoid "gold-plating"). The respective law was approved by Parliament at the end of March 2017.

In its new work program, the Federal Government intends to further concentrate responsibilities. The Federal Government supports the unbundling of competences and clearly-defined regulation and responsibility structures between all levels of government, especially in the area of commercial law. Instead of a framework law at the federal level, which is followed by nine different state laws (and often even more regulations at other levels), clear and uniform responsibilities should be established (for instance regarding electricity law, poverty, health care, farm labour law, youth protection). In a collaborative manner, regulation density in the country should be reduced noticeably. Another target is to increase efficiency of subsidies and the administration while maintaining expenditure discipline at the federal and state level to save 1 bn € in total at the general government level, starting from January 1st, 2018.

In February 2017, a working group of the Federal Government and the states on federalism was established. A political steering committee consisting of members of the Federal Government (Federal Minister of Finance, Federal Minister for the Constitution) and the states will coordinate the work and take the necessary strategic decisions.

The following topics will be covered:

- The elimination of framework legislation with the aim of abolishing the current parallel layers of ten laws per subject and the establishment of clear responsibilities
- Uniform commercial law (legislation regarding operational facilities, occupational practice legislation) with the aim of relieving companies
- Harmonization of youth protection
- Increased efficiency between the federal and states levels, e.g. by reducing approval rights between the federal and states levels, administrative cooperation between different levels of government and measures to speed up administrative procedures.

Experts from the federal and the state governments are working on the preparation of legal measures and their concrete implementation. Specific deadlines are attached to the various issues.

4.2. Reform of financial equalisation

In its work programme the Federal Government committed to implement a new, task-oriented system of intergovernmental fiscal transfers. Negotiations between the Federal Government, the states and the municipalities started in spring 2015 and were successfully closed on November 14th, 2016, with an agreement among all fiscal equalisation partners and the signing of the Pact on a new Intergovernmental Fiscal Relations Act 2017 (IFRA 2017) by the representatives of the Federal Government, the states and of the municipalities.

The new IFRA is a first step towards more task-orientation, more transparency and simplification and stronger tax autonomy of the states.

With a system of benchmarks and spending reviews, new instruments to support administrative reforms have been agreed. Furthermore, it was agreed to initialize a reform of the federal constitution, taking into account the work of the Austria Convention.

Further steps were also agreed regarding the preparation and implementation of the new harmonised accounting rules as laid down in the regulation on the form and structure of budgets and balance sheets of states and local governments (Voranschlags- und Rechnungsabschlussverordnung 2015, VRV). In the area of climate protection, it was concluded that a formal contract between the Federal Government and the states according to Article 15a of the Austrian Constitution should be agreed to implement measures in the building sector.

The key elements of the IFRA 2017 – 2021 are:

Task-orientation

A first step towards the change of the system is a pilot project for early childhood education. The allocation of the tax revenue shares of municipalities will be partially replaced by a task-orientated distribution, i.e. the funds will be allocated based on mutually-agreed quantitative and qualitative parameters. This ensures that public funds are available exactly where they are needed. The area of elementary education (0-6 years) will be prepared consensually by September 1st, 2017, and implementation as a pilot project will start from January 1st, 2018. By September 1st, 2018, task-oriented allocation of revenue shares will also be prepared consensually for the field of compulsory schools (6-15 years) and implemented as another pilot project from January 1st, 2019.

Tax autonomy of states and municipalities

As a first step towards more autonomy of the states, the "Wohnbauförderungsbeitrag" (an already existing payroll tax) will become an exclusive state tax with effect from January 1st, 2018, with full autonomy by the state with regard to the tariff.

A joint working group on tax autonomy of the fiscal equalisation partners, in consultation with international experts, will assess the appropriateness and possible options for a further increase in tax autonomy. It will focus on:

- income tax including wage tax
- corporation tax
- motor-vehicle taxes.

By mid-2017, another working group will prepare the strengthening of the tax autonomy of municipalities via a reform of the real estate tax.

Simplification of the fiscal equalisation system

The radical simplification of the system of shared taxes and transfers and its distribution has led to a simpler and more transparent allocation of revenue shares and transfers. The complexity of intergovernmental fiscal relations has been reduced substantially.

Sustainable financing for measures pursuant to the Regulation on railway intersections 2012 (Eisenbahnkreuzungs-Verordnung 2012)

The IFRA 2017 established a fund endowed with 125 m € (thereof 50% by the Federal Government and 50% by municipalities) for the financing of railway crossings for the period

2017-2029. This ensures that construction measures on community roads in connection with rail crossings can be financed by the municipalities.

Migration/integration

States and municipalities will be granted a one-off contribution to the extraordinary costs of migration and integration, amounting to 125 m € (states 70%, municipalities 30%).

Health and long-term care

To maintain the high quality of health and long-term care services, the cooperation between the respective levels of governments and the federal ministries has been reformed. The fund which supports the states with means for long-term care services will continue to be endowed with 350 m € annually and adjusted at 4.5% annually from 2018. Ceilings for the annual growth of expenditures for health and long-term care services support the sustainable financing of both areas.

Sustainable budget management

To ensure sustainable budget management, e.g. in the areas of health care, long- term care and social affairs, states and municipalities will receive 300 m € annually. Out of these 60 m € have been earmarked for fiscally-weak municipalities with decreasing population.

Harmonized ceilings for public guarantees

A treaty based on Article 15a of the Austrian Constitution introduces ceilings on public guarantees extended by all levels of government, based on a uniform formula.

Continuation of reforms

In continuation of the reform process, it was agreed that spending reviews and a system of benchmarks will be introduced and efforts will be made to reform the federal system.

This demonstrates that the works on the reform of intergovernmental financial relations have not been finished yet: with the IFRA effective from 2017 and the accompanying laws and agreements, an important goal has been achieved. However, reforms efforts will be continued by the Federal Ministry of Finance, the states and the municipalities.

The aim is to make intergovernmental fiscal relations more transparent, efficient and more task-oriented.

4.3. Harmonisation of the budget law

The 2013 reform of the budgetary framework law 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 also 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 (other municipalities by 2020) and implement the three key elements:

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

This will substantially improve transparency and comparability of the financial situation among the different regional authorities.

4.4. Spending reviews

The aim of the Federal Government is to guarantee the stability of public finances and to set priorities for growth and employment.

In the framework of past consolidation efforts, savings potentials were identified on an ad hoc basis during the annual budget preparation process. There was no binding and permanent structure with clear responsibilities for analysing task areas and elaborating proposals to increase efficiency and effectiveness and to reduce expenditures.

Spending Reviews should help in this regard to assess expenditures in different areas,

- whether they reach the desired results;
- where there are useful starting points for cuts and savings,
- where expenditures could or should be restructured to better exploit synergy effects.

The resulting proposals will be included into the budget process.

This is why first steps were taken in Austria to introduce spending reviews. Spending reviews as an instrument to support budgetary decisions deliver a clear framework for budgetary consolidation for the Federal Government, which stresses the importance of strategic and fact-based decisions and the need for relevant information for budgetary decisions.

More specifically, the Federal Ministry of Finance in 2016 developed guidelines for the implementation of two pilot projects for spending reviews: an internal project by the Federal Ministry of Finance on the topic of "disaster management and prevention" and a joint project between the Federal Ministry of Finance and the Federal Ministry of Families and Youth on the "family burden equalization fund". Both pilot projects have already been completed. As a next step, proposals from the final report and an evaluation of the pilot projects will be brought to the political level. The objective is to reach an inter-ministerial agreement regarding specific topics for spending reviews.

Fiscal equalization partners also agreed in November 2016 on the introduction of spending reviews as a continuous process. The first topics identified for reviews are "School Health Services" and "Municipal Water Management". Specific measures for their implementation are currently under preparation and the projects will be launched in the next weeks.

5. Institutional Framework

5.1. Comprehensive fiscal rules

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 these rules require the central government, the state governments and the municipalities to achieve structurally balanced budgets as a basic principle. The agreement covers the following key issues:

- 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 public guarantees, whose implementation was harmonised in the course of the negotiations on intergovernmental fiscal relations in 2017. From 2019, the maximum amount of guarantees by the central government and the states is limited to 175% of the revenues of the entity, while for municipalities it is limited 75% of revenues.
- Rules to strengthen budgetary coordination between the central government, the states and municipalities, and to improve medium-term budgetary planning, mutual exchange of information and transparency.

Compliance with the fiscal rules will be ensured by adequate regulation regarding sanctions.

In Austria, the former Government Debt Committee has been legally assigned the role of monitoring compliance with EU fiscal requirements. 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 tax sharing, the Austrian National Bank and the Parliament's budget office. With regard to fiscal surveillance, the Fiscal Council`s central role is to strengthen budgetary discipline at the levels of the general, state and local governments.

So far, the Fiscal Council has published nine recommendations and four reports on the compliance with fiscal rules on its webpage.

5.2. Medium-term budgetary planning

The Federal Constitutional Law and the Federal Budget Law provide for legally binding multi-annual budgetary planning at the federal level via the Federal Financial Framework Law (BFRG) and the Strategy Report. The former sets binding expenditure ceilings over the next four years for five 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.

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 and is approved by the Federal Government in accordance with national fiscal coordination. The Stability Programme also represents the medium-term fiscal plan according to 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 Financial Equalisation as well as Social Partners.

The report by the Federal Minister of Finance on the Austrian Stability Programme Update for the period 2015 to 2020 was presented to Parliament on 26 April 2016 for consideration in the ensuing procedure. On 4 May 2016, the parliamentary budget committee discussed it in public session and adopted a final report following the process laid down in paragraph 28b of the Law on Parliament's Rules of Procedure (GoG-NR).

The Programme at hand was adopted by the Council of Ministers on 19 April 2017. A debate in the parliamentary budget committee was scheduled for 28 April 2017. After that, the submission to the EU Council and the EC was foreseen.

6. Annex

Table 1: Basic assumptions

	2016	2017	2018	2019	2020	2021
Short-term interest rate (annual average)	-0.3	-0.3	-0.1	0.1	0.4	0.7
Long-term interest rate (annual average)	0.4	0.6	0.9	1.6	2.1	2.3
USD/€ exchange rate (annual average)	1.1	1.1	1.1	1.1	1.1	1.1
Nominal effective exchange rate	1.1	-0.6	0.2	-	-	-
Real GDP growth (World excluding EU)	3.4	3.8	4.2	4.1	4.1	4.0
Real GDP growth (EU)	1.9	2.0	1.8	1.9	1.8	1.8
Growth of relevant Austrian foreign markets	2.9	3.6	3.5	-	-	-
Import volumes (World excluding EU)	-	-	-	-	-	-
Oil prices (Brent, USD/barrel)	44	57	59	60	60	60

Positions may not sum up due to rounding errors.

Source: WIFO

Table 2: Macroeconomic prospects

		2016	2016	2017	2018	2019	2020	2021
	ESA Code	**in bn €**						**rate of change**
1. Real GDP	B1*g	315.1	1.5	2.0	1.8	1.7	1.6	1.6
2. Potential GDP		-	1.4	1.4	1.5	1.6	1.6	1.5
3. Nominal GDP	B1*g	349.5	2.8	3.3	3.3	3.3	3.4	3.4
								Components of real GDP
4. Private final consumption expenditure	P.3	162.7	1.5	1.3	1.2	1.2	1.2	1.3
5. Government final consumption expenditure	P.3	63.2	1.3	1.1	1.0	1.0	1.0	1.0
6. Gross fixed capital formation	P.51g	72.4	2.9	2.6	2.4	2.2	2.1	1.9
7. Changes in inventories and net acquisition of valuables (in % of GDP)	P.52 + P.53	-	0.8	0.9	0.9	0.9	0.9	1.0
8. Exports of goods and services	P.6	175.4	1.7	3.6	3.4	3.4	3.2	3.1
9. Imports of goods and services	P.7	163.4	2.8	3.3	3.0	3.1	3.0	3.0
								Contributions to real GDP growth
10. Final domestic demand			1.7	1.5	1.4	1.4	1.3	1.3
11. Changes in inventories[1)]	P.52 + P.53		0.2	0.2	0.0	0.0	0.0	0.0
12. External balance of goods and services	B.11		-0.4	0.3	0.3	0.3	0.2	0.2

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

	2016	2017	2018	2019	2020	2021
						rate of change
1. GDP deflator	1.3	1.4	1.5	1.6	1.7	1.8
2. Private consumption deflator	1.3	1.7	1.7	1.7	1.8	1.8
3. CPI	0.9	1.7	1.7	1.7	1.8	1.8
4. Public consumption deflator	1.5	1.6	1.6	1.7	1.7	1.7
5. Investment deflator	1.0	1.3	1.5	1.5	1.8	1.8
6. Export price deflator (goods and services)	-0.5	1.1	1.1	1.5	1.5	1.6
7. Import price deflator (goods and services)	-1.2	1.5	1.4	1.5	1.6	1.6

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 4: Labour market developments

		2016	2016	2017	2018	2019	2020	2021
	ESA Code	Level						rate of change
1. Employment, persons		3,989,031	1.5	1.6	1.3	1.3	1.2	1.2
2. Employment, hours worked (in m)		6,959.8	0.9	1.1	0.9	0.9	0.8	1.0
3. Unemployment rate, EUROSTAT definition		-	6.0	5.9	5.9	5.9	6.0	6.0
4. Labour productivity, persons		78,984.2	0.0	0.3	0.4	0.4	0.4	0.3
5. Labour productivity, hours worked		45.3	0.6	0.8	0.8	0.8	0.7	0.6
6. Compensation of employees (in m €)	D.1	168,065.1	2.8	3.2	3.1	3.1	3.1	3.1
7. Compensation per employee		42,131.8	1.3	1.6	1.7	1.8	1.9	1.8

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

Table 5: Sectoral balances

		2016	2017	2018	2019	2020	2021
	ESA Code						in % of GDP
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	1.6	1.6	1.6	-	-	-
2. Net lending/borrowing of the private sector	B.9	3.2	2.6	2.4	-	-	-
3. Net lending/borrowing of the general government	B.9	-1.6	-1.0	-0.8	-0.5	-0.4	-0.3
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	2016	2017	2018	2019	2020	2021
							in % of GDP
		Net lending/net borrowing by sub-sector					
1. General government	S.13	-1.6	-1.0	-0.8	-0.5	-0.4	-0.3
2. Central government	S.1311	-1.2	-1.1	-0.9	-0.6	-0.4	-0.5
3. State governments (excl. Vienna)	S.1312	-0.3	0.0	0.0	0.0	0.0	0.0
4. Local governments (incl. Vienna)	S.1313	-0.1	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	0.0	0.0	0.1	0.1	0.0	0.1
6. Interest expenditure	D.41	2.1	2.0	1.8	1.7	1.6	1.6
7. Primary balance		0.5	0.9	1.0	1.2	1.3	1.2
8. One-off and other temporary measures		-0.1	0.0	0.0	0.0	0.0	0.0
9. Real GDP growth		1.5	2.0	1.8	1.7	1.6	1.6
10. Potential GDP growth		1.4	1.4	1.5	1.6	1.6	1.5
11. Output gap		-0.9	-0.3	-0.1	-0.1	0.0	0.0
12. Cyclical budgetary component		-0.5	-0.2	-0.1	0.0	0.0	0.0
13. Cyclically-adjusted balance		-1.1	-0.9	-0.8	-0.5	-0.3	-0.3
14. Cyclically-adjusted primary balance		1.0	1.1	1.0	1.2	1.3	1.2
15. Structural balance		-1.0	-0.9	-0.8	-0.5	-0.3	-0.3

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 7: General Government debt developments

	ESA Code	2016	2017	2018	2019	2020	2021
							in % of GDP
1. Gross debt		84.6	80.8	78.5	76.0	73.5	71.0
2. Change in gross debt ratio (in %)		-1.0	-4.6	-2.8	-3.2	-3.3	-3.3
		Contributions to changes in gross debt					
3. Primary balance		0.5	0.9	1.0	1.2	1.3	1.2
4. Interest expenditure	D.41	2.1	2.0	1.8	1.7	1.6	1.6
5. Stock-flow adjustment		-0.1	-2.2	-0.5	-0.5	-0.4	-0.4
p.m.: Implicit interest rate on debt		2.5	2.4	2.3	2.2	2.2	2.2

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 8: Contingent liabilities

	2015	2016	2017
			in % of GDP
Public guarantees	22.9	21.0	16.6
of which: Central government[1)]	12.7	11.9	11.2
of which: linked to the financial sector[2)]	0.7	0.7	0.7
of which: State and Local governments	10.2	9.1	5.4
of which: linked to the financial sector[2)]	6.9	5.8	2.6

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

Without liabilities for EFSF as well as without liabilities for euro coins towards Austrian Mint.

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, HETA immigion and Kärtner Ausgleichszahlungsfonds.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 9: Budgetary prospects

	ESA Code	2016	2017	2018	2019	2020	2021
							in % of GDP
							General government
1. Total revenue	TR	49.5	49.5	49.4	49.4	49.4	49.3
1.1. Taxes on production and imports	D.2	14.5	14.5	14.2	14.1	14.0	13.9
1.2. Current taxes on income, wealth etc.	D.5	13.1	13.3	13.5	13.7	13.9	14.0
1.3. Capital taxes	D.91	0.2	0.2	0.2	0.2	0.2	0.1
1.4. Social contributions	D.61	15.5	15.4	15.4	15.4	15.3	15.3
1.5. Property income	D.4	0.9	0.9	0.8	0.8	0.8	0.8
1.6. Other		5.3	5.3	5.3	5.3	5.3	5.2
p.m.: Tax burden		42.7	42.7	42.6	42.7	42.8	42.8
2. Total expenditure	TE	51.1	50.6	50.3	49.9	49.8	49.7
2.1. Compensation of employees	D.1	10.8	10.7	10.6	10.5	10.5	10.4
2.2. Intermediate consumption	P.2	6.5	6.4	6.4	6.3	6.3	6.3
2.3. Social payments	D.62, D.632	23.3	23.2	23.3	23.3	23.3	23.3
of which: Unemployment benefits		0.1	0.1	0.1	0.1	0.1	0.1
2.4. Interest expenditure	D.41	2.1	2.0	1.8	1.7	1.6	1.6
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	3.0	3.0	3.0	2.9	2.9
2.7. Capital transfers	D.9	0.7	0.7	0.7	0.7	0.7	0.7
2.8. Other		3.2	3.2	3.1	3.0	3.0	3.0

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 10: Revenues and expenditures according to ESA (in bn €)

	ESA Code	2016	2017	2018	2019	2020	2021	change 2016-2021 in % 2016-2021	cf. GDP
1. Total revenue	TR	173.1	178.8	184.3	190.4	196.8	203.0	17.3	-0.5
1.1. Market output	P.11+P.12+P.131	15.2	15.6	16.1	16.6	17.1	17.5	15.4	-2.4
1.2. Taxes on production and imports	D.2	50.8	52.3	53.0	54.4	55.7	57.3	12.8	-4.9
1.3. Property income	D.4	3.0	3.1	3.2	3.2	3.2	3.2	4.9	-12.8
1.4. Current taxes on income, wealth etc.	D.5	45.9	47.9	50.2	52.7	55.2	57.5	25.4	7.6
1.5. Social contributions	D.61	54.1	55.8	57.4	59.2	61.1	63.0	16.5	-1.2
1.6. Other current transfers	D.7	3.4	3.5	3.6	3.7	3.9	4.0	18.8	1.0
1.7. Capital transfers	D.91	0.7	0.6	0.8	0.6	0.6	0.4	-40.4	-58.1
2. Total expenditure	TE	178.5	182.6	187.4	192.4	198.2	204.4	14.5	-3.2
2.1. Intermediate consumption	P.2	22.6	23.2	23.8	24.5	25.1	25.8	13.9	-3.8
2.2. Compensation of employees	D.1	37.7	38.6	39.5	40.5	41.6	42.8	13.6	-4.2
2.3. Taxes on production and imports	D.2	1.6	1.6	1.6	1.6	1.6	1.6	0.0	-17.8
2.4. Subsidies	D.3	4.9	5.0	5.2	5.3	5.6	5.9	20.1	2.3
2.5. Interest expenditure	D.41	7.3	7.1	6.7	6.6	6.4	6.5	-12.0	-29.7
2.6. Current taxes on income, wealth etc.	D.5	0.1	0.1	0.1	0.1	0.1	0.1	0.0	-17.8
2.7. Social benefits	D.62	67.0	68.8	71.2	73.4	75.8	78.4	16.9	-0.9
2.8. Social transfers in kind	D.632	14.5	15.1	15.7	16.3	17.0	17.7	22.4	4.6
2.9. Other current transfers	D.7	9.7	9.8	9.9	10.1	10.4	10.8	11.3	-6.4
2.10. Capital transfers	D.9	2.6	2.5	2.7	2.7	2.8	2.8	6.6	-11.2
2.11. Gross capital formation	P.51g	10.5	10.8	11.1	11.4	11.7	12.1	15.2	-2.6
2.12. Acquisition of non-financial non-prod. assets (net)	NP	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-100.0	-117.8
3. Financial balance according Maastricht		-5.4	-3.8	-3.1	-2.0	-1.4	-1.4	-73.9	
4. Financial balance according Maastricht (in % of GDP)		-1.6	-1.0	-0.8	-0.5	-0.4	-0.3	-77.9	

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 11: Amounts to be excluded from the expenditure benchmark

	2016 in bn €	2016	2017	2018	2019	2020	2021 in % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1.4	0.4	0.4	0.4	0.4	0.4	0.3
of which investments fully matched by EU funds revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure at unchanged policies	0.4	0.1	0.1	0.1	0.1	0.1	0.1
3. Effects of discretionary revenue measures	-3.7	-1.1	0.0	-0.1	0.0	0.0	-0.1
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 latest Stability Programme (April 2016)

	ESA Code	2016	2017	2018	2019	2020	2021
							in % of GDP
General government net lending/net borrowing	B.9						
SP April 2016		-1.6	-1.5	-0.9	-0.7	-0.4	-
SP April 2017		-1.6	-1.0	-0.8	-0.5	-0.4	-0.3
Difference		*0.0*	*0.4*	*0.0*	*0.2*	*0.1*	-
Structural balance	B.9						
SP April 2016		-0.9	-1.0	-0.5	-0.5	-0.4	-
SP April 2017		-1.0	-0.9	-0.8	-0.5	-0.3	-0.3
Difference		*-0.1*	*0.1*	*-0.2*	*0.0*	*0.0*	-
Gross debt							
SP April 2016		84.3	82.6	80.8	78.7	76.6	-
SP April 2017		84.6	80.8	78.5	76.0	73.5	71.0
Difference		*0.4*	*-1.9*	*-2.3*	*-2.7*	*-3.1*	-

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 13: General Government expenditure by function

	COFOG Code	2013	2014	2015	2016
					in % of GDP
1. General public services	1	7.2	6.9	6.9	6.6
2. Defence	2	0.6	0.6	0.6	0.6
3. Public order and safety	3	1.3	1.3	1.4	1.4
4. Economic affairs	4	5.7	7.4	6.2	5.7
5. Environmental protection	5	0.5	0.5	0.4	0.4
6. Housing and community amenities	6	0.3	0.3	0.3	0.3
7. Health	7	7.8	7.9	8.0	8.1
8. Recreation, culture and religion	8	1.3	1.2	1.2	1.2
9. Education	9	5.0	5.0	5.0	5.0
10. Social protection	10	21.4	21.6	21.7	21.8
11. Total expenditure	TE	51.2	52.7	51.7	51.1

Positions may not sum up due to rounding errors.

Source: STAT

Table 14: Economic growth and public finances in three scenarios

	2016	2017	2018	2019	2020	2021
Baseline scenario						
GDP, nominal, in bn €	349.5	361.2	373.0	385.3	398.2	411.6
GDP, real, rate of change in %	1.5	2.0	1.8	1.7	1.6	1.6
Net lending/borrowing of general government in % of GDP	-1.6	-1.0	-0.8	-0.5	-0.4	-0.3
Gross debt in % of GDP	84.6	80.8	78.5	76.0	73.5	71.0
Scenario 1						
GDP, nominal, in bn €	349.5	363.0	376.6	391.0	406.1	421.8
GDP, real, rate of change in %	1.5	2.5	2.3	2.2	2.1	2.1
Net lending/borrowing of general government in % of GDP	-1.6	-0.7	-0.5	-0.2	-0.1	-0.1
Gross debt in % of GDP	84.6	80.1	77.2	74.1	71.0	68.0
Scenario 2						
GDP, nominal, in bn €	349.5	359.4	369.3	379.6	390.4	401.6
GDP, real, rate of change in %	1.5	1.5	1.3	1.2	1.1	1.1
Net lending/borrowing of general government in % of GDP	-1.6	-1.3	-1.1	-0.8	-0.6	-0.6
Gross debt in % of GDP	84.6	81.4	79.9	78.0	76.0	74.1

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

[1)] 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 2017 and the years to follow compared to the baseline scenario.

Table 15: Long-term sustainability of public finances (Ageing Report 2015)

See "Austrian Stability Programme", April 2016

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

	2014	2015	2016	2017
				in m €
1. Initial reception costs	213.7	388.9	782.3	750.2
2. Transport (incl. rescue operations)	0.0	85.3	119.3	49.4
3. Health-care 1)	0.0	0.0	0.0	0.0
4. Administrative costs (incl. processing applications for asylum)	44.2	54.5	79.3	96.4
5. Contributions to Turkey Facility (excl. through EU Budget) and other int. aids	6.0	18.4	44.0	21.3
6. Other costs and measures	260.2	373.4	646.4	794.3
7. Total impact on headline balance	524.1	920.4	1,671.3	1,711.6

1) included in 1. and 6.

Positions may not sum up due to rounding errors.

Source: BMF

Table 17: Refugees - Impact on the headline balance - breakdown by ESA 2010 categories

	2014	2015	2016	2017
				in m €
1. Compensation of employees	29.4	52.1	95.0	95.8
2. Intermediate consumption	31.5	55.8	101.8	102.7
3. Social payments	383.9	683.6	1,246.2	1,257.6
4. Subsidies	2.3	3.7	6.7	6.8
5. Gross fixed capital formation	1.0	3.8	7.0	7.0
6. Capital transfers	3.8	4.3	7.8	7.9
7. Other	72.7	127.0	231.5	233.7
8. Total impact on headline balance 1)	524.6	930.4	1,696.0	1,711.6
9. Compensation from EU 1)	0.5	10.0	24.7	20.0
10. Total impact on headline balance (net of EU compensation)	524.1	920.4	1,671.3	1,691.6
11. Total impact on headline balance (net of EU compensation) in % of GDP	0.16	0.27	0.48	0.47

1) In some instances net expenditures are stated in other positions.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 18: Fight against terrorism - Impact on the headline balance

	2015	2016	2017
			in m €
1. Internal security	0.0	26.9	63.2
2. Defense	0.0	105.8	127.1
3. Total impact on headline balance	0.0	132.7	190.3

Positions may not sum up due to rounding errors.

Source: BMF

Table 19: Fight against terrorism - Impact on the headline balance - breakdown by ESA 2010 categories

	2015	2016	2017
			in m €
1. Compensation of employees	0.0	15.9	32.3
2. Intermediate consumption	0.0	8.0	13.3
3. Social payments	0.0	0.0	0.0
4. Subsidies	0.0	0.7	1.0
5. Gross fixed capital formation	0.0	95.5	133.2
6. Capital transfers	0.0	0.0	0.0
7. Other	0.0	12.6	10.5
8. Total impact on headline balance	0.0	132.7	190.3
9. Compensation from EU	0.0	0.0	0.0
10. Total impact on headline balance (net of EU compensations)	0.0	132.7	190.3
11. Total impact on headline balance (net of EU compensations) in % of GDP	0.00	0.04	0.05

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 20: Country specific recommendations (CSR)

See "National Reform Programme - Austria", April 2017

Table 21: Targets set by the Union's strategy for growth and jobs

See "National Reform Programme - Austria", April 2017

Table 22: Europe 2020 targets

					National target	EU target
	2012	2013	2014	2015	2020	2020
Employment rate in % of population aged 20-64	74.40	74.60	74.20	74.30	**77**	75
Gross domestic expenditure on R&D in % of GDP	2.93	2.97	3.06	3.07	**3.76**	3.0
Emissions target - reduction of non ESD sector emissions (compared to 2005 = 100)	85.40	86.23	82.95	84.77	**84**	90
Share of renewable energy in gross final energy consumption in %	31.40	32.30	32.80	33.00	**34**	20
Energy efficiency - stabilisation of final energy consumption (in Mtoe)	27.10	28.00	26.70	27.40	**25.1**	1,086
Early leavers from education and training in % of population aged 18-24	7.80	7.50	7.00	7.30	**9.5**	<10
Tertiary educational attainment in % of population aged 30-34	26.10	27.10	40.00	38.70	**38**	≥40
Reduction of people at risk of poverty or social exclusion (base year 2008)	-157,000	-127,000	-89,000	-147,000	**-235,000**	-20,000,000

Source: EUROSTAT

Table 23: Financial equalisation - additional costs for the Central government (in m €)

	2017	2018	2019	2020	2021
Higher revenue shares for State governments and communities	300	300	300	300	300
Reimbursement of the additional costs for migration and integration (for State governments and communities)	125	0	0	0	0
Long-term care fund	0	11	22	33	45
Other	39	39	39	39	39
Sum	464	350	361	372	384

Positions may not sum up due to rounding errors.

Source: BMF

Sources/Links

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

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