BMF

FEDERAL MINISTRY
OF FINANCE

Austrian Stability Programme

Update for the period 2013 to 2018

and

Draft Budgetary Plan

2014 (update) and 2015

Federal Ministry of Finance

Vienna, 29 April 2014

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 and the other EU Member States a Convergence Programme each year.

In accordance with Article 4(2) of Regulation (EU) No 473/2013 the draft budget for the forthcoming year shall be made public annually not later than 15 October. The information published shall contain the draft budgetary plan of the central government and the main parameters of the draft budget for all the other subsectors of the general government for the forthcoming year. They are to be made public and, in accordance with Article 6 of Regulation (EU) No 473/2013, submitted to the European Commission and the Eurogroup.

Due to parliamentary elections held on 29 September 2013 and the subsequent formation of a new Federal Government, the "budgetary plan 2014" was adopted by the interim Federal Government subject to the condition that the incoming Federal Government will present a new and adapted draft budgetary plan. This programme therefore also serves as update (2014) to the Draft Budgetary Plan 2014 and follows the requirements in format and content of the *Code of Conduct* as endorsed by the ECOFIN Council on 9 July 2013 as well as the Commission Delegated Regulation (EU) 877/2013 of 27 June 2013.

The Federal Government pursues a long-term and stability oriented fiscal and economic policy with the objective of obtaining sustainable economic growth and a high level of employment. Three key areas have been defined:

- Consistently proceeding with the successful fiscal consolidation, reaching a structurally balanced budget by 2016 and gradually reducing the public debt ratio;
- strengthening investments in the areas of education, universities, R&D and infrastructure to support growth and employment and
- continuing structural reforms in the field of pensions, health policy, public administration, subsidies, labour markets and taxes.

This stability programme and this draft budgetary plan are based on the Federal Budgetary Framework Law 2015 to 2018 (BFRG), the parameters of the Austrian Stability Pact (ÖStP), national accounts data of Statistics Austria (STAT) until 2013, the economic forecast of the independent Austrian Institute of Economic Research (WIFO) as of 27 March 2014 and own calculations of the Federal Ministry of Finance of Austria (BMF).

2. Economic situation in Austria

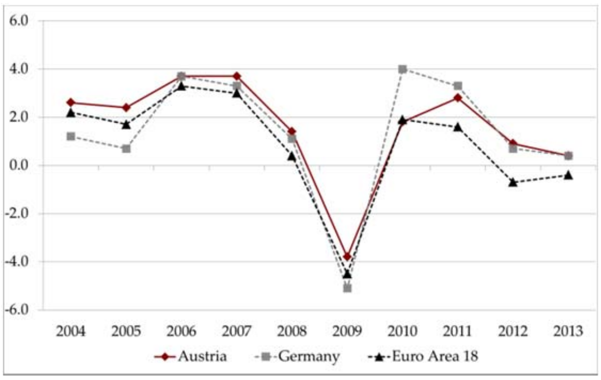
2.1. Economic developments in 2013

In 2013, while the euro area was in a recession (-0.4%), the Austrian economy recorded a real growth rate of +0.4%. After a transitory period of stagnation in the second quarter, the economy has accelerated again.

Investment in equipment contracted comparably strongly in 2013 (-3.1%). A moderate international and national demand and uncertain prospects may have been the cause for this contraction, whereas financing conditions do not seem to have played a major role.

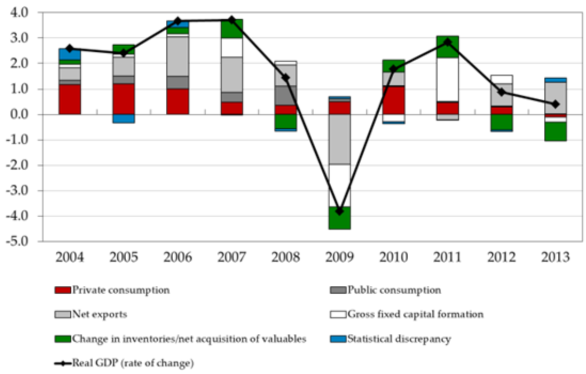
Reflecting the weak international cyclical position, export growth dampened external demand. In addition, real private consumption expenditure contracted (-0.2%) for the first time since 1984. This contraction was due to only moderate dynamics of disposable household income, an increase of unemployment and restraint in the purchase of durable consumption goods. The drop of the saving rate of private households to a historic low of 6.6% of disposable income mitigated some effects of the income moderation on private consumption.

Figure 1: Real GDP growth



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

Figure 2: Contribution to growth



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

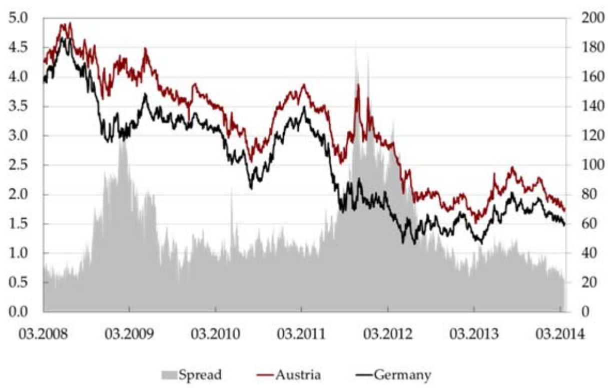
In 2013, the level of persons employed increased by +30,000, a large share of whom were of foreign origin. On the supply side, in turn, the labour force increased by +57,000 – mainly due to a surge of foreign workforce, among them many are commuters, as well as an increase in the participation rate of older persons and women. This led to an increase of registered unemployed by close to +27,000 or +10%.

In 2013, inflation in Austria was again stronger than in the Euro area (+2.0%). The most important price drivers were housing costs, followed by foodstuff and hotels and restaurants, whereas the spending component transport exerted a dampening effect.

2.2. Financial sector developments

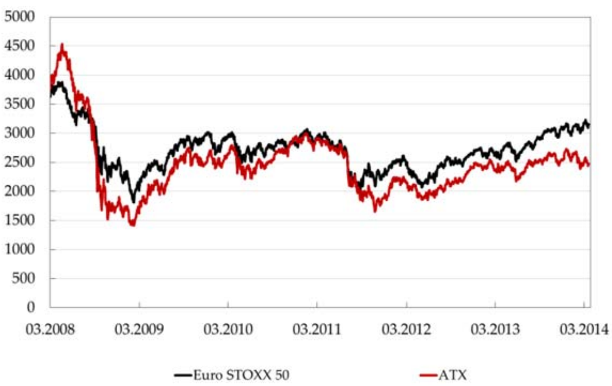
In addition to budgetary and economic factors the US monetary policy played an important role with respect to the development of the long-term interest rates in the last 12 months. From June 2013 a significant increase of long-term interest rates in most developed countries was observed, triggered by the announcement of the US Central Bank to reduce the scope of the US bonds purchasing programme. The Austrian long-term interest rate (10-year yield for government bonds) increased from around 1.5% in spring 2013 to roughly 2.5% in September 2013. Since then, the long-term interest rate subsided again. The spread of the 10-year Austrian yield to the 10-year German yield showed relatively low volatility since fall 2013.

Figure 3: Long-term interest rates



Right axis: Spread in basis points
Left axis: Long-term interest rates in %
Source: Macrobond (as of 24 April 2014)

Figure 4: Financial market performance



Left axis: Index
Source: Macrobond (as of 24 April 2014)

The rating agency Moody´s has raised the outlook on Austria´s government bond rating from „negative" to „stable" on February 28th, 2014 (the government´s bond rating of Austria was affirmed at the top rating "Aaa"). As reasons for this improved outlook Moody´s mentioned declining financial risks for the euro area, improvement of the fiscal situation in Austria and reduced risks for further banking stabilisation measures as well as a stability oriented economic policy, strong institutions, a competitive and diversified economy and low financing costs.

During the last year the Austrian equity market (ATX) was highly correlated with the Euro-Stoxx-50-Index, whereas since the middle of 2013 an upward trend was observed due to brightened economic prospects. This upward trend was somehow dampened in the first months of 2014 by increased geopolitical uncertainties (Eastern Europe).

Banking sector

The year 2013 was characterized by a low interest rate environment and a sluggish economic recovery in Europe. In central, eastern and south-eastern Europe the picture was mixed: while some countries experienced growth, the Czech Republic, Slovenia and Croatia faced a decline in GDP.

The non-consolidated operating profit of the Austrian banks amounted to € 6.13 billion in 2013, about 11.3 % below the previous year. Net income declined significantly and is currently estimated at € 641.6 million. Profitability suffered also heavily due to persistently weak operating income, the absence of one off effects and rising operating- and risk costs.

As regards Austria credit quality and ratio of non-performing loans (4.5% y-o-y) remained largely unchanged. By contrast, credit quality in CESEE deteriorated. The development was mainly driven by countries such as Romania, Croatia and Slovenia.

Credit growth in loans to households (driven by housing loans) and enterprises lost momentum but remained positive (+0.8% and +0.5% in 2013). The slightly negative growth of total loan volume was attributable to lower volumes of loans to non-bank financial intermediaries and the state.

The decline in foreign currency loans continued. At the end of the year 12.3% of all loans to customers were denominated in foreign currency. For households the share was 20.4%.

Consolidated own funds in the banking system increased somewhat in 2013. As systemically relevant banks started to reduce participation capital held by the government, these banks regulatory capital improved by less than in the total banking sector.

The graduate exit of the banking sector from public support measures has already been executed within the framework of the Interbank Market Support Act (IBSG). New liabilities must not be granted since January 1st, 2011 based on the Interbank Market Support Act (IBSG). *Guarantees for securities issues* still remain up to 1.2 bn € at the end of 30th March 2014. The remaining liabilities will expire by the mid of June.

According to the Financial Market Stability Act (FinStaG) 14.7 bn € were made available to Austrian banks for capital and liquidity support in the last couple of years.

By the end of 2013, five Austrian banks have subscribed government participation capital in the amount of 3.5 bn €. In the first half of 2014 repayment of government participation capital in the amount of 1.6 bn € is expected from *Raiffeisen Bank International* and *BAWAG PSK*. Guarantees taken by the Austrian government are about 4.3 bn €. The remaining support measures in line with the Financial Market Stability Act (FinStaG) in the amount of 6.6 bn € are granted as shareholder contribution and other financial measures.

In compliance with EU state aid rules, the Austrian government does not intend to hold ownership of banks or other financial institutions in the long run. Therefore, at publicly owned institutions (*Kommunalkredit Austria, Hypo Alpe Adria*) as well as at the partly publicly owned institution (*ÖVAG*) sustainable restructuring or changes in the business model as well as liquidation of assets should take place within an approved time frame by the European Commission.

As the privatization process was abandoned due to a lack of adequate offers, the *Kommunalkredit Austria* now is executing an orderly wind down plan, which was approved by the European Commission on July 13th, 2013. This requires the discontinuation of new credit business on the assets side and the liquidation of the asset portfolio in the long run, approximately until 2040. Nevertheless, the *Kommunalkredit Austria* has to keep up a limited amount of the existing credit business for liquidity reasons to ensure its liquidity and capital planning without government guaranteed refinancing or other support measures.

The *KA Finanz* is currently liquidating its asset portfolio in a value preserving manner. The management team has to use favourable market conditions quickly in order to avoid potentially higher discounts in the future. About 3 bn € of the total amount of guarantees out of the Financial Market Stability Act (FinStaG) are used for a guarantee program for short term securities issues. In order to reduce risk in the *KA Finanz's* CDS portfolio, the Austrian government granted the *KA Finanz* a shareholder contribution ("Gesellschafterzuschuss") of 150 million €. A specific guarantee for credits and bonds, granted in 2011, was called, leading to a governmental payment of 41,4 mn € in 2013.

In September 2013, the European Commission issued its decision approving state aid for *Hypo Alpe Adria*. Therein, the Commission agreed within a legal framework to a capital support of 5.4 bn € and a liquidity support of 3.3 bn €. According to the submitted restructuring plan, the shut-down of the new business of the Italian branch was implemented in July 2013 and the remaining participation in the SEE unit is to be sold by 2015. The Austrian subsidiary of *Hypo Alpe Adria* was already sold in December 2013.

In 2013, capital support measures were implemented for *Hypo Alpe Adria* (HAA) according to the Financial Market Stability Act (FinStaG) in the total amount of 1.75 bn €, consisting of a 700 mn € capital increase in September 2013, a 250 mn € shareholder contribution in November 2013 and 800 mn € participation capital through the Austrian government in December 2013. After all mentioned, equity strengthening measures in the second half of 2013, a maximum amount of 3.65 bn € remained available within the approved framework as of January 1st, 2014. In order to provide the minimum regulatory capital for the balance sheet at end of 2013, a capital increase of 750 mn € was implemented in April 2014. Thus, the remaining available state aid limit amounts to 2.95 bn €.

In 2013, the Federal Government received 289 mn € in dividends for the subscribed participation capital and 170 mn € in fees for public guarantees, according to the Financial Market Stability Act (FinStaG) and the Interbank Market Support Act (IBSG). It is expected that in 2014 these revenues will decline. On the one hand, the *BAWAG PSK* has repaid its participation capital completely by 1Q2014 and *Raiffeisenbank International* has announced repayment of its participation capital as well, on the other hand, the IBSG liabilities will gradually expire by June 2014.

Liquidation Entity ("Abbaueinheit") for Hypo Alpe Adria

For implementing the decision of the European Commission from September 3rd, 2013, the Austrian government decided to create a Liquidation Entity for market active participations, loans and other assets of *Hypo Alpe Adria*. The SEE branch of the bank is to be sold by 2015, in line with the approved state aid regulations. The remaining assets will be transferred into a non-regulated, privately organized capital company without full governmental guarantee, for the purpose of value presenting liquidation.

A specifically established expert board ("Task Force") worked out the solution of the so-called Liquidation Entity ("Abbaumodell") under consideration of various alternatives. The realisation of the "Abbaumodell" requires extensive legal work and corporate adjustments, as well as various changes in legislation for setting up the legal framework for this new entity. The legal steps for establishing the "Abbaumodell" should be prepared and submitted to the Austrian parliament until summer 2014. In addition to legislation, organisational steps will be taken to finally establish the Liquidation Entity ("Abbaueinheit") at the latest by autumn 2014.

The "Task Force" assumes that the doubtful debts of *Hypo Alpe Adria* can be reduced in a value perceiving way through the Liquidation Entity in the long run. The entity ("Abbaueinheit") shall be integrated into the structures of the investment holding ÖIAG, owned by the Austrian government.

Establishing a government controlled Liquidation Entity will increase the federal debt in short-term, because of all liabilities transferred there have to be fully added to the debt level. But over time, the debt level will decrease via the liquidation proceeds. The total federal deficit will also be burdened by the immediate capital need for the liquidation of HAA, but the structural deficit will not be affected. Therefore, the goal of a zero-deficit in 2016 does not appear to be threatened.

The decision to establish a Liquidation Entity had in addition no adverse effect on the credit rating of the federal state of Austria. Interest rates on bond emissions of the federal state continue to be amongst the lowest in Europe.

2.3. Short to medium term perspective (2014 to 2018)

Having passed the trough of the cycle in the preceding year, the current cyclical upswing might turn out less dynamic than in past cycles. The peak of GDP-growth will be reached in 2016 at a real growth rate of +1.9%. At the end of the forecast horizon in 2018, a real growth rate of +1.8% and a then not entirely closed output gap of -0.2% of potential output are expected. Whereas average real economic growth was +0.6% per year from 2008 to 2013, it is projected to accelerate to +1.8% per year on average from 2014 to 2018.

At the start of 2014 no major tensions according to the Macroeconomic Imbalance Procedure have been identified, financing conditions have been favourable and public finances, too, are close to their medium term objective such that potential drain from demand should be low.

The fading of growth-dampening effects, pent-up demand and a favourable external environment will positively impact private investment, and an increase of net exports is expected. Against the background of an expansion of employment and a re-strengthening of profit income, private consumption should accelerate as well. Part of the impulse that will additionally come from income from wages and self-employment may go into saving such that the current saving ratio of some 7% might gradually rise to 8½% by 2018. Fiscal consolidation efforts will contribute to moderate public consumption, particularly until 2016.

Good economic growth over the projection horizon and a trend to part-time employment will contribute to relatively strong employment growth, even though the number of public employees may decrease slightly. At the same time, however, labour supply will rise because of a marked increase of foreign workers, a continued expansion of female participation and a tightening of early retirement gateways via incentives for older workers to stay in employment longer and through rehabilitation back to work instead of entry into disability pension. Taken together, the unemployment rate (as defined by Eurostat) will only modestly decrease from its expected peak of 5.3% in 2015 to 5.0% in 2018.

For the period between 2014 and 2018, an average annual price increase of +1.7% as measured by the GDP-deflator and 1.9% as measured by the consumer price index will be expected: This takes into account an assumed average annual per head increase of nominal wages by 2¼ %, hikes of taxes on tobacco, sparkling wine, alcohol and the purchase of new cars as effective in 2014/15 as well as the assumption of only moderate price pressure stemming from energy and commodities and some decrease of the nominal-effective exchange rate of the euro.

3. Economic and budgetary policy strategy

The Federal Government pursues a long-term and stability oriented fiscal and economic policy with the objective of attaining sustainable economic growth and a high level of employment. Three key areas have been identified:

- Consistently proceeding with the successful fiscal consolidation, reaching a structurally balanced budget by 2016 and gradually reducing the public debt ratio;
- strengthening investments in the areas of education, universities, R&D and infrastructure to support growth and employment; and
- maintaining structural reforms in the field of pensions, health policy, public administration, subsidies, labour markets, and taxes.

All levels of government – the Federal Government as well as States, Municipalities, and the Social Security System – are obliged to achieve structurally balanced public budgets and to overcome permanently the chronic divergence between receipts and expenditures. In early 2012 a comprehensive consolidation and growth program called Stability Package 2012 was approved with reforms in the areas of pensions, health care, subsidies, and public administration. As the economic environment has been deteriorating since then (due to lower growth rates and necessary measures in the area of nationalized banks), additional measures to consolidate were approved.

The following measures, which are already approved or implemented for the main part, will lead to a considerable improvement for public budgets:

- After the pay freeze for public servants in 2013, there will be only a moderate payment increase in 2014 and 2015.
- The non-mandatory discretionary expenditures of all Federal Ministries were already reduced within the interim annual budget law for 2014 (compared to the medium-term expenditure framework by almost 500 million €). The expenditure policy will be very restrictive as well in the coming years.
- Pensions will only increase moderately in 2014; the general increase is 0.8 percentage points below the inflation rate.
- In 2014 requirements for pensions for long-term insured people („*Hacklerregelung*“) were tightened: Times in schools or universities will not be counted for any more. The minimum retirement age for this pension scheme was increased by 2 years and reductions for retirement payments were increased.
- There are comprehensive new regulations for invalidity and occupational disability pensions, which came into effect on January 1st 2014. The temporary invalidity pension will be replaced by medical and job-related rehabilitation and will be completely abolished for people below the age of 50. Therefore, the temporary invalidity pension

will fade out in the coming years. The target is to decrease high pension expenditure by less invalidity pensions and to set measures to integrate people with health problems into the labor market. The age limit for the profession protection will be increased to the target age limit of 60 years.

- Increase of the factual retirement age and the participation rates for older employees according to a common agreed compulsory path and time frame:
    - Increase of the factual retirement age from 58.4 years (2012) to 60.1 years (2018)
    - Participation rate of men aged 55 to 59 years from 68.1 % (2012) to 74.6 % (2018);
    - Participation rate of men aged 60 to 64 years from 21.6 % (2012) to 35.3 % (2018);
    - Participation rate of women aged 55 to 59 years from 47.9 % (2012) to 62.9 % (2018)
- The central measures to achieve these targets are the following:
    - Full implementation of the principles of prevention, rehabilitation and integration into the labor market instead of retirement.
    - Increased incentives to work longer even above the earliest possible retirement age and therefore, postponement of retirement payments.
    - Bi-annual monitoring of measures of the last years (deadline June 30th 2014): If the target of significantly increasing the factual retirement age and the participation rates until 2015 will not be reached, mandatory measures have to be implemented immediately.
    - Part of the fully transparent monitoring of early retirements is an analysis of gender, age groups (until 50, 50 to 54, 55 to 59, 60 to 64 years) and kind of pension. The receivers of the rehabilitation benefit will have to be shown separately.
    - Introduction of a part-time pension system: As soon as the retirement age is reached for the corridor pension (or the pension for long-term insured people or the early retirement for long-term insured people) there is an option for a part-time pension, if the working time or the salary is decreased by at least 30 %. This system will be neutral on an actuarial basis and will lead to longer employment.
    - Postponement bonus: In case of non-retirement at the earliest possible date, the current bonus of 4.2 % will be increased to 5.1 %. No contributions to the pension system will be deducted. The overall effect is therefore about 10 % per year of postponement.
    - Bonus malus: Employers will receive a bonus in case of giving employment to a jobless person aged 50 years or above. This bonus will be paid after a certain minimum time of employment. Instead of the current termination fee a new fee for age suitable employment will take place starting in 2017 for all compa-

nies with more than 25 employees, who are not hiring enough people above the age of 55. From a public budgets view this new scheme will be cost neutral.

- The health care reform project was approved by the National Assembly in 2013. The health care expenditure dampening path will save in total about 3.4 bn € until 2016 – 2.1 bn € will be saved by states and 1.4 bn € by the social security system.
- The law says that the increase of public health care expenditure (excluding long-term care) until 2016 will be aligned with the average nominal GDP growth rate. The Social Security System as well will have to reach these annual targets.
- Capital investments by ASFINAG (Austrian Motorway Operator Agency) and the Austrian Federal Railways (ÖBB) will be even more efficient and less costly.
- With Switzerland and Liechtenstein, bilateral tax agreements were signed. In 2013, Austria received more than 0.7 bn € from Switzerland according to this agreement. Until mid-2014, there will be further transfers. From the tax agreement with Liechtenstein Austria will receive 500 million € in 2014.
- To stabilize the income side, a set of tax measures were approved in early 2014:
    - Loopholes were closed in the taxable income and profit (for instance the room for maneuver for taxes was limited; profits are harder to be shifted; high salaries cannot be fully deducted; golden handshakes get less beneficial treatment).
    - The tax free profit allowance for capital investments will be limited to investments into residential construction bonds and tangible goods so as to support investments into the real economy.
    - Changes have been made in the area of consumption taxes to offer positive incentives (i. a. in the areas of greening the tax system and health care).
    - Tax fraud will be efficiently fought.
    - Enterprises will receive tax reliefs: non-wage labor costs (the contributions to the mandatory accident insurance and to the fund for safeguarding pay in insolvency cases) will be lowered and the incorporation tax will be abolished in 2016.
    - The banking sector will have to pay additional contributions by the increased stability fee.
    - The introduction of a common financial transaction tax will increase revenues in 2016. The Austrian Federal Government will further advocate at all levels a financial transaction tax starting in 2016.
- All ministries will have to comply with the medium-term expenditure ceilings and with the budgetary plan – which will be monitored as part of the strict budget implementation.

On the same time, the Austrian Federal Government will set incentives to strengthen education, innovation, investments, and employment:

- The already implemented offensive measures in the areas of science, research, and education will be maintained.
- The family allowance will be gradually enhanced: In mid-2014 by 4 % and two further increases in 2016 and 2018 by 1.9 % in each year.
- Furthermore, child care institutions will be expanded (350 million €) and early age support for languages will be maintained.
- The innovative capacity of a country and a highly qualified work force are essential factors for the competitiveness of Austria. With this background the Federal Government decided to increase the budgets for universities in the years of the performance agreement period 2013 to 2015 considerably. The focus is on an indicator- and merit-based system of funding.
- There will be an additional focus on basic research: Between 2016 and 2018 there will be additional 100 million € per annum for this category – especially for the Austrian Science Fund (FWF) and the Austrian Academy of Sciences (ÖAW).
- There will also be more funds for education: An important measure on the expenditure side is the expansion of all-day school facilities to increase supply of all-day schools with more places and longer times of services.
- There will also be additional funds for subsidized housing.
- Investments into the railway infrastructure and the higher road network will be implemented as planned.
- Other incentives to increase growth and employment will be the so called "craftsman bonus", which will come into force in mid-2014, and
- for older employees additional 370 million € will be provided in the years 2014 to 2016, to re-integrate them into the labor market. The main focus of the labor market support is on helping employers to hire employees.

The foundation of a public company to wind down the Hypo Alpe Adria Bank and the recapitalization (750 million € in April 2014) will impact the Maastricht deficit in 2014 by up to 4 bn € according to the task force. The public debt stock will also increase by 17.8 bn € in 2014.

Furthermore, there are additional planned initiatives:

- Administrative reforms will be maintained and the organizational structures will be streamlined. In this regard, the Federal Agency for Foreigners and Asylum (which started operations on January 1st 2014) was founded in order to bundle competencies and to accelerate processes. In the area of school administration, county administrative bodies and their councils will be abolished. Several county courts will be abolished. Police offices will be closed or merged while the presence of policemen in the streets will be enhanced. The transparency data basis, which covers public subsidies and which is online for federal subsidies since mid-2013, will be expanded to incorporate states and municipalities in order to better co-ordinate and steer subsidies. In order to sustain financing of long-term care services measures will be set for improvements and cost dampening.

- In the area of financial and tax equalization further reforms are envisaged: The budget laws of all levels of government will be harmonized (setting standards on liquidity, resources, and assets). Already in this year, a comprehensive regulatory package will be prepared. Double funding and transfers between territorial units will be simplified and clear financial responsibilities will be developed. The distribution of funds to the different levels of government will be task-oriented and targeted. Duplications and overlaps in tasks between different territorial units will be decreased (for instance in the area of IT or subsidies). The Austrian Federal Ministry of Finances will propose a reform in this area to all levels of government. A speculation ban for all public entities as a constitutional law is envisaged.
- The current government program includes a tax structure reform: The income tax will be simplified in order to be more targeted, family-friendly, social, de-bureaucratized, merit-based, growth-oriented, and simpler. To achieve this target, the starting income tax rate will be lowered, the progression of the tax system flattened, and exemptions eliminated, as soon as enough funds and budgetary room for maneuver is available. Furthermore, federal fees and charges will be reformed comprehensively. A task force for a tax reform was established to prepare the tax reform in order to prepare the legal implementation by the end of 2015.
- To safeguard the consolidation of public budgets, a debt brake for all levels of government was implemented by law already in 2012. Therefore, the legal basis for a sustainable budgetary policy in Austria was established. In 2013, the Fiscal Council was legally established with the target of monitoring compliance with EU regulations. It will also prepare recommendations and – if necessary – propose necessary adjustment paths. Therefore, the Fiscal Council plays a central role to enhance discipline of public budgets at the federal level as well as within states and municipalities.

3.1. Federal budget 2013

Despite sluggish growth (real GDP 2013 +0.4 %) and considerable additional expenditure for banks, the budgetary targets were even over-accomplished in 2013. According to Statistics Austria, the general government Maastricht deficit was at 1.5 % of GDP, which is considerably lower than in 2012 (2.6 % of GDP). For 2013, a general government Maastricht deficit of 2.3 % of GDP was planned.

The Maastricht deficit of the central government reached about 1.5 % of GDP in 2013 (2012: 2.6 %; plan for 2013: 2.0 %). The social security system had a small surplus of 0.1 % of GDP, whereas states and municipalities had a small deficit (0.1 % of GDP). The planned deficit for states and municipalities for 2013 was 0.4 % of GDP.

The cash flow Annual Budget Statement 2013 provided for total expenditures of 75.0 bn € and for receipts of 68.7 bn €, which leaves a net cash balance of -6.3 bn €. The preliminary results for 2013 show total cash flow expenditures of about 75.6 bn €, receipts of about 71.4 bn €, and a balance of about -4.2 bn €. Compared to the planned budget, expenditures were about 0.6 bn € higher than planned, but receipts were 2.7 bn € higher. The net cash balance is therefore about 2.1 bn € smaller than planned. Higher than expected expenditures were necessary, in particular for Hypo-Alpe-Adria (+1.0 bn €). Improvements were made on the expenditure side in the area of interest payments (-0.1 bn €), pensions payments (-0.2 bn €) and for export guarantees, which were used less than planned.

Tax revenues were marginally smaller than planned (-0.5 bn €). Particularly tax revenues stemming from the tax treaty with Switzerland were 0.3 bn € less than expected. Consumption taxes and the VAT as well fell slightly short of planned figures. Considerably higher were receipts from auctioning of mobile licenses (+1.75 bn €). Higher receipts were earned by the unemployment insurance system (+0.2 bn €). ERSTE-Bank fully paid back the participation capital in advance, which led to higher receipts (1.2 bn € instead of 0.6 bn €). BAWAG also frontloaded and accelerated its repayment program for the participation capital.

The structural deficit of the general government for 2013 was at 1.2 % of GDP – considerably smaller than the planned 1.8 % of GDP (3.4 % in 2010; 2.2 % in 2011; 1.6 % in 2012). The overall general government debt-to-GDP ratio for 2013 was 74.5 % of GDP and did not increase considerably despite additional stability measures on the EU-level in the area of ESM and EFSF (2012: 74.4 % of GDP).

3.2. Budget 2014 and 2015

At the end of April 2014, the Federal Government proposed annual budget statements for 2014 and 2015 to the national assembly. These proposals aim at keeping the structural consolidation program of the former government on track. The structural deficit of the general government is planned to reach 1.0 % of GDP in 2014, 0.9 % of GDP in 2015, and to decline to 0.4 % of GDP in 2016.

Both, the general government Maastricht deficit in 2014 as well as the development of the debt-to-GDP ratio according to Maastricht regulations are impacted by the winding down institution of Hype-Alpe-Adria (HAA): Due to this winding down institution, the Maastricht deficit of the general government will increase to 2.7 % of GDP in 2014 and the debt-to-GDP ratio will reach 79.2 %. In nominal terms, the winding down institution is expected to increase the deficit by 4.0 bn € and the debt stock by 17.8 bn € in 2014. In 2015, the Maastricht deficit of the general government will decrease to 1.2 % of GDP, with both, states and municipalities showing a balanced budget. The social security system should have a small surplus.

In the years that follow, the Maastricht deficit of the general government will further decrease to about 0.5 % of GDP in 2018. The reduction of the debt-to-GDP ratio between 2015 and 2018 to about 71.5 % will also depend on the performance of the winding down institution of HAA. The debt stock of the general government will decrease in line with the shrinking debt portfolio of this institution.

The cash flow annual budget statement of the federal government for 2014 is planning with total expenditures of about 75.8 bn € (preliminary outcome 2013: 75.6 bn €) and receipts of about 72.2 bn € (preliminary outcome 2013: 71.4 bn €). Net borrowing is, therefore, estimated to reach 3.6 bn € or 1.1 % of GDP (preliminary outcome 2013: 4.2 bn € or 1.3 % of GDP). The annual budget statement for 2015 shows expenditures of about 74.7 bn € and receipts of about 71.5 bn €, leading towards a net borrowing requirement of about 3.2 bn € (0.9 % of GDP).

Expenditures will increase moderately in 2014 and are expected to decrease in 2015. Salaries for public services are already fixed for both years and will only increase moderately. Some positions will not be filled. The pension adjustment at 1.6 % is also significantly below the inflation rate in 2014. Flexible discretionary expenditures will be cut in both years. Furthermore, expenditures for the ESM will be halved to about 450 million € in 2014 (2013: about 890 million €) and will be completely stalled in 2015.

Measures to increase receipts were undertaken especially in the area of consumption taxes, of closing loopholes and tax advantages, and of the augmented bank levy. All these measures will lead to total additional receipts of 0.7 bn € in 2014 and of 1.1 bn € in 2015. Receipts in 2014 are also affected by the repayment of participation capital by banks. BAWAG paid back the last 350 million € of state aid in spring 2014. RBI as well is planning to pay back all 1.75 bn € of support in 2014.

3.3. Institutional safeguarding of the consolidation

One of the key elements to safeguard the consolidation path is the debt brake rule by law. This regulation binds all levels of government – after a transition period – in principle to a structurally balanced budget in 2017. The central government is politically responsible for deficits of the social security system as well. In practice, this regulation will force the central government (including social security system) to have a structural deficit below 0.35 % of GDP starting from 2017. In line with EU regulations and with the Treaty on Stability, Coordination and Governance in EMU, the debt brake rule is determining the maximum amount of net borrowing while accounting for cyclical components and one-time transactions. For states and municipalities, a structural balance is reached, when the structural deficit is not below 0.1 % of GDP. This threshold is also enshrined in the new Inner-Austrian Stability Pact and will guarantee a sustainable level of debt. For the general government, a structural balance is therefore reached with a structural deficit of not less than 0.45 % of GDP.

In line with Regulation (EU) No 473/2013 of the European Parliament and the Council of 21 May 2013 the task of monitoring compliance with EU regulations was attributed to the former Austrian Government Debt Committee. This Committee has been newly named "Austrian Fiscal Advisory Council" and will provide recommendations and – if necessary – adjustment paths. The Fiscal Advisory Council is an independent body and started its work on November 1st 2013. The Council is composed of independent and qualified financial and fiscal experts as members, who are nominated by the Federal Government, the social partners, states and municipalities, the Austrian National Bank and by the budget office of Parliament. The Fiscal Advisory Council has a key role in monitoring public budgets in order to strengthen fiscal discipline on the federal level as well as in states and municipalities.

3.4. Excessive Deficit Procedure (EDP)

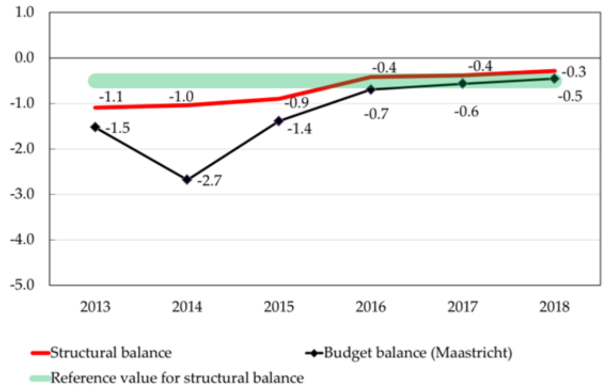
On 2 December 2009, the ECOFIN Council in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU) decided that an excessive deficit exists in Austria and adopted recommendations under Article 126(7) TFEU to correct it. More specifically, Austria was asked to bring the general government deficit below the reference value of 3% of GDP by 2013, starting consolidation in 2011.

Austria could to bring the general government deficit below the reference value of 3% of GDP already in 2011, i.e. two years earlier than recommended, and managed to keep it clearly below this threshold from then on.

At the end of April 2014 the Federal Government presented the draft budgets for 2014 and 2015 to Parliament. With these draft budgets, the ongoing consolidation path will be continued. The general government structural deficit should amount to 1.0% of GDP in 2014 and shrink to 0.9% in 2015 and further to some 0.4% in 2016.

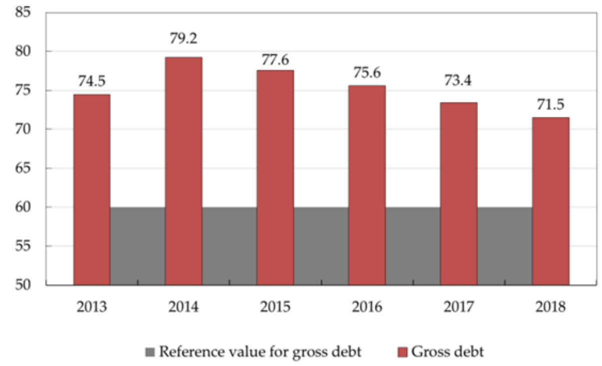
The general government headline deficit (Maastricht) for 2014 and the evolution of the public debt ratio, however, are dominated by the effects of the planned establishment of a liquidation entity for Hypo-Alpe-Adria. This pushes up the general government headline deficit (Maastricht) to 2.7% of GDP and the public debt ratio to slightly below 80% of GDP in 2014. In 2015, in turn, general government headline deficit (Maastricht) will move back again to 1.4% of GDP.

Figure 5: General government budget balance



Left axis: General government budget balance and structural balance as % of GDP
Sources: BMF, STAT, WIFO

Figure 6: General government gross debt



Left axis: General government gross debt as % of GDP
Source: BMF, STAT, WIFO

4. Sensitivity Analysis

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 (sensitivity of the baseline scenario to exogenous shocks).

The first scenario assumes a stronger cyclical upswing in Austria than expected, with the real economic growth rate higher by +0.5 percentage points in each 2014 and the years to follow. The decrease of the budget deficit would turn out stronger and the budget would nearly become balanced in 2018. The public debt ratio would fall below 70% of GDP in 2018.

The second scenario assumes a weaker cyclical upswing in Austria than expected, with the real economic growth rate lower by -0.5 percentage points in each 2014 and the years to follow. As a consequence, in 2014, the budget balance would stay still below the reference value of 3% and the public debt ratio would rise to almost 80% of GDP.

5. Sustainability of Public Finances

The economic and financial crisis has led to a strong increase of both budget deficit and public debt ratio in the recent years. Beside the reduction of public indebtedness, the budgetary costs of demographic change will increasingly intensify fiscal tensions.

Long term projections of the "Working Group on Ageing Populations and Sustainability" (AWG) of the Economic Policy Committee (EPC) of the EU carried out in 2012[1] project an increase of all age-related public expenditures for pensions, health and long term care in Austria by 4.2% of GDP between 2015 and 2060. By and large, this is in line with the average increase in the euro area for that period. Public expenditures for pensions will rise from 14.4% of GDP in 2015 to a peak of 16.7% of GDP in 2030 and then fall again slightly to 16.1% of GDP in 2060. Apart from pensions, public expenditures for health care are expected to rise from 7.7% of GDP in 2015 to 9% of GDP in 2060, and public costs for long term care will rise from 1.7% in 2015 to 2.9% in 2060.

Since these projections were made, a wide range of measures in the area of pensions, health care and long term care has been implemented as a response to the age-related long term challenges. In the above-mentioned projections of the EU, however, theses implemented measures are not yet factored in.

Core objectives of structural measures in the area of pension are medium-term fiscal consolidation and, above all, an achievement of long run steering effects. The latter in particular aim at raising the effective retirement age and the participation rate of older worker.

According to paragraph 15(2) of the Federal Budget Act (BHG) 2013, the Federal Ministry of Finance was obliged to publish a long term fiscal projection until 2050, for the first time in April 2013. This projection, which from now on will be updated every three years, lays out the long term impact of already foreseeable demographic trends on public finances. The results are based on the assumption of "no policy change", i.e. the unchanged continuation of current policy over the projection horizon.

[1] See: The 2012 Ageing Report, European Commission 2/2012; new long term projections will be presented in spring 2015.

According to these results, the entirety of age-related expenditures in Austria evolves similarly as in the long term projections of the AWG. While for pensions, health care and long term care slightly lower expenditures are expected as compared to the AWG projections, the national projection arrives at slightly higher expenditures for expenditures on education and unemployment. Both projections, however, estimate that the sum of all age-related expenditures will amount to 33.4% of GDP in 2050.

6. Quality of Public Finances

6.1. Administrative reforms

The Federal Government has a particularly strong commitment to administrative reforms. A lean, dynamic and strong administration is required for making the public administration even more citizen- and business-friendly as well as more efficient, in order to improve the quality of the Austrian public administration and to strengthen Austria as a good location for business.

According to the Government Program 2013-2018 a commission for task reform and deregulation will be tasked to examine the public administration and to develop concrete proposals, in order to increase the efficiency of the public administration and to reduce administrative burdens within the administration, for citizens as well as enterprises.

The initiative "Reduce administrative burden for enterprises" was successfully finalized in 2012. One of the main measures is the Business Service Portal, which is currently being implemented (see also chapter 6.2.).

In the area of subsidies the development of the transparency database will provide better steering and leaner processes when awarding funds. The new federal framework for awarding funds should support the avoidance of unwanted multiple federal grants as well as the efficient awarding and handling of funds.

In the area of school administration the school supervision was newly regulated, a new profile for head teachers was created and a new public service and salary legislation was implemented.

The Federal Government intends that beneficiaries of special pension schemes at the federal level (inter alia the Austrian National Bank, the Austrian Broadcasting Corporation or the Social Security System) will have to make a solidarity contribution and that future pension entitlements will be restricted. Federal states are invited to participate in this measure.

In the last few years numerous reorganization measures at federal level were taken. These activities will continue, where necessary, such as the merger of small district courts. More than 100 police stations will be closed or merged, in order to increase the field presence of police. A federal government office will be implemented in order to merge similar tasks in the different ministries like support tasks, personnel management, eGovernment, IT, training and further education, as well as the monitoring of agencies and enterprises at the federal level.

6.2. Better regulation

In 2006 Austria's Federal Government started an ambitious programme to reduce administrative burdens for businesses in order to improve the business environment and help competitiveness and growth. Austria achieved the target for 2012 by reducing 25% of the administrative burden (more than € 1 billion) which means a significant improvement of the Austrian business location.

The Austrian Federal Government's work programme for the years 2013 to 2018 contains several novelties in this field, for example the introduction of an „one in – one out" policy and of a process for reducing and simplifying regulation as well as the establishment of a commission to oversee deregulation and reform competences. It is intended to build upon the experiences and know-how of the initiative „Reducing Administrative Burdens for Businesses".

The most important measures already implemented are e-invoicing and the Business Service Portal ("Unternehmensserviceportal – USP"). The possibility to replace millions of ordinary paper bills by electronic invoices offers a high potential for optimising processes and reducing expenses for enterprises and the public administration. The Federal Government supports this trend and made e-invoices mandatory for all Federal department contracting partners (e.g. suppliers, service providers) trading goods and services since 1st January 2014. Since 1st January 2010 the USP is available online via www.usp.gv.at offering information for businesses. A one-stop-shop with a wide range of services will be implemented in several stages until 2015. Since May 2012 the USP provides the most important e-Government services for businesses. Currently about 20 services are available with single-sign-on such as the virtual tax office (FinanzOnline), e-invoicing to public authorities, social security contributions (ELDA), electronic waste management (EDM); further services are continuously integrated.

In the current stage the focus is on improving the communication between businesses and the public administration, to avoid multiple data exchange and to provide support for starting a new business. With these tasks the USP contributes to Austrian administrative reform.

Reducing administrative burdens for citizens is on its way, too. Key measures are the introduction of the Mobile Phone Signature in administrative procedures, an electronic register for the civil status of citizens and the simplification of free public transport for pupils and trainees. The latest report on the measures can be found in an annex to the budget (see also www.wfa.gv.at).

6.3. Health reform

The Federal Government aims at aligning the growth rate of public health expenditures with that of nominal GDP by 2016. This should have a cumulative dampening effect of 3.43 bn Euro (Länder 2.058 bn Euro, social security 1.372 bn euro). Agreements between the federal and local governments (so called 15a agreements, referring to Article 15a of the Federal Constitution) labelled "Organisation and Funding of the Health System" and "Target-Control Health Care" pursue the objectives to

- ensuring a joint, integrated and cross-sector planning and steering of public health care;
- increasing the binding force of health care planning at the Länder-level by mutually attuning intra- and extra-mural health care provision and
- establishing a cross-sector financing.

The 15a agreement "Organisation and Funding of the Health System" aims – via modern forms of a contract-based organisation of government – at achieving an optimal impact orientation and a strategic and result-oriented cooperation and coordination when performing particular tasks. The final purposes are

- a „governance" of competencies for health care provision that takes into account existing interdependencies;
- a compliance with the principles of performance orientation, accountability, responsibility, openness and transparency of structures and processes and fairness; and
- to safeguard both best possible health care services and their funding.

The 15a agreement "Target-Control Health Care" builds on the following basic political commitments:

- Secure for the long run and enlarge easy access for patients to a needs-based health care provision as well as a high quality thereof.
- Accountability for the use of public money calls for instruments to enhance efficacy and efficiency of public health care service provision.
- In the spirit of performance orientation in public health care service, institutional setting and steering instruments on federal and state level will have to be developed further.
- Health care provision and funding targets as referred to under "Target-Control Health Care" need to be defined and the achievement of the targets to be monitored.
- All measures at federal, state and social security level must follow the same direction principle.

- The target that the growth rate of public health expenditures shall align with the expected growth rate of nominal GDP by 2016 means that, in a perspective until 2020, the quota of public expenditures on health care will remain at some 7% of GDP.
- The share of resources for extra-mural vis-à-vis that of intra-mural long term care shall increase over the next four years.

On 28 June 2013, the Federal Target Control Commission ("Bundes-Zielsteuerungs-kommission") has unanimously agreed to the Federal Target Control Contract ("Bundes-Zielsteuerungsvertrag") negotiated by Federal State, Länder and Austrian Social Security for the years from 2013 to 2016 and recommended it to the parties to the contract for adoption.

Thereupon, the Federal Target Control Contract ("Bundes-Zielsteuerungsvertrag") was signed by Federal State, Länder and Austrian Social Security and a draft federal annual working programme for 2014 was set up. In the fourth quarter of 2013, the Target Control Commission of all Länder (except Lower Austria) have agreed on the State Target Control Contracts in substance and recommended it to the bodies concerned for adoption.

6.4. Pension reform

Structural reforms in the area of pensions will be sustained in line with the Austrian Stability Programme (update for the period 2012 to 2017) from April 2013. The main focus is on harmonizing the effective retirement age with the legal retirement age, enhancing participation rates of older people and therefore achieving less early retirements and invalidity pensions. Furthermore, the federal transfer to the public pension funds will be stabilized in line with the economic growth path. The current government program includes a detailed measures and monitoring program:

- Implementing the principles of prevention, rehabilitation, re-integration, and women´s integration into the labor market
- Giving incentives to work longer than the earliest possible time of retirement to postpone pension payments
- Incentives for occupational and private pension schemes
- Reorganization of the pension commission[2], which is supervising at an expert level the overall development of pensions
- Increased monitoring of the implemented measures with regards to achieving the targets

[2] Commission for the long-term sustainability of pensions

All these measures (see also 3. “Economic and budgetary policy strategy“) will improve the long-term sustainability of the public pension system and will maintain the purchasing power of pensions.

7. Institutional Framework

7.1. Austrian Stability Pact

The national budgetary coordination between the Federal Government, states and municipalities is regulated in the Austrian Stability Pact (ÖStP). Due to developments on European level associated with a strengthened economic governance of EU member states ("Sixpack", "Twopack" and "Fiscal Compact"), adjustments to EU regulations were implemented already in 2012.

The agreement currently in place has entered into force on 1 January 2012 and is effective for an unlimited period. A system of multiple fiscal rules has been introduced which ensures a balanced budget in structural terms in Austria from 2017 onwards .

The agreement contains the following key aspects:

- Rule on the allowed annual nominal deficit, whereupon a balanced General Government budget balance as defined in ESA terms has to be achieved by 2016.
- Rule on a structurally balanced General Government budget ("Debt Brake") from 2017 onwards. A structurally balanced budget is defined as a structural General Government deficit not exceeding 0.45% of GDP.
- Rule on the allowed annual expenditure growth (expenditure brake).
- Rule on the annual public debt reduction as defined in ESA terms (debt quota adjustment).
- Rule on contingent liability ceilings.
- Rule on improvements of budgetary coordination between the Federal Government, states and municipalities, medium-term budgetary planning, mutual exchange of information and transparency.

These fiscal rules are backed up by adequate sanctions.

The working programme of the Federal Government for the years 2013 - 2018 envisages an alignment of the Austrian Stability Pact with respect to the consolidation path foreseen in the coalition agreement. The essential change will be the frontloading of the goal of attaining a structural balance to 2016.

7.2. Performance Budgeting

Starting from 2014, the Ministry of Finance and the Ministry of Labour, Social Affairs and Consumer Protection – in cooperation with an independent research institute – will be able to not only assess all fiscal measures in qualitative but also some selected ones, like in particular regarding the aspect of inner- and intra-generational fairness, in quantitative terms.

7.3. Medium-term budgetary planning

The Federal Constitutional Law and the Federal Budget Law provide for legally binding medium-term budgetary planning at the federal level via the Federal Budgetary Framework Law (BFRG) and the Strategy Report. The former sets legally binding expenditure ceilings effective for the subsequent four years. Five spending categories are covered, representing the Federal Government's main engagements on the expenditure side. The Strategy Report contains political declarations of intent as well as annotations, inter alia regarding receipts. A draft BFRG has to be presented by the Federal Government by April 30th each year at the latest. This timing is in line with the rules in place at the EU level for the submission of the Stability Programme.

7.4. Stability Programme and Draft Budgetary Plan procedure

In the context of the European Stability and Growth Pact, the Austrian Stability Programme will be updated and provided annually. This programme is part of the European Semester and is approved by the Austrian federal government in accordance with the Austrian Stability Pact taking into consideration budget coordination within Austria. The Stability Programme is submitted together with the National Reform Programme to the Council of the European Union and the European Commission, as well as Parliament, financial equalisation partners and social partners.

The report of the Austrian Minister of Finance on the Update of the Austrian Stability Programme for the period from 2012 to 2017 was presented to Parliament on 17 April 2013 for consideration in the ensuing process. On 8 May 2013, the parliamentary budget committee discussed it in public session and then adopted a report following the process laid down in paragraph 28b of the Law on Parliament's Rules of Procedure (GoG-NR).

The report of the Austrian Minister of Finance on the Draft Budgetary Plan 2014 was presented to the new Parliament after its inauguration for consideration on 31 October 2013. On 12 December 2013, the parliamentary budget committee discussed in public session and then adopted a report following the process laid down in para 28b of the Law on Parliament's Rules of Procedure (GoG-NR).

8. Annex

Table 1: Macroeconomic prospects

	ESA Code	2013 in bn €	2013	2014	2015	2016	2017	2018
								rate of change
1. Real GDP	B1*g	272.6	0.4	1.7	1.7	1.9	1.9	1.8
2. Potential GDP			1.2	1.4	1.3	1.8	1.7	1.7
3. Nominal GDP	B1*g	313.2	2.0	3.5	3.7	3.6	3.6	3.5
								Components of real GDP
4. Private final consumption expenditure	P.3	145.3	-0.2	0.8	1.0	1.2	1.1	1.2
5. Government final consumption expenditure	P.3	49.9	0.1	0.5	0.3	0.8	0.9	1.0
6. Gross fixed capital formation	P.51	56.0	-0.9	3.0	2.1	2.1	2.4	1.9
7. Changes in inventories and net acquisition of valuables (in % of GDP)	P.52 + P.53		0.4	0.7	1.0	1.1	1.3	1.4
8. Exports of goods and services	P.6	160.8	2.8	4.7	5.7	5.9	5.7	5.6
9. Imports of goods and services	P.7	140.2	0.6	4.8	5.5	5.6	5.5	5.5
								Contributions to real GDP growth
10. Final domestic demand			-0.3	1.2	1.0	1.3	1.3	1.2
11. Changes in inventories1)	P.52 + P.53		-0.6	0.3	0.3	0.2	0.2	0.1
12. External balance of goods and services	B.11		1.2	0.2	0.4	0.4	0.4	0.4

1) incl. net acquisition of valuables and statistical discrepancy

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 2: Price developments

	2013	2014	2015	2016	2017	2018
						rate of change
1. GDP deflator	1.6	1.8	1.9	1.7	1.7	1.7
2. Private consumption deflator	2.2	1.9	2.0	1.9	1.9	1.8
3. HICP	2.1	1.9	1.9	1.9	1.9	1.8
4. Public consumption deflator	1.0	1.5	1.7	1.9	1.9	1.8
5. Investment deflator	1.4	1.5	1.7	1.6	1.7	1.7
6. Export price deflator (goods and services)	-0.3	1.1	1.5	1.4	1.7	1.7
7. Import price deflator (goods and services)	-0.8	1.0	1.3	1.5	1.9	1.9

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

Table 3: Labour market developments

	ESA Code	2013 Level	2013	2014	2015	2016	2017	2018
								rate of change
1. Employment, persons		3,841,805	0.8	1.1	1.0	0.9	0.9	0.9
2. Employment, hours worked (in m)		6,822	-0.9	0.6	0.6	0.6	0.6	0.6
3. Unemployment rate, EUROSTAT definition			4.9	5.2	5.3	5.1	5.1	5.0
4. Labour productivity, persons		70,959.9	-0.4	0.6	0.7	1.0	1.0	0.9
5. Labour productivity, hours worked		40.0	1.3	1.1	1.1	1.3	1.3	1.1
6. Compensation of employees (in m €)	D.1	158,633.9	2.8	3.3	3.6	3.4	3.4	3.4
7. Compensation per employee		41,291.5	2.0	2.3	2.5	2.5	2.5	2.6

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

Table 4: Sectoral balances

	ESA Code	2013	2014	2015	2016	2017	2018
							in % of GDP
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	2.7	3.3	3.7	4.4	4.5	4.7
2. Net lending/borrowing of the private sector	B.9	4.3	6.0	5.1	5.1	5.1	5.1
3. Net lending/borrowing of the general government	B.9	-1.5	-2.7	-1.4	-0.7	-0.6	-0.5
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0	0.0

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 5: Budgetary targets

		2013	2013	2014	2015	2016	2017	2018
	ESA Code	**Level**						**in % of GDP**
				Net lending/net borrowing by sub-sector				
1. General government	S.13	-4.8	-1.5	-2.7	-1.4	-0.7	-0.6	-0.5
2. Central government	S.1311	-4.9	-1.6	-2.8	-1.5	-0.9	-0.8	-0.6
3. State governments (excl. Vienna)	S.1312	-0.2	-0.1	0.0	0.0	0.0	0.1	0.0
4. Local governments (incl. Vienna)	S.1313	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	0.3	0.1	0.1	0.1	0.1	0.1	0.1
6. Interest expenditure	D.41	8.0	2.5	2.6	2.5	2.5	2.5	2.5
7. Primary balance			1.0	-0.1	1.2	1.8	1.9	2.0
8. One-off and other temporary measures[1)]			0.1	-1.3	-0.3	-0.1	-0.1	-0.1
9. Real GDP growth			0.4	1.7	1.7	1.9	1.9	1.8
10. Potential GDP growth			1.2	1.4	1.3	1.8	1.7	1.7
11. Output gap			-1.1	-0.9	-0.4	-0.3	-0.2	-0.2
12. Cyclical budgetary component			-0.5	-0.4	-0.2	-0.2	-0.1	-0.1
13. Cyclically-adjusted balance			-1.0	-2.3	-1.2	-0.5	-0.5	-0.4
14. Cyclically-adjusted primary balance			1.6	0.3	1.4	2.0	2.0	2.1
15. Structural balance			-1.1	-1.0	-0.9	-0.4	-0.4	-0.3

1) A positive sign means deficit-decreasing one-off measure.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 6: General government debt developments

		2013	2014	2015	2016	2017	2018
	ESA Code						**in % of GDP**
1. Gross debt		74.5	79.2	77.6	75.6	73.4	71.5
2. Change in gross debt ratio		0.1	6.4	-2.1	-2.5	-2.9	-2.6
			Contributions to changes in gross debt				
3. Primary balance		1.0	-0.1	1.2	1.8	1.9	2.0
4. Interest expenditure	D.41	2.5	2.6	2.5	2.5	2.5	2.5
5. Stock-flow adjustment		0.0	4.6	-0.2	0.0	-0.1	0.1
p.m.: Implicit interest rate on debt		3.4	3.2	3.3	3.3	3.4	3.5

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 7: Contingent liabilities

	2012	2013	2014
			in % of GDP
Public guarantees	47.4	39.9	37.6
of which: Central government[1)]	23.0	20.1	19.6
of which: linked to the financial sector	3.7	2.7	1.0
of which: State and Local governments	24.3	19.9	18.0
of which: linked to the financial sector	16.7	12.5	11.3

1) Guarantees for exports without double count of funding guarantees and without capital guarantees which are included in the debt quota.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 8: Budgetary prospects (no-policy change scenario)

	ESA Code	2013 Level	2013	2014	2015	2016	2017	2018
								in % of GDP
								General government
1. Total revenue	TR	155.7	49.7	49.5	49.0	48.9	48.7	48.6
1.1. Taxes on production and imports	D.2	45.4	14.5	14.4	14.2	14.1	13.9	13.8
1.2. Current taxes on income, wealth etc.	D.5	43.0	13.7	13.8	13.8	13.9	14.0	14.2
1.3. Capital taxes	D.91	1.0	0.3	0.2	0.1	0.1	0.1	0.1
1.4. Social contributions	D.61	52.4	16.7	16.7	16.6	16.5	16.5	16.4
1.5. Property income	D.4	3.6	1.2	1.1	1.1	1.1	1.0	1.0
1.6. Other		10.3	3.3	3.5	3.2	3.2	3.2	3.2
p.m.: Tax burden		137.0	43.7	43.5	43.2	43.1	43.0	43.0
2. Total expenditure	TE	160.5	51.2	52.6	50.8	50.1	49.8	49.6
2.1. Compensation of employees	D.1	29.3	9.4	9.2	9.2	9.1	9.0	9.0
2.2. Intermediate consumption	P.2	13.9	4.4	4.4	4.4	4.3	4.3	4.3
2.3. Social payments	D.62+D.632	79.5	25.4	25.5	25.3	25.2	25.1	25.1
of which: Unemployment benefits		4.1	1.3	1.4	1.4	1.4	1.3	1.3
2.4. Interest expenditure	D.41	8.0	2.5	2.6	2.5	2.5	2.5	2.5
2.5. Subsidies	D.3	10.7	3.4	3.4	3.2	3.1	3.0	2.9
2.6. Gross fixed capital formation	P.51	3.2	1.0	1.0	1.0	1.0	0.9	0.9
2.7. Capital transfers	D.9	8.8	2.8	3.6	2.5	2.3	2.3	2.4
2.8. Other		7.2	2.3	2.9	2.8	2.7	2.7	2.6

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 9: Budgetary targets/prospects

		2013	2013	2014	2015	2016	2017	2018
	ESA Code	**Level**						**in % of GDP**
								General government
1. Total revenue	TR	155.7	49.7	49.7	49.3	49.3	49.1	49.0
1.1. Taxes on production and imports	D.2	45.4	14.5	14.5	14.4	14.3	14.1	14.0
1.2. Current taxes on income, wealth etc.	D.5	43.0	13.7	14.0	14.0	14.2	14.3	14.4
1.3. Capital taxes	D.91	1.0	0.3	0.2	0.1	0.1	0.1	0.1
1.4. Social contributions	D.61	52.4	16.7	16.7	16.6	16.5	16.4	16.4
1.5. Property income	D.4	3.6	1.2	1.1	1.1	1.1	1.0	1.0
1.6. Other		10.3	3.3	3.2	3.2	3.2	3.1	3.1
p.m.: Tax burden		137.0	43.7	43.8	43.5	43.5	43.4	43.3
2. Total expenditure	TE	160.5	51.2	52.4	50.7	50.0	49.7	49.4
2.1. Compensation of employees	D.1	29.3	9.4	9.3	9.2	9.1	9.0	9.0
2.2. Intermediate consumption	P.2	13.9	4.4	4.4	4.3	4.3	4.3	4.2
2.3. Social payments	D.62+D.632	79.5	25.4	25.3	25.2	25.0	25.0	24.9
of which: Unemployment benefits		4.1	1.3	1.4	1.4	1.4	1.3	1.3
2.4. Interest expenditure	D.41	8.0	2.5	2.6	2.5	2.5	2.5	2.5
2.5. Subsidies	D.3	10.7	3.4	3.3	3.2	3.1	3.0	2.9
2.6. Gross fixed capital formation	P.51	3.2	1.0	1.0	1.0	1.0	0.9	0.9
2.7. Capital transfers	D.9	8.8	2.8	3.6	2.5	2.3	2.3	2.4
2.8. Other		7.2	2.3	2.9	2.8	2.7	2.7	2.7

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 10: Amounts to be excluded from the expenditure benchmark

		2013	2013	2014	2015	2016	2017	2018
	ESA Code	**in bn €**						**in % of GDP**
1. Expenditure on EU programmes fully matched by EU funds revenue		0.2	0.1	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure at unchanged policies		0.3	0.1	0.2	0.2	0.1	0.1	0.1
3. Effect of discretionary revenue measures		1.4	0.4	0.3	-0.1	0.2	0.0	0.0
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions may not sum up due to rounding errors.

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

Sources: BMF, STAT, WIFO

Table 11: Divergence from April 2013

	ESA Code	2013	2014	2015	2016	2017	2018
							in % of GDP
Real GDP (rate of change)							
SP April 2013		1.0	1.8	2.0	1.8	1.9	
SP April 2014		0.4	1.7	1.7	1.9	1.9	1.8
Difference 1)		*-0.6*	*-0.1*	*-0.2*	*0.1*	*0.0*	
Net lending/net borrowing (in % of GDP)	B.9						
SP April 2013		-2.3	-1.5	-0.6	0.0	0.2	
SP April 2014		-1.5	-2.7	-1.4	-0.7	-0.6	-0.5
Difference 1)		*0.8*	*-1.2*	*-0.8*	*-0.7*	*-0.8*	
Structural balance (in % of GDP)	B.9						
SP April 2013		-1.8	-1.3	-0.8	-0.5	-0.4	
SP April 2014		-1.1	-1.0	-0.9	-0.4	-0.4	-0.3
Difference 1)		*0.7*	*0.3*	*-0.1*	*0.0*	*0.1*	
Gross debt (in % of GDP)							
SP April 2013		73.6	73.0	71.3	69.3	67.0	
SP April 2014		74.5	79.2	77.6	75.6	73.4	71.5
Difference 2)		*0.9*	*6.2*	*6.3*	*6.3*	*6.4*	

1) Limited comparability due to data revisions (a positive sign denotes an improvement).

2) Limited comparability due to data revisions (a positive sign denotes a deterioration).

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 12: Economic growth and public finances in three scenarios

	2013	2014	2015	2016	2017	2018
Baseline scenario						
GDP, nominal, in bn €	313.2	324.1	336.1	348.2	360.7	373.2
GDP, real, rate of change in %	0.4	1.7	1.7	1.9	1.9	1.8
Net lending/borrowing of the general government in % of GDP	-1.5	-2.7	-1.4	-0.7	-0.6	-0.5
Gross debt in % of GDP	74.5	79.2	77.6	75.6	73.4	71.5
Scenario 1						
GDP, nominal, in bn €	313.2	325.7	339.4	353.3	367.9	382.4
GDP, real, rate of change in %	0.4	2.2	2.2	2.4	2.4	2.3
Net lending/borrowing of the general government in % of GDP	-1.5	-2.4	-1.1	-0.5	-0.3	-0.2
Gross debt in % of GDP	74.5	78.6	76.3	73.8	71.1	68.7
Scenario 2						
GDP, nominal, in bn €	313.2	322.5	332.8	343.1	353.7	364.1
GDP, real, rate of change in %	0.4	1.2	1.2	1.4	1.4	1.3
Net lending/borrowing of the general government in % of GDP	-1.5	-2.9	-1.6	-0.9	-0.8	-0.7
Gross debt in % of GDP	74.5	79.8	78.8	77.4	75.8	74.4

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 13: Discretionary measures (in million €)

List of measures	ESA 95 code	Status of implementation	Budgetary impact				
			2014	2015	2016	2017	2018
		Consolidation measures					
Savings (federal state)							**Change to previous year**
Cuts in non-obligatory expenditures	*P2 + D3*	implemented	500	-200	0	0	0
Moderate wage increase 2014 and 2015	*D1*	implemented	50	50	0	0	0
Moderate pension adjustment 2014	*D62*	implemented	320	0	0	0	0
Increase actual retirement age	*D62*	implemented	267	60	152	92	221
Sum			***1137***	***-90***	***152***	***92***	***221***
Tax measures (general government)							**Change to previous year**
Vehicle tax	*D214AL*	implemented	30	20	0	0	0
Tobacco tax	*D214AQ*	implemented	67	92	92	0	0
Impact of tobacco tax on VAT	*D211A*	implemented	13	18	18	0	0
Tax on alcoholic beverages	*D214AB*	implemented	13	8	0	0	0
Impact on tax on alcoholic beverages on VAT	*D211A*	implemented	3	2	0	0	0
Tax on sparkling wines	*D214AN*	implemented	21	8	0	0	0
Impact of tax on sparkling wines on VAT	*D211A*	implemented	4	2	0	0	0
Vehicle insurance tax and Vehicle tax	*D2*	implemented	200	30	0	0	0
Group taxation	*D51BF*	implemented	0	50	0	0	0
Tax on interest, broadening of limited taxation	*D51*	implemented	0	5	0	0	0
Solidarity surcharge on income tax; abolition of limited duration	*D51AG*	implemented	0	0	0	75	0
Taxation of golden handshake	*D51AG*	implemented	30	0	0	0	0
Profit-Shifting (interest and royalties)	*D51BF*	implemented	0	100	0	0	0
Abolition of incorporation tax	*D5*	implemented	0	0	-100	0	0
Limit to tax deductability of wages beyond 500,000 €	*D5*	implemented	60	0	0	0	0
Tax treatment of reserves	*D5*	implemented	0	90	0	0	-80
Reform of Limited liability companies (taxation of interes	*D51*	implemented	40	10	-25	-25	0
Reform of Limited liability companies (corporate tax)	*D51BF*	implemented	42	-3	-3	-3	-3
Insurance; adjustment	*D214GB*	implemented	10	0	0	0	0
Extra contribution of banking sector	*D5*	implemented	90	0	0	0	-80
Fight against tax fraud	*D5*	implemented	100	0	0	0	0
Financial transaction tax	*D2*	planned	0	0	500	0	0
Contribution of special (high) pension regimes	*D61*	implemented	0	10	0	0	0
Sum			***722***	***442***	***482***	***47***	***-163***
		Offensive measures					
							Change to previous year
Increase of full-day schools	*P5 und D1*	implemented	80	0	0	0	0
Increase of child care facilities	*D1*	implemented	100	0	0	-50	-50
Housing, increase of earmarked subsidies	*D7*	implemented	0	30	20	0	0
Adjustment familiy benefits	*D62*	implemented	65	65	62	0	62
Nursing care and 24 hours care	*D62*	implemented	41	5	3	21	34
Agriculture	*D3*	implemented	45	40	25	0	10
Household support scheme: services of craftsmen	*D7*	implemented	10	10	-20	0	0
Flood protection measures	*D9*	implemented	107	-11	-10	0	0
Extra funding of basic research	*D7*	implemented	0	0	100	0	0
Extra funding for dental services	*D631*	implemented	0	20	60	0	0
Reduction of contribution to accident insurance	*D61*	implemented	46	49	3	3	3
Reduction of contribution to fund for insolvencies	*D61*	implemented	0	85	0	0	0
Sum			***493***	***293***	***243***	***-26***	***59***

Data based of expert estimates, external tax statistics and tax declarations
There can be rounding differences
Source: MoF

Table 14: Long-term sustainability of public finances

	2015	2020	2030	2040	2050	2060
						in % of GDP
Total age-related expenditure[1]	29.0	29.9	32.3	32.8	33.4	33.2
Pension expenditure[2]	14.4	15.1	16.7	16.5	16.4	16.1
Health care (excl. long-term care)	7.7	8.0	8.4	8.8	9.1	9.0
Long-term care	1.7	1.8	2.1	2.4	2.8	2.9
Education	4.5	4.3	4.4	4.4	4.4	4.5
Unemployment	0.7	0.7	0.7	0.7	0.7	0.7
Contributions to social security pensions[3]	8.5	8.5	8.5	8.6	8.6	8.6
Assumptions						
Real GDP (change in PO growth, in %)[4]	1.7	1.5	1.3	1.4	1.3	1.3
Labour productivity (change in %)[4]	1.5	1.5	1.5	1.5	1.5	1.5
Participation rate males (aged 15-64)[4]	77.2	76.6	75.7	76.6	76.3	76.2
Participation rate females (aged 15-64)[4]	68.4	68.9	70.6	72.8	72.5	72.4
Total participation rate (aged 15-64)[4]	72.8	72.8	73.1	74.7	74.4	74.4
Unemployment rate (Eurostat)[4]	4.1	4.0	4.0	4.0	4.0	4.0
Persons aged 65+ in % of total population[5]	18.8	19.9	24.4	27.7	28.4	29.2

1) Data based on COM/EPC projections (2012)

2) Gross amounts incl. compensatory allowances, excl. administrative costs, rehabilitation and health insurance expenditures

3) Excl. Revenues from federal fund

4) Data based on COM/EPC macro-assumptions (2011)

5) Data based on EUROSTAT demographic projections (EUROPOP 10)

Positions may not sum up due to rounding errors.

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

Table 15: General government expenditure by function

	COFOG Code	2010	2011	2012	2013
					in % of GDP
1. General public services	1	6.8	6.7	6.7	6.7
2. Defence	2	0.7	0.7	0.7	0.7
3. Public order and safety	3	1.5	1.5	1.5	1.5
4. Economic affairs	4	5.7	5.3	5.8	5.0
5. Environmental protection	5	0.6	0.5	0.5	0.5
6. Housing and community amenities	6	0.6	0.6	0.6	0.6
7. Health	7	8.2	7.8	8.0	7.9
8. Recreation, culture and religion	8	1.0	1.0	0.9	1.0
9. Education	9	5.7	5.6	5.6	5.6
10. Social protection	10	21.8	21.1	21.3	21.7
11. Total expenditure	TE	52.8	50.8	51.6	51.2

Positions may not sum up due to rounding errors.

Source: STAT

Table 16: Country specific recommendations (CSR)

See „National Reform Programme", April 2014: http://www.austria.gv.at/site/4892/default.aspx

Table 17: Targets set by the Union's strategy for growth and jobs

See „National Reform Programme", April 2014: http://www.austria.gv.at/site/4892/default.aspx

Sources/Links

Work programme of the Austrian federal government 2013-2018, December 2013

http://www.austria.gv.at/DocView.axd?CobId=53588

Public Employment Service Austria (AMS)

http://www.ams.at/

Federal Chancellery (BKA)

http://www.bundeskanzleramt.at/

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

http://www.bmask.gv.at/

Federal Ministry of Finance (BMF)

https://www.bmf.gv.at/

Federal Ministry of Health (BMG)

http://www.bmgf.gv.at/

European Commission, Directorate General of Economic and Financial Affairs

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

EU Economic Governance

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

Stability and Growth Pact

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

Excessive Deficit Procedure

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

Eurostat

http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

Fiscal Council

http://www.staatsschuldenausschuss.at/

Institute for Advanced Studies (IHS)

http://www.ihs.ac.at/vienna/

Macrobond

http://www.macrobondfinancial.com/

Austrian Federal Financing Agency (OeBFA)

http://www.oebfa.co.at/

Austrian National Bank (OeNB)

http://www.oenb.at/

Austrian Institute of Economic Research (WIFO)

http://www.wifo.at/

Austrian Parliament

http://www.parlament.gv.at/PD/HP/show.psp

Austrian Court of Auditors (RH)

http://www.rechnungshof.gv.at/

Statistics Austria (STAT)

http://www.statistik.at/