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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING AUSTRIA

3. On the basis of the Draft Budgetary Plan for 2016 submitted on 15 October 2015 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Austria is subject to the preventive arm of the Pact and should avoid deviating from the medium-term objective in 2015 and 2016. As the debt ratio was 80.9% of GDP in 2013 (the year in which Austria corrected its excessive deficit), during the three years following the correction of the excessive deficit, Austria is also subject to the transitional debt rule.
5. The macroeconomic scenario underlying the Draft Budgetary Plan assumes GDP growth of 0.7% in 2015, slightly higher compared to the 0.5% underpinning the 2015 Stability Programme. The growth outlook for 2016 remains unchanged at 1.4%. Compared to the Stability Programme, the Draft Budgetary Plan also sees somewhat weaker investment growth in both years, compensated by a stronger contribution of net exports and government consumption. The macroeconomic outlook of the Draft Budgetary Plan is broadly in line with the Commission 2015 autumn forecast. The Commission forecast expects a slightly weaker recovery of private consumption and a more back-loaded growth profile of investment in light of currently cautious business and consumer confidence. The Draft Budgetary Plan projects inflation at 1.1% in 2015 and at 1.7% in 2016 which is 0.2% less than in the Stability programme in both years. The Commission 2015 autumn forecast expects inflation to be somewhat lower in 2015 (0.9%) compared to the Draft Budgetary Plan, and marginally higher in 2016 (1.8%). Overall, the macroeconomic outlook of the Draft Budgetary Plan is based on plausible macroeconomic assumptions.
6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by the Austrian Institute of Economic Research (WIFO). It has been a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast produced by the Institute. WIFO is a non-profit association and its governing board is composed of representatives of NGO's, financial institutions, the Austrian National

Bank, business associations, academia as well as representatives of the central and regional government.

7. The Draft Budgetary Plan projects the headline deficit to decline to 1.9% and 1.4% of GDP in 2015 and 2016, improving the 2015 Stability programme projections by 0.3 and 0.2 percentage points respectively on the back of better than initially projected revenues, in particular from income taxes and social contributions, and lower pension expenditure in 2015.

Austria's budgetary consolidation has been supported by an easing of the interest burden. Interest expenditure in Austria is expected to fall from 2.7% of GDP in 2012 to 2.4% in 2015, and is projected to further decrease next year, reaching 2.2% of GDP. The interests windfall has partly been used for the improvement of the structural balance until 2015, while in 2016 lower interest expenditure is expected to reduce the impact of the forthcoming tax relief on the deficit. At the same time, the low interest rate environment has facilitated sizable bank support measures while reaching the MTO in 2014. Rather than offsetting the interest rate windfalls, relatively stable inflation has consistently also been supportive of the fiscal adjustment and the reduction of the debt ratio.

8. The Draft Budgetary Plan indicates that the budgetary impact of the exceptional inflow of refugees is significant. This additional expenditure is estimated at around 0.08% and 0.16% of GDP in 2015 and 2016 respectively. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 would in principle allow catering for this additional expenditures, in that the inflow of refugees is an exceptional event, its impact on Austria's public finances, if confirmed, is significant, and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the MTO. The Commission will make a final assessment, including on the eligible amounts, on the basis of observed data as provided by the Austrian authorities.
9. The Commission 2015 autumn forecast projects a headline deficit of 1.9% of GDP in 2015, in line with the Draft Budgetary Plan. For 2016, the Commission projects a deficit which is 0.2% of GDP higher than in the Draft Budgetary Plan, due to a more conservative estimate of the effectiveness of measures on fighting tax fraud and somewhat higher social payments consistent with slightly higher unemployment expectations. While the Draft Budgetary Plan expects the structural balance to remain stable in 2016, the Commission 2015 autumn forecast projects a deterioration in the structural deficit by 0.4% of GDP. This difference is due to two main factors: (i) costs related to the recent surge in refugees are not considered as one-offs by the Commission and are thus included in the structural balance; (ii) the measures aimed at financing the tax reform are discounted with respect to the Draft Budgetary Plan. The effectiveness of the measures to combat tax fraud is considered a key risk in ensuring the budget neutrality of the tax reform already accounted for in the 2015 Stability Programme, envisaging 1.2% of GDP of tax relief for households in 2016. Additional risks stem from the potential further costs of banking sector restructuring and the increase in refugee inflows.
10. In the Draft Budgetary Plan, general government debt is projected to increase to 86.5% of GDP in 2015, mainly as a consequence of the inclusion into the general government debt of illiquid assets worth EUR 6.3 billion transferred from Kommunalkredit to the bad bank KA Finanz. The general government debt is further increased (also with respect to the Stability Programme) by EUR 1.2 billion from the

settlement between Austria and Bavaria regarding the claim of Bayerische Landesbanken on HETA Asset Resolution. The improved projection of the primary balance and the upward revision in growth and inflation for 2015 more than offset the increase in the stock-flow adjustment. Thus, the projection for the debt ratio for 2015 in the Draft Budgetary Plan is lower than the one of the Stability Program.

11. After peaking in 2015, the gross debt ratio is expected to decrease in 2016 to 85.1% of GDP, according to the Draft Budgetary Plan forecasts. This is mainly due to the reduced deficit and the progressive disposal of financial defeasance structures included under government accounts. The Draft Budgetary Plan forecast represents an improvement of 0.6% of GDP with respect to the Stability Programme forecast, mainly driven by the different headline balance projections. In 2016, the Draft Budgetary Plan forecast of the gross debt ratio is also 0.6% of GDP lower than the Commission 2015 autumn forecast, since the Commission does not take into account the negative stock-flow adjustment that is reported but not explained in the Draft Budgetary Plan. The difference is also due to the lower projections for the primary balance in the Commission 2015 autumn forecast.
12. As in the case of the 2015 Stability Programme, the 2016 Draft Budgetary Plan does not include the usual table quantifying in detail the effect of the discretionary measures underlying the programme. Some quantitative effects of the tax reform were described in the 2015 Stability Programme and recalled in the Draft Budgetary Plan. Both the Stability Programme and Draft Budgetary Plan present the reform as fully self-financed, while the Stability Programme also describes the financing measures that are expected to assure the budget neutrality (most notably fighting tax fraud, changes in various laws and savings in public administration). Nevertheless, by considering each measure individually, the Commission estimates that the reform could increase the headline deficit by about 0.3% of GDP in 2016.
13. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional debt rule. Based on the Commission 2015 autumn forecast, Austria is making sufficient progress towards compliance with the debt rule in 2015 and 2016.
14. In 2015, according to the information provided in the Draft Budgetary Plan, both the structural balance pillar and the expenditure benchmark point to compliance. Over 2014-2015, the structural balance points to compliance, while the expenditure benchmark points to some deviation (gap of -0.2% of GDP). As the indicators point in a different direction, an overall assessment is required. The expenditure benchmark is negatively affected by a significant one-off cost related to the winding-down of financial institutions in 2014. Considering this factor, the structural balance seems to be a better indicator of the fiscal effort at the current juncture. Therefore, the overall assessment at this stage points to compliance. The Commission 2015 autumn forecast provides a near-identical reading. As above, the overall assessment points to compliance as the structural balance is considered to be the more relevant indicator.
15. For 2016, according to the information provided in the Draft Budgetary Plan, the change in the recalculated structural balance of -0.1% of GDP points to a risk of some deviation (gap of -0.2% of GDP) from the required adjustment of 0.1% of GDP. The expenditure benchmark is complied with. This warrants an overall assessment. The compliance of the expenditure benchmark is driven by a strong base effect, caused by the phasing out in 2016 of one-off transactions in relation to the

winding down of financial institutions -costs not considered in the structural balance pillar. Therefore, the overall assessment based on the information provided by the Draft Budgetary Plan points to some deviation from the MTO in 2016. As to the Commission 2015 autumn forecast, the structural balance is expected to deteriorate by 0.4% of GDP in 2016, resulting in a significant deviation from the required adjustment towards the MTO (gap of -0.6% of GDP). The net expenditure growth rate is expected to be above the benchmark (gap of -0.2% of GDP). While the difference between the two indicators is sizeable, an overall assessment shows that this is mainly due to the above-mentioned one-off transactions connected with year-to-year fluctuations in the cost of winding down financial institutions, which have a positive effect on compliance with the expenditure benchmark but are excluded from the structural balance. Therefore, the overall assessment points to a risk of a significant deviation from the MTO in 2016. Nevertheless, a part of the deviation from the MTO, both on the basis of the structural balance and the expenditure benchmark pillar, is due to an increase in refugee-related spending. If the current estimate of the increase in refugee-related expenditure was excluded, the assessment would point to a risk of some deviation from the MTO in 2016.

16. The Draft Budgetary Plan contains reform plans that affects the tax burden on labour. Namely, it refers to measures described in the 2015 National Reform Programme and adopted in mid-July 2015, in particular the re-modulation of tax brackets and tax rates and the reimbursement of half of social security contributions for lower income earners in order to reduce the tax burden on labour. The Draft Budgetary Plan addresses only partially the Country Specific Recommendation (CSR) asking to take measures to ensure the long-term sustainability of the pension system, by introducing a part-time pension. As to the CSR addressing the misalignment between the financing and spending responsibilities of the different levels of government, the Draft Budgetary Plan indicates that some negotiations are ongoing but it does not provide any detail as to their stage.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Austria, which is currently under the preventive arm and subject to the transitional debt rule is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the Commission 2015 autumn forecast points to a risk of significant deviation from the MTO in 2016. However, in case the current estimate of the budgetary impact of the exceptional inflow of refugees was excluded from the assessment, the projected deviation would no longer be significant. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

The Commission is also of the opinion that Austria has made limited progress with regard to addressing the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

*For the Commission
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Member of the Commission*