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Draft Federal Budget 2009-10 and Financial Framework 2009 to 2013

The greatest challenge for fiscal policy is currently to cushion the impact of the financial and economic crisis, inter alia by accepting a deterioration in the public debt position. The twin federal budget 2009-10 is deemed an appropriate response to short-term economic developments as judged from the current perspective: it includes a marked increase in public spending and allows automatic stabilisers to operate both on the revenue and the expenditure side. The government deficit in the Maastricht definition is projected to rise up to 4.7 percent of GDP by 2012, edging down to 3.3 percent of GDP only in the subsequent year. General government debt will increase to 78.5 percent of GDP until 2013. In an EU comparison, the Austrian debt situation remains relatively benign. The relative size of the policy response to the crisis in Austria is the second-largest in the EU. The weakening of the debt position is, however, due also to further measures on the revenue as well as the expenditure side, such as the anti-inflation "package" adopted in 2008.

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The current financial and economic crisis makes for the most difficult macroeconomic environment for Austria's fiscal policy since the Second World War. Cyclical prospects are steadily worsening since autumn 2008, when the crisis spilled over to the real economy, which severely complicates the planning of fiscal policy. While the government programme agreed between the coalition partners in November 2008 had assumed for 2009 a decline in real GDP by 0.5 percent followed by a rebound of 0.9 percent in 2010, the WIFO short-term forecast of March 2009 anticipated a setback of GDP by 2.2 percent for the current year and a resumption of growth by only 0.5 percent in 2010. This projection, which was the basis for the twin budget 2009-10 (Table 1), was revised down further for 2009 at the end of June. At present, WIFO expects GDP to fall by 3.4 percent in 2009 and, like the international observers, growth to remain modest going forward.

In this situation, fiscal policy is called upon to counter the effects of the crisis and to be sufficiently expansionary in the cyclical trough, implying the acceptance of higher budget deficits. At the same time, policy has to take care not to lose control over public debt and resume consolidation in due time. Moreover, and even in times of the crisis and the associated budgetary constraints (because of the recession-induced "automatic" revenue shortfalls, the increase in cyclically-sensitive spending and the discretionary support to the banking sector, companies and households), fiscal policy should contribute towards fostering growth and employment opportunities over the longer term. Indeed, by reinforcing spending in key areas for future development such as education, research, environmental quality and infrastructure, the resulting stronger growth potential should over time also widen the budgetary room for manoeuvre.

Against this economic background, the government submitted in late April the draft Federal Budget for 2009-10 as well as, for the first time for the period 2009 to 2013, the federal fiscal framework that was implemented with the initial stage of the reform of federal budgetary legislation. Both Acts were adopted by Parliament in May[1].

Table 1: Key economic data

	2008	2009	2010	2011	2012	2013	2009	2010
	WIFO forecast March 2009			Federal Ministry of Finance			WIFO forecast June 2009	
	Year-to-year percentage change							
Gross domestic product								
Volume	+ 1.8	− 2.2	+ 0.5	+ 1.5	+ 2.0	+ 2.3	− 3.4	+ 0.5
Value	+ 4.2	− 0.7	+ 1.3	+ 2.8	+ 3.5	+ 4.2	− 1.9	+ 1.4
Value, € billion	282.2	280.1	283.9	291.9	302.2	315.0	277.0	280.8
Consumer prices	+ 3.2	+ 0.6	+ 1.1	+ 1.3	+ 1.5	+ 1.9	+ 0.5	+ 1.2
Wage bill, gross								
Nominal	+ 5.1	+ 1.3	+ 0.5	+ 1.7	+ 2.5	+ 3.2	+ 0.9	+ 0.3
Nominal, per capita	+ 3.0	+ 2.7	+ 1.2	+ 1.7	+ 1.9	+ 2.5	+ 2.3	+ 1.2
Dependent employment	+ 2.4	− 1.2	− 0.6	± 0.0	+ 0.6	+ 0.7	− 1.5	− 1.1
Unemployment								
Year-to-year change, in 1,000	− 10.0	+ 53.0	+ 33.0	+ 15.0	± 0.0	− 8.2	+ 58.4	+ 39.0
Absolute, in 1,000	212.3	265.3	298.3	313.3	313.3	305.1	270.7	309.7
Unemployment rate								
As a percentage of dependent labour force	+ 5.8	+ 7.3	+ 8.2	+ 8.5	+ 8.5	+ 8.2	+ 7.4	+ 8.5

Source: Federal Ministry of Finance, WIFO.

The federal budget 2009 to 2013 – an overview

The twin budget 2009-10 is deemed an appropriate response to short-term economic developments as judged from the current perspective. It foresees for 2009 a significant increase in expenditure (+4.7 percent; Table 2). In 2010, overall expenditure is planned to drop by 8.7 percent, for the only reason that almost the entire support to banks totalling € 10.3 billion is included in the 2009 budget.

At the same time, gross federal tax revenues are expected to fall as a consequence of the recession by a sharp 5.5 percent in 2009 from the preliminary 2008 outturn, to a total € 64.77 billion. The projection for 2010 is for a further 1.1 percent drop to € 64.05 billion. Net federal tax revenues will decline by 13.8 percent to € 38.76 billion this year, broadly stabilising at that level in 2010 (–0.3 percent to € 38.63 billion). The fact that total federal revenues edge down by only 0.9 percent in 2009 (to € 63.88 billion) is explained by the allocation to reserves for the financing of equity capital as part of the bank rescue "package". Due to this one-off factor, the sharp fall in total federal revenues is postponed to 2010 (–9.8 percent to € 57.59 billion). Only as from 2011, the Financial Framework 2009-2013 foresees a rebound in expenditure and overall revenues, including gross and net federal revenues.

On an administrative base, the federal deficit in 2008 of 3.4 percent of GDP was substantially higher than planned (1.1 percent of GDP), on account of the funds raised for the financing of the bank rescue "package". In 2009, the deficit widens further to 4.8 percent of GDP, followed by a gradual decline to 3.9 percent by 2013.

The primary federal balance (government revenues minus expenditures net of interest payments) swings from a surplus of 1.8 percent of GDP in 2008 to deficits up to 1.3 percent of GDP in 2010, declining thereafter to 0.4 percent in 2013.

[1] Further information on the draft federal budget 2009-10 and on budgetary execution in 2008 is presented as usual in the "Budgetbericht" (Budgetary Report; *Federal Ministry of Finance,* 2009B). Information on the Federal Financial Framework is provided by the newly issued "Strategiebericht" (Strategy Report; *Federal Ministry of Finance,* 2009C).

Table 2: The federal budget according to 2009 legislation – overview

	2008 Draft budget	2008 Preliminary outturn	2009	2010	2011	2012	2013	2008-09	2009-10	2008-2013
				Million €					Year-to-year percentage change	
Revenue	62,229	64,435	63,884	57,592	58,665	60,225	62,532	– 0.9	– 9.8	– 0.6
Expenditure	65,188	73,999	77,442	70,730	71,222	73,308	74,662	+ 4.7	– 8.7	+ 0.2
Administrative balance	– 2,960	– 9,564	–13,558	–13,138	–12,557	–13,083	–12,130			
Maastricht balance	– 1,883	– 1,633	– 8,999	–11,563	–11,947	–12,612	–11,753			
Primary balance	,	5,062	– 1,561	– 3,683	– 3,192	– 3,035	– 1,264			
Gross tax revenue	66,909	68,528	64,767	64,045	65,767	68,198	71,434	– 5.5	– 1.1	+ 0.8
Net tax revenue	45,981	44,961	38,762	38,631	39,535	40,822	42,777	–13.8	– 0.3	– 1.0
				As a percentage of GDP						
Revenue	23.1	22.8	22.8	20.3	20.1	19.9	19.9			
Expenditure	24.2	26.2	27.6	24.9	24.4	24.3	23.7			
Administrative balance	– 1.1	– 3.4	– 4.8	– 4.6	– 4.3	– 4.3	– 3.9			
Maastricht balance	– 0.7	– 0.6	– 3.2	– 4.1	– 4.1	– 4.2	– 3.7			
Primary balance	.	1.8	– 0.6	– 1.3	– 1.1	– 1.0	– 0.4			
Gross tax revenue	24.9	24.3	23.1	22.6	22.5	22.6	22.7			
Net tax revenue	17.1	15.9	13.8	13.6	13.5	13.5	13.6			

Source: Federal Ministry of Finance; 2009 and 2010: Budget Report, 2011 to 2013: Strategy Report, Federal Financial Framework 2009 to 2013. Deviations for 2009 and 2010 between Budget Report and Strategy Report are due to the fact that in the Federal Financial Framework a margin of € 10 million for each expenditure category (i.e., € 50 million in total) has been allowed for.

Table 3 summarises the most important indicators for the development of overall public debt. The general government deficit in the Maastricht definition, which was reduced to 0.4 percent of GDP in 2008, will jump to 3.5 percent of GDP in 2009 and further to 4.7 percent as from 2010. A reversal (to a ratio of 3.9 percent of GDP) is only expected for 2013. The largest part of the general government deficit accrues at the federal level (Bund), where the gap widens from 0.6 percent of GDP in 2008 to 3.2 percent in 2009; for the years 2010 to 2012 it is projected to persist at slightly above 4 percent of GDP, before moderating to 3.7 percent in 2013.

As a consequence, general government debt is set to increase markedly. After dipping, for the first time since 1992, below the Maastricht ceiling of 60 percent of GDP in 2007, it will rise steadily up to 78.5 percent of GDP until 2013. The upward trend is caused not only by the current budgetary imbalances in the years to come, but also by the financing of government support for banks in distress, which affects the debt level but not the deficits. For this reason, the recapitalisation of banks will raise public debt only temporarily. As soon as the securities mature or are re-transferred to the financial institutions, the debt level will be reduced accordingly; this is planned to take place as from 2014.

Table 3: Development and composition of government debt

	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
					As a percentage of GDP						
General government structural balance	.	.	.	.	.	– 1.30	– 2.9	– 3.8	– 3.7	– 3.8	– 3.3
General government primary balance	– 1.8	1.8	1.3	1.1	2.2	2.1	– 0.7	– 1.7	– 1.5	– 1.3	– 0.4
Maastricht balance by government authorities											
General government	– 5.77	– 1.69	– 1.57	– 1.61	– 0.53	– 0.39	– 3.5	– 4.7	– 4.7	– 4.7	– 3.9
Bund	– 5.24	– 1.70	– 1.78	– 1.58	– 0.64	– 0.58	– 3.2	– 4.1	– 4.1	– 4.2	– 3.7
Länder (exclusive Vienna)	+ 0.06	+ 0.10	+ 0.10	– 0.16	+ 0.09	+ 0.12	– 0.2	– 0.4	– 0.3	– 0.2	– 0.1
Municipalities (inclusive Vienna)	– 0.47	+ 0.04	+ 0.14	+ 0.13	+ 0.11	+ 0.09	– 0.1	– 0.1	– 0.1	– 0.1	± 0.0
Social security agencies	– 0.12	– 0.13	– 0.02	– 0.00	– 0.09	– 0.02	± 0.0	– 0.1	– 0.2	– 0.2	– 0.1
General government gross debt	68.3	66.5	63.7	62.0	59.4	62.5	68.5	73.0	75.7	77.7	78.5

Source: Statistics Austria, Federal Ministry of Finance. As from 2009 according to Austrian Stability Programme 2008 to 2013. + . . . surplus, – . . . deficit.

The Federal Budget – an Overview

Preliminary outturn 2008

According to the preliminary budget outturn for 2008, revenues in the general budget amounted to € 64.44 billion and expenditure to € 74 billion, leading to a deficit on an administrative basis of € 9.56 billion and in Maastricht terms of € 1.63 billion. Planned revenues were thus exceeded by € 2.2 billion, planned expenditure by € 8.8 billion. The administrative deficit was € 6.6 billion higher, the Maastricht deficit € 0.25 billion lower than planned. The administrative federal deficit of 3.4 percent of GDP was markedly higher than planned (1.1 percent of GDP), the actual Maastricht deficit of 0.6 percent somewhat lower (0.7 percent of GDP).

The substantial deviations of budgetary execution from the draft federal budget are due primarily to one-off factors and to measures adopted after the finalisation of the draft budget: e.g., the raising of € 6.7 billion for bank rescue operations (of which € 5.8 billion were transferred to reserves) or the restructuring subsidy for Austrian Airlines of € 500 million. Expenditure overruns were also recorded for personnel (some € 400 million for non-budgeted pay increases and the phasing out of direct financing of family benefits by the Bund for its own personnel) and in the family benefit fund (€ 400 million for the 13th monthly instalment of the standard benefit and the phasing out of direct financing of family benefits by the Bund). Expenditures were lower than budgeted (by € 900 million) in the area of fiscal federal relations, due to the conversion of fixed transfers to *Länder* and municipalities into equivalent revenue shares. Extra revenues accrued largely as a result of higher-than-anticipated growth (e.g., net taxes + € 900 million).

Draft federal budget 2009

Compared with the preliminary outturn for 2008, the draft federal budget for 2009 foresees a decline in revenues by 0.9 percent to a total € 63.88 billion and an increase in expenditure by 4.7 percent to € 77.44 billion. The administrative federal deficit will thereby widen to € 13.56 billion (4.8 percent of GDP), the Maastricht federal deficit to € 9 billion (3.2 percent of GDP).

Draft federal budget 2010

The draft federal budget 2010 provides for a fall in revenues by 9.8 percent to € 57.59 billion and of expenditure by 8.7 percent to € 70.73 billion. The administrative deficit is to edge down slightly to € 13.14 billion (4.6 percent of GDP), whereas the Maastricht deficit will increase to € 11.56 billion or 4.1 percent of GDP.

Medium-term financial planning – Federal Financial Framework up to 2013

According to the *Federal Financial Framework 2009 to 2013, f*ederal revenues will increase gradually from € 58.67 billion in 2011 to € 62.53 billion in 2013; over the same period, expenditure will go up from € 71.22 billion to € 74.66 billion. The administrative federal deficit will narrow somewhat, from 4.3 percent of GDP in 2011 to 3.9 percent in 2013. The Maastricht federal deficit remains slightly above 4 percent of GDP until 2012, abating to 3.7 percent of GDP only in 2013.

These projections substantially deviate from the national (internal) Stability Pact in force that was concluded in October 2007, together with the Fiscal Burden Sharing Act ("*Finanzausgleichsgesetz*") 2008 to 2013. The Stability Pact requires the Austrian territorial authorities to reduce the general government deficit for 2009 to 0.2 percent of GDP and to reach an overall budgetary surplus of 0.4 percent of GDP as from 2010.

In particular the federal deficit in the Maastricht definition, which according to the Stability Pact should not exceed 0.7 percent of GDP in 2009 and be reduced to only 0.1 percent of GDP in the following years, will miss the target by a wide margin. But also the *Länder* will not be able to reach on aggregate an annual surplus of 0.5 percent of GDP over the period 2009 to 2013, as stimulated by the Stability Pact. They will rather settle for deficits set to rise from 0.2 percent of GDP in 2009 to 0.4 percent in 2010, before gradually abating to 0.1 percent of GDP by 2013. Only the municipalities ("*Gemeinden*"), because of their limited possibility to incur debt, will miss their balanced-budget target only marginally. In view of the recent change in the macro-economic environment, it would be appropriate to adjust the internal Stability Pact, in order to preserve its credibility and allow its implementation and enforcement. This would be all the more urgent as the latest WIFO forecast of end-June 2009 has revised prospects further down, leading to a general government deficit of 4.3 percent of GDP in 2009 and of 5.8 percent in 2010.

As shown by the trend in the structural deficits for the next few years, the growing imbalance in government finances is not only a consequence of the recession and the rather moderate prospective economic growth even after the resolution of the crisis. From a ratio of 1.3 percent of GDP in 2008, the structural deficit will rise to 2.9 percent of GDP in 2009 and further to some 3.8 percent, before moderating to a projected 3.3 percent in 2013.

The emergence of a structural deficit is due not only to measures having a permanent effect like the income tax cuts carried forward to 2009 in order to stimulate business activity (2013: 1 percent of GDP). Of significant influence are also other measures on the expenditure and the revenue side that have been taken since spring 2008 (Table 4). Thus, notably the measures adopted by Parliament on 24 September 2008 in the run-up to general elections (with a budgetary effect rising to 0.6 percent of GDP until 2013) and the anti-inflation package of spring 2008 (2013: 0.1 percent of GDP) constitute a permanent and partly rising budgetary burden.

Table 4: Budgetary impact of stabilisation measures

	2008	2009	2010	2011	2012	2013
			Million €			
Parliament decisions of 24 September 2008	623	1,062	1,149	1,375	1,606	1,753
Abolition of student fees		157	157	157	157	157
13th annual instalment of family allowance	250	250	250	250	250	250
Increase in nursing care allowance		127	135	143	151	159
Extra adjustment of retirement benefits 2009 (+3.4 percent instead of +3.2 percent)		53	53	53	53	53
Retirement benefit adjustment carried forward	130					
Energy cost supplement (one-off)	50					
One-off payments to retirees 2008	193					
Extension of manual workers' pension privilege				150	300	360
Abolition of waiting period for first retirement benefit adjustment		43	88	136	186	238
Extension of contribution periods for manual workers' pension privilege		24	27	27	28	32
Cut in VAT rate for pharmaceuticals		270	289	309	331	354
Tax exemptions		138	150	150	150	150
Financial market stabilisation "package"	900	10,130	– 255	– 720	– 690	– 660
Expenditure (equity capital etc.)	900	10,300	500			
Revenue (guarantee fees, dividends)		– 170	– 755	– 720	– 690	– 660
Stimulus "package" I		105	105	75	75	75
Globalisation strategy continued		25	25	25	25	25
Transfers to SME fund		40	40			
Investment of Federal Railways (OeBB)		10	20	30	30	30
Broadband technology		10				
Increase in savings premia for building societies		20	20	20	20	20
Stimulus "package" II		250	448	423	173	73
Accelerated depreciation allowance (gross)			250	350	100	0
Regional development strategy		75	75			
Compulsory kindergarden year as from autumn 2009		25	73	73	73	73
Higher funds for research and development		50	50			
Investment subsidy for insulation of buildings		100				
Income tax cut 2009		2,135	2,858	3,000	3,060	3,060
Tax rate cut		1,900	2,300	2,300	2,300	2,300
Exoneration for families with children		235	488	510	510	510
Introduction of profit tax allowance, net[1]		0	0	110	150	150
Tax break for sponsoring		0	70	80	100	100
Labour market "package"		220	220			
Car scrapping premium		23				
"Anti-inflation package" (spring 2008)	164	308	308	308	308	308
Cut in non-wage labour cost (unemployment insurance contribution)	144	288	288	288	288	288
Increase in kilometric allowance and commuter subsidy	20	20	20	20	20	20
Total	1,687	14,233	4,833	4,461	4,532	4,609

Source: Federal Ministry of Finance, Austrian Stability Programme 2008 to 2013. – [1] Exoneration via introduction of profit tax allowance minus tax burden increase due to abolition of tax privilege for retained earnings.

The primary balance for the general government has been positive in the last years, exceeding 2 percent of GDP in 2007 and 2008. In 2009, it will swing into deficit, widening to 1.7 percent of GDP in 2010 before gradually narrowing to 0.4 percent of GDP by 2013.

Glossary of Terms

Administrative balance (net balance): revenue minus expenditure; equivalent to current net borrowing.

Maastricht-balance: administrative balance adjusted (according to ESA 95 definitions) for items that, while associated with revenue and expenditure, do not affect the budgetary situation from the macro-economic perspective (e.g., when the origin of payments dates from an earlier or later period, or when payments correspond to claims or liabilities of the same amount); it is the reference item for the obligations deriving from the European Stability and Growth Pact.

Primary balance: Revenue minus expenditure net of interest payments on public debt. *Primary deficit*: government revenue is lower than government expenditure net of interest payments, interest for the current year is thus covered by new borrowing; *Primary surplus*: revenue is higher than expenditure net of interest, interest for the current year thereby being covered by current revenue.

Structural balance: budget balance adjusted for the cyclical component; resulting independently from the level of economic activity.

Gross tax revenue: Revenue from entirely federal or shared federal taxes before transfers to federal government funds, *Länder*, communities and EU.

Net tax revenue: Revenue from entirely federal or shared federal taxes (gross tax revenue) net of transfers to federal government funds, *Länder*, communities and EU.

Reserves: Amounts not spent during a fiscal year and therefore disposable for the following year.

Swap-transactions: "Contracts whereby the parties mutually agree to honour the obligations from equal liabilities during a certain period at the conditions defined ex-ante" (ESA '95).

Table 5: Different concepts of budget balances and their relation

Administrative balance
± Expenditure / revenue, which leave the budget unaffected in macro-economic terms
= Maastricht balance

+ Interest payments	± Cyclical component
= Primary balance	= Structural budget balance

Source: WIFO.

Table 6: Government ratios in Austria

	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
	As a percentage of GDP										
Expenditure ratio	56.2	52.0	49.8	49.3	48.5	48.7	51.1	51.3	51.1	50.9	50.1
Revenue ratio	50.5	50.3	48.2	47.7	48.0	48.2	47.5	46.5	46.4	46.1	46.1
Maastricht balance	−5.8	−1.7	−1.6	−1.6	−0.5	−0.4	−3.5	−4.7	−4.7	−4.7	−3.9
Tax ratio	41.7	43.5	42.4	41.9	42.4	43.0	42.1	41.2	41.2	41.1	41.2

Source: Federal Ministry of Finance, Federal Budget Act 2009-10, Annexes, Austrian Stability Programme 2008 to 2013.

The recession, the income tax cuts and the expected modest growth performance in the next few years are reflected by a decline in both the revenue and the expenditure ratio (Table 6). The revenue ratio will go down by 2.1 percentage points from its 2008 level to 46.1 percent of GDP in 2013. The tax burden will over the same period decrease by 1.8 percentage points to a ratio of 41.2 percent of GDP, 4.4 percentage points down from its peak of 45.6 percent reached in 2001. The expenditure ratio will rise by 1.4 percentage points between 2008 and 2013 to 50.1 percent of GDP. Thus, the widening of the deficit in the Maastricht definition during the next years is to a larger extent driven by falling revenues (notably taxes and social contributions) than by higher expenditure. All public sector ratios will in 2013 be below their 1995 levels, some of them even by a substantial margin.

Reform of Federal Budgetary Legislation

The reform of federal budgetary legislation is implemented in two stages.

The first stage in 2009 includes the introduction of a medium-term financial framework with expenditure ceilings that are flexible only for cyclically sensitive spending categories and those depending on external decisions (e.g., EU subsidies), but fixed for all other items. This financial framework covers the four years to come with an annual update rolled over.

Part of the first stage of reform of budgetary legislation, starting with the 2009 budget, are also accounting changes which are to facilitate the legibility of the federal budget. The federal budget is now organised in five highly-aggregated categories (instead of the former groups) which are divided into sub-categories (replacing the former chapters). The categories are: "0 and 1: justice and security"; "2: Labour, Social Affairs, Health and Family"; "3: Education, Research, Art and Culture"; "4: Economic Affairs, Infrastructure and Environment"; "5: Cash and Interest".

The ceilings for fixed expenditure in each sub-category may be exceeded without consent by the Ministry of Finance to the extent of reserves available. If the latter are exhausted, the category margin ("*Rubrikenmarge*", i.e., the difference between the sum of expenditure in all sub-categories and the category total) may, with the agreement of the Ministry of Finance, be used as a last reserve, which, however, is actually small (amounting in 2009 and 2010 to € 10 million, respectively, per category). Otherwise, an excess of a fixed expenditure ceiling requires a change of the Federal Financial Framework Act approved by Parliament. The ceilings for variable expenditure may, for their part, be exceeded as necessary. These include the sub-categories 20 Labour (unemployment insurance and assistance, retirement benefit advance payments, allowances for advanced training, part-time retirement allowance, transition allowance, short-time-work allowance), 22 Social security (federal subsidies to the social retirement scheme, subsidies for minimum pensions), 24 Health (hospital financing), 42 Agriculture, Forestry and Water Supply as well as 44 fiscal federal relations (revenue-related transfers).

Some budget items are presented on a net base, i.e., only as the balance of revenue over expenditure. This concerns, first, the personnel departments of outsourced enterprises – up to now, both federal government expenditure for public employees' salaries and the associated revenues in the form of reimbursements by the enterprises concerned were recorded. Net figures are presented, second, also for sub-category 58 Financing operations and currency swap arrangements. A third area, where gross has been replaced by net presentation is labour market policy (sub-category 20) and the family benefit fund (sub-category 25). Any deficits in these earmarked funds must be covered by the *Bund*. Since to this end resources from the *Bund* must be transferred to the earmarked accounts, these transfers have so far been recorded both ways: as expenditure of the earmarked accounts as well as legal commitment to deficit coverage. Henceforth, deficit coverage is recorded directly with the respective budget item.

In addition, rules for the management of financial reserves have been extended and made more flexible as from 2009. Budgetary savings will now automatically lead to the build-up of reserves. These may, like extra revenues, be used without restriction to finance expenditure overruns in subsequent years. Reserves will no longer affect the draft budget and will be financed only once drawn. Due to these accounting changes, a comparison of budgets as from 2009 with earlier years is not straightforward. An adjusted version for the sake of comparability is only produced for 2008 (where the accounting changes reduce the overall budget total by some € 6.3 billion), such that in future long-term comparisons will not in all instances be possible.

In a second stage of reform of federal budgetary legislation, a performance-oriented budgeting approach, including gender budgeting, will be introduced in 2013. The aim is to supplement the conventional input-oriented budget management with considerations on the impact of federal revenue and expenditure. Line ministries are called upon to conduct gender pilot projects before as from 2013 gender budgeting will be applied to the entire federal budget. In addition, it is envisaged to implement a new accounting framework along the lines of commercial accounting principles, but modified for purposes of government budgeting.

Composition of expenditure

According to the draft federal budget, the share of transfer payments in total federal expenditure will increase to 41.7 percent in 2010 (2000: 35.6 percent; *Berghuber – Schratzenstaller,* 2007; Table 7). The largest single item among transfers are retirement expenditures with a share of almost 60 percent in 2010, followed by family benefits (22.5 percent of all transfers), support for the unemployed (11.4 percent) and nursing care benefits (6.4 percent). Apart from unemployment compensation which due to the crisis is foreseen to rise markedly in 2009-10[2], outlays for family support show the most dynamic increase over the medium term, progressing by an average 4.4 percent p.a. between 2000 and 2010, as a consequence of the steady discretionary addition to policy measures in favour of families (most recently the introduction of a 13th annual instalment of family benefits in 2008 implying extra spending of € 250 million p.a. plus the introduction of an earnings-related child care allowance and of paternal leave costing € 25 million per year). The rise in nursing care spending will gather momentum in the years to come on account of population ageing, discretionary benefit increase in all brackets (one-time adjustment of 5 percent on average) and higher support for round-the-clock care of people in need.

Table 7: Major items of federal government transfer expenditure

	2000	2001	2002	2003	2004	2005	2008	2008	2009	2010	2007-08	2008-09	2009-10	2000-2010
	Outturn						Draft budget	Preliminary outturn	Draft budget					
	Million €										Year-to-year percentage change			
Old-age insurance	11,901	13,001	13,689	14,281	14,318	14,473	15,682	15,729	16,864	17,607	+ 3.3	+ 7.2	+ 4.4	+ 4.0
Federal employees pensions	2,499	2,631	2,719	2,845	2,999	3,030	3,193	3,205	3,310	3,388	+ 2.9	+ 3.3	+ 2.4	+ 3.1
Reimbursement to *Länder* for pensions of teachers	697	734	758	850	914	931	971	1,004	1,030	1,042	+ 3.1	+ 2.7	+ 1.1	+ 4.1
Postal employees pensions	872	922	1,003	1,093	1,159	1,160	1,181	1,176	1,187	1,193	+ 0.8	+ 0.9	+ 0.6	+ 3.2
Federal Railways employees pensions	1,695	1,728	1,746	1,767	1,742	1,762	1,992	1,985	2,067	2,149	+ 3.4	+ 4.2	+ 4.0	+ 2.4
Subsidies to social retirement insurance[1]	6,139	6,987	7,463	7,726	7,504	7,590	8,344	8,360	9,270	9,835	+ 3.9	+ 10.9	+ 6.1	+ 4.8
Families	4,322	4,494	4,532	4,960	5,477	6,100	6,024	6,037	6,258	6,645	+ 2.5	+ 3.7	+ 6.2	+ 4.4
Family allowance	2,787	2,793	2,810	2,960	2,979	3,013	3,069	3,385	3,456	3,456	+ 12.5	+ 2.1	± 0.0	+ 2.2
Maternity, child-care benefit[2]	421	472	882	1,130	1,261	1,074	1,146	1,130	1,162	1,175	+ 4.5	+ 2.8	+ 1.1	+ 10.8
Retirement insurance contributions for parents raising children	77	88	124	131	196	492	529	556	593	888	− 0.5	+ 6.7	+ 49.7	+ 27.6
Other	1,037	1,141	716	739	1,040	1,521	1,280	966	1,047	1,126	− 22.2	+ 8.4	+ 7.5	+ 0.8
Unemployment compensation	1,859	1,889	2,135	2,248	2,331	2,327	2,174	2,153	3,010	3,365	− 2.2	+ 39.8	+ 11.8	+ 6.1
Long-term care benefit	1,264	1,290	1,294	1,333	1,350	1,421	1,595	1,620	1,803	1,886	+ 5.1	+ 11.3	+ 4.6	+ 4.1
Total	19,347	20,673	21,650	22,821	23,475	24,320	25,475	25,539	27,934	29,503	+ 2.8	+ 9.4	+ 5.6	+ 4.3
	Percentage shares													
Old-age insurance	61.5	62.9	63.2	62.6	61.0	59.5	61.6	61.6	60.4	59.7				
Families	22.3	21.7	20.9	21.7	23.3	25.1	23.6	23.6	22.4	22.5				
Unemployment compensation	9.6	9.1	9.9	9.9	9.9	9.6	8.5	8.4	10.8	11.4				
Long-term care benefit	6.5	6.2	6.0	5.8	5.8	5.8	6.3	6.3	6.5	6.4				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0				

Source: Federal Ministry of Finance, WIFO calculations. – [1] Including minimum pension supplements and transfers to the balancing fund of the social retirement insurance agencies. – [2] Including small-children benefits and bonus for statutory medical exams undergone by mother and child.

Likewise, a growing share of the federal budget is devoted to pensions of retired government employees (Table 8). Whereas in 2008 such expenditure accounted for 18.3 percent of total federal government spending[3], this share will rise to 22.8 percent in 2010. For the entire ten-year period, the average rate of increase of gross re-

[2] For the extension of short-time work, the expansion of training schemes organised by the Labour Market Service and the "regional employment campaign", a total of € 250 million are included in the budget; allocations for "active labour market policy" will be raised to a level of € 1.016 million in 2009 and € 1.077 million in 2010.

[3] Net retirement expenditure.

tirement outlays is 4 percent p.a. Since the corresponding (contribution) revenues of the federal government grow by only 0.4 percent p.a., net pension outlays go up by an average 4.4 percent. Upward pressure is particularly strong for the federal subsidies to the social security retirement scheme (the largest item among total federal retirement outlays; 2000 to 2010 +6.5 percent p.a.).

Table 8: Federal expenditure on retirement

	2000	2005	2008	2008	2009	2010	2007-08	2008-09	2009-10	2000-2010
	Outturn		Draft budget	Preliminary outturn	Draft budget					
	Million €						Year-to-year percentage change			
Federal employees pensions	2,499	3,030	3,193	3,205	3,310	3,388	+ 2.9	+ 3.3	+ 2.4	+ 3.1
Reimbursement to *Länder* for pensions of teachers	697	931	971	1,004	1,030	1,042	+ 3.1	+ 2.7	+ 1.1	+ 4.1
Postal employees pensions	872	1,160	1,181	1,176	1,187	1,193	+ 0.8	+ 0.9	+ 0.6	+ 3.2
Federal Railways employees pensions	1,695	1,762	1,992	1,985	2,067	2,149	+ 3.4	+ 4.2	+ 4.0	+ 2.4
Subsidies to social retirement insurance	4,152	6,060	6,673	6,677	7,363	7,808	+ 5.3	+10.3	+ 6.0	+ 6.5
Minimum pension supplements	741	822	952	952	996	990	+ 2.1	+ 4.6	– 0.6	+ 2.9
Transfers to the balancing fund of the social retirement insurance agencies	1,246	708	720	731	911	1,037	– 5.3	+24.6	+13.8	– 1.8
Total gross expenditure	11,901	14,473	15,682	15,729	16,864	17,607	+ 3.3	+ 7.2	+ 4.4	+ 4.0
Federal employees pension contributions	561	544	563	574	547	551	+ 1.4	– 4.8	+ 0.7	– 0.2
Contributions according to § 13 Pension Act	47	123	126	127	126	127	+ 1.8	– 1.2	+ 0.6	+10.4
Contributions from teachers employed by the *Länder*	14	36	40	38	38	40	+ 3.4	– 0.3	+ 4.5	+11.2
Pension contributions postal employees	273	198	176	206	207	207	+ 3.3	+ 0.6	+ 0.2	– 2.7
Pension contributions Federal Railways employees	435	350	376	323	327	332	– 1.7	+ 1.3	+ 1.6	– 2.7
Supplementary pension contribution Federal Railways	50	82	65	91	89	78	+ 3.0	– 1.7	–12.5	+ 4.6
Other pension revenue	32	243	130	146	142	141	+ 8.1	– 2.5	– 1.3	+15.9
Total revenue	1,412	1,576	1,476	1,505	1,476	1,475	+ 1.7	– 1.9	– 0.1	+ 0.4
Net pension expenditure	10,490	12,897	14,206	14,224	15,388	16,132	+ 3.5	+ 8.2	+ 4.8	+ 4.4

Source: Federal Ministry of Finance, WIFO calculations.

Against the background of the Lisbon Strategy designed to raise the growth potential of the EU economies, consideration should be given to reinforcing growth- and employment-related spending areas even and particularly in the current economic crisis. Of major importance in this regard are allocations for education, research, infrastructure and families, all of which have seen above-average increases since 2000 (Table 9).

The strongest momentum is recorded for expenditure on research (+8.5 percent p.a.). From 2000 to 2009, its share in total federal expenditure has mounted from 2.1 percent to 3.3 percent, as a proportion of GDP from 0.6 percent to 0.9 percent.

Among the items referred to here, education has been the least dynamic, with an annual increase of 2.8 percent. Its weight in GDP has remained broadly stable around 2.5 percent. In 2010, 10.3 percent of total expenditure is devoted to education, a slight increase from 2000 (9.6 percent).

Expenditure on infrastructure (within the budget plus via off-budget agencies, i.e., Federal Railways, Motorway Financing Agency *Asfinag* and Federal Real Estate Agency BIG) have been expanded by an annual 3.8 percent since 2000. The recorded strong increase in 2007 is due *inter alia* to instalments for the purchase of *Eurofighter* planes which will also stretch over the subsequent years, though at lower amounts. In 2009, notably investment in railway infrastructure as well as that by BIG in renovation, new construction and insulation will be reinforced, items largely carried forward as part of the stimulus "package". Since 2000, expenditure on infrastructure has been stable around 1.7 percent of GDP.

Table 9: Focus on future growth in the federal budget

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Ø 2000-2010
	Outturn								Preliminary outturn	Draft budget		
Education												
Million €	5,563	5,650	5,657	5,745	5,767	6,070	6,287	6,533	6,877	7,247	7,307	
Year-to-year percentage change		+ 1.6	+ 0.1	+ 1.6	+ 0.4	+ 5.3	+ 3.6	+ 3.9	+ 5.3	+ 5.4	+ 0.8	+ 2.8
As a percentage of total expenditure	9.6	9.4	9.2	9.4	8.9	9.2	8.9	9.0	9.3	9.4	10.3	
As a percentage of GDP	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.6	2.6	
Research[1]												
Million €	1,225	1,351	1,362	1,395	1,462	1,765	1,772	2,031	2,337	2,546	.	
Year-to-year percentage change		+10.2	+ 0.9	+ 2.4	+ 4.8	+20.7	+ 0.4	+14.6	+15.1	+ 8.9	.	+ 8.5
As a percentage of total expenditure	30.4	30.7	29.1	27.7	27.9	29.3	28.0	29.1	31.1	33.3	.	
As a percentage of GDP	2.1	2.2	2.2	2.3	2.3	2.7	2.5	2.8	3.2	3.3	.	
Million €	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.9	.	
Infrastructure[2]												
Million €	3,348	3,388	3,711	3,768	3,845	3,716	3,871	4,616	4,437	4,888	4,870	
Year-to-year percentage change		+ 1.2	+ 9.5	+ 1.5	+ 2.0	– 3.4	+ 4.2	+19.2	– 3.9	+10.2	– 0.4	+ 3.8
As a percentage of GDP	1.6	1.6	1.7	1.7	1.7	1.5	1.5	1.7	1.6	1.7	1.7	
Families[3]												
Million €	4,322	4,494	4,532	4,960	5,477	6,100	5,892	5,891	6,037	6,258	6,645	
Year-to-year percentage change		+ 4.0	+ 0.8	+ 9.4	+10.4	+11.4	– 3.4	– 0.0	+ 2.5	+ 3.7	+ 6.2	+ 4.4
As a percentage of total expenditure	7.4	7.4	7.3	8.1	8.4	9.2	8.4	8.1	8.2	8.1	9.4	
As a percentage of GDP	2.1	2.1	2.1	2.2	2.4	2.5	2.3	2.2	2.1	2.2	2.3	
Total expenditure[3]												
Million €	58,247	60,409	61,818	61,387	64,977	66,041	70,560	72,332	73,999	77,442	70,730	
Year-to-year percentage change		+ 3.7	+ 2.3	– 0.7	+ 5.8	+ 1.6	+ 6.8	+ 2.5	+ 2.3	+ 4.7	– 8.7	+ 2.0
As a percentage of GDP	28.1	28.4	28.2	27.5	27.9	27.0	27.4	26.7	26.2	27.6	24.9	

Source: Federal Ministry of Finance, WIFO calculations. – [1] Global estimate by Statistics Austria, May 2009; for 2010 no data being available, average annual change referring to 2000/2009. – [2] Federal expenditure plus off-budget expenditure (ÖBB, BIG, Asfinag). 2007 to 2010: including instalments for purchase of military aircraft. – [3] As from 2008 net budgeting for some items according to new budgetary legislation.

Table 10: Trend of expenditure ceilings by categories

	2008[1]	2009	2010	2011	2012	2013	Average 2008-2013
	Million. €						Annual percentage change
Justice and security	7,565	7,952	7,973	8,067	8,136	8,260	+ 1.8
Fixed		7,874	7,878	7,965	8,040	8,172	
Variable		78	95	102	95	89	
Labour, social affairs, health, family	28,838	31,364	33,010	33,532	34,201	34,572	+ 3.7
Fixed		18,016	18,807	18,770	19,068	19,374	
Variable		13,347	14,203	14,762	15,133	15,198	
Education, research,art, culture (fixed)	10,755	11,463	11,870	11,933	12,023	12,116	+ 2.4
Economic affairs, infrastructure, environment	11,829	18,359	9,116	7,993	8,421	8,320	– 6.8
Fixed		16,383	7,160	6,063	6,454	6,315	
Variable		1,976	1,957	1,931	1,967	2,006	
Cash, interest (fixed)	15,012	8,355	8,811	9,697	10,528	11,394	– 5.4
Total	73,999	77,492	70,780	71,222	73,308	74,663	+ 0.2

Source: Federal Ministry of Finance, Strategy Report 2009 to 2013. – [1] Preliminary outturn according to new budgetary legislation including transition to recording in net terms

Family-related expenditure rises at an annual 4.4 percent. This relatively strong momentum has recently been driven by the introduction of a 13th monthly instalment of the regular family benefit (€ 250 million) and of an earnings-dependent child care allowance as from 2010 (€ 25 million). Also included are the federal transfers to the Länder for the extension of child-care facilities (2009: € 25 million; 2010: € 73 million). The share of family-related in total expenditure increased from 7.4 percent in 2000 to 9.4 percent in 2010; as a proportion of GDP, there has been only a slight increase to 2.3 percent. Overall, taking into account the family support measures amounting to € 510 million p.a. that were introduced as part of the 2009 tax cuts 2009, the latest policy moves reinforce the dominance of cash over in-kind transfers for families.

Table 10 shows the trend of expenditure ceilings for the 5 categories retained in the federal fiscal framework 2009 to 2013, distinguishing between fixed and variable (i.e., cyclically sensitive) expenditure. The latter include the sub-categories 20 "labour", 22 "social insurance", 24 "health", 42 "agriculture, forestry, water supply", and 44 "federal fiscal burden sharing". The Strategy Report does not give an indication on which parameters serve to define the level of variable expenditure.

Level and composition of revenues

Federal government revenues will decline by 0.6 percent p.a. between 2009 and 2013 (Table 11). Net federal taxes, i.e., the central government part of shared taxes plus the yield from exclusive central government taxes, are the biggest item, accounting for two-thirds of total federal revenues. Revenues from net federal taxes are expected to edge down by 1 percent p.a. over the projection period.

Since tax-like revenues (in particular unemployment insurance contributions and employers' contributions to the family benefit fund) are expected to rise at an above-average 1.7 percent p.a., their share in total federal revenues will edge up slightly until 2013.

Table 11: Federal government revenues

	2008			2009	2010	2011	2012	2013	Ø 2008-2013
	Draft budget	Preliminary outturn							Year-to-year percentage change
		Old legislation	New legislation						
	Million €								
Government taxes, gross[1]	*65,880*	*68,528*	*68,528*	*64,767*	*64,045*	*65,767*	*68,198*	*71,434*	*0.8*
Wage tax	20,000	21,308	21,308	20,000	20,300	21,000	21,800	22,800	1.4
Assessed income tax	2,850	2,742	2,742	2,600	1,900	1,900	2,100	2,300	− 3.5
Corporate tax	5,900	5,934	5,934	4,800	4,500	4,600	5,000	5,500	− 1.5
Capital income tax	2,500	3,750	3,750	3,000	2,800	3,000	3,300	3,600	− 0.8
Value added tax	21,700	21,853	21,853	21,900	22,100	22,500	23,000	24,000	1.9
Excise taxes	5,461	5,633	5,633	5,561	5,511	5,611	5,711	5,811	0.6
Transport taxes	5,163	5,027	5,027	4,996	5,057	5,274	5,385	5,486	1.8
Other	2,306	2,281	2,281	1,910	1,877	1,882	1,902	1,937	− 3.2
− Transfers to *Länder*, municipalities, etc.	− 19,341	− 21,517	− 21,517	− 23,805	− 23,014	− 23,832	− 24,876	− 26,057	3.9
− Transfers to EU budget	− 2,500	− 2,050	− 2,050	− 2,200	− 2,400	− 2,400	− 2,500	− 2,600	4.9
Government taxes, net[1]	*44,039*	*44,961*	*44,961*	*38,762*	*38,631*	*39,535*	*40,822*	*42,777*	*− 1.0*
Tax-like revenues	8,975	9,165	9,165	9,315	9,374	9,474	9,684	9,960	1.7
Unemployment insurance contributions	4,671	4,710	4,710	4,579	4,599	4,653	4,739	4,856	0.6
Employers' contribution to Family Benefit Fund	3,985	4,399	4,399	4,693	4,731	4,820	4,945	5,104	3.0
Other revenues	13,895	16,608	10,309	15,807	9,587	9,656	9,719	9,794	− 1.0
Withdrawal from reserves				5,800					
Total revenues	66,909	70,734	64,435	63,884	57,592	58,665	60,225	62,531	− 0.6

Source: Federal Ministry of Finance, Strategy Report 2009 to 2013. – [1] The more frequent resort to net recording as from 2009 following the new budgetary legislation has been applied also to 2008 for better comparability. A comparison of the preliminary outturn with the draft budget is only possible for government taxes; the "other revenues" are subject to net recording (e.g., refunds to university administrations or to *Post- and Telekom AG*, financial debt and currency swaps).

In 2008, federal tax revenues turned out € 2.65 billion higher than budgeted in gross and € 0.92 billion in net terms. Extra revenues due to favourable cyclical conditions accrued notably with wage tax (+ € 1.31 billion), interest income tax (+€ 0.63 billion) and dividends (+€ 0.62 billion) as well as with VAT (+€ 0.15 billion).

For the years to come, budgetary projections draw a quite different picture. Thus, revenues from assessed income and wage tax will be depressed not only by the recession, but also by the tax measures included in the fiscal stimulus "package" II and by the tax reform 2009 (Table 4). The option of an accelerated depreciation allowance introduced with "package" II will imply revenue loses of around € 250 million in 2010, € 350 million in 2011 and € 100 million in 2012. The tax reform 2009 will cause overall revenue shortfalls from wage and assessed income tax of € 2.135 million in 2009, € 2.858 million in 2010 and about € 3 billion each in the following years (tax rate cut, family measures, tax allowance for profits of self-employed and companies liable for income taxation, tax deductability of sponsored funds). The projections for revenues from profit-related taxes (corporate tax, assessed income tax, capital income tax on dividends) for 2009 and 2010 appear rather optimistic (even on the basis of the benign WIFO economic forecast of March 2009).

Table 12: Shares of tax categories in total gross tax revenues

	Taxes on income				Taxes on consumption		VAT	Taxes on wealth
	Total	Assessed income tax	Corporate tax	Wage tax	Total	Energy-based		
	Percent							
1990	42.9	7.9	3.2	24.8	50.6	4.6	36.3	4.1
1995	46.7	5.8	5.4	28.8	50.8	6.0	34.5	1.7
2000	47.1	5.6	7.7	28.7	50.5	6.5	33.9	1.4
2001	50.8	7.1	11.1	27.9	47.1	6.5	30.9	1.3
2002	48.5	5.7	8.3	29.5	49.3	6.9	32.1	1.2
2003	49.5	5.0	8.1	31.7	49.2	7.5	30.8	1.3
2004	48.0	5.0	8.0	30.5	50.3	7.7	32.3	1.3
2005	46.6	4.4	7.7	29.6	51.7	7.6	34.0	1.4
2006	47.1	4.2	8.0	30.0	50.4	7.0	33.4	1.5
2007	49.5	4.1	8.9	30.4	48.5	6.9	32.2	1.5
2008	50.5	4.0	8.7	31.1	47.6	6.7	31.9	1.3
2009[1]	48.3	4.0	7.4	30.9	50.2	7.1	33.8	1.3
2010[1]	47.5	3.0	7.0	31.7	51.1	7.2	34.5	1.3

Source: Federal Ministry of Finance, WIFO calculations. – [1] According to draft federal budget.

Table 12 shows the composition of federal tax revenues (of those entirely received by the Bund as well as those shared with the other territorial authorities). Despite the tax cut of 2009, the expected fall in employment in 2009 and 2010 and the likely deceleration in wage growth, revenues from wage tax will decline in absolute terms and as percent of total gross tax revenues only in 2009 (Table 10). Already in 2010, its share in total tax revenues of 31.7 percent will be higher than in 2008 (31.1 percent) and remain close to 32 percent in the following years. Revenues from corporate tax are budgeted on a downward trend for 2009 and 2010, such that their share in total gross tax revenues goes down from 8.7 percent in 2008 to 7 percent in 2010, picking up gradually only as from 2012 (2013: 7.7 percent). The largest setback is expected for revenues from assessed income tax, due to the recession and the tax cuts: their share in total federal gross tax revenues is set to edge down from 4 percent in 2008 to around 3 percent as from 2010. VAT is the only major tax category with revenues growing throughout the projection period, although at small rates as from 2009, due to sluggish private consumption and the 50 percent-cut in the tax rate on pharmaceuticals[4]. Accordingly, the revenue share of VAT is set to increase from 31.9 percent in 2008 to 33.6 percent in 2013.

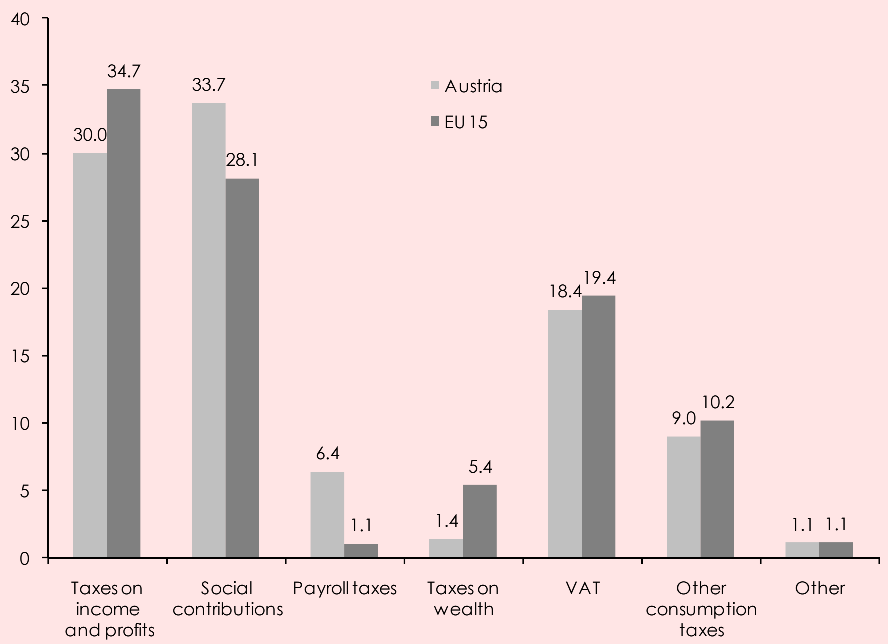
Revenues from mineral oil tax are expected to remain broadly flat, according to the draft federal budget for 2009-10, as the recession weighs on fuel consumption and the share of biofuel increases. Tobacco tax revenues are likely to fall markedly in both years, by 5.2 percent and 3.7 percent, respectively, on account of the restrictions on smoking in restaurants and bars.

[4] This measure was adopted by Parliament on 24 September 2008 and leads to a revenue shortfall of € 270 million in 2009 and of € 289 million in 2010 (Table 3).

Differences in the composition of tax revenues vis-à-vis the EU-15 average, which have been repeatedly pointed at and criticised on account of their adverse effects on growth and employment (e.g., *Aiginger et al.*, 2008), will persist. Thus, taxes on labour income (social contributions and payroll taxes, e.g., communal tax or the contribution to the family benefit fund), claiming a share of 40.1 percent of total tax revenues (taxes at all government levels and social contributions), are markedly higher in Austria than on average in the EU 15 (29.2 percent). Taxes on wealth, on the other hand, amount to only 1.4 percent of the total in Austria, compared with 5.4 percent in the EU 15 (Figure 1). Measures taken in this regard over the last few years (cut in unemployment insurance contributions for low-income earners: € 300 million; phasing out of inheritance and gift tax as from 1 August 2008: € 150 million) will not essentially change this structural difference of the Austrian tax system.

Figure 1: Composition of tax revenues in Austria and on average in the EU 15

2007, percentage share of total expenditure



Source: OECD, Revenue Statistics 1965-2007, Paris, 2008.

Impact of measures to stabilise financial markets

On 28 October 2008, a series of measures to a total amount of up to € 100 billion entered into force, designed to safeguard and stabilise the Austrian financial market. On 10 December 2008, the European Commission gave its approval considering that the support measures did not violate European competition rules (Table 13). The measures include action to revive the interbank market ("*Interbankmarktstärkungsgesetz*") whereby the federal government may assume guarantees for securities issued by financial institutions. In addition, a newly implemented clearing bank, backed by government guarantees, will offer liquidity to banks. The ceiling for such guarantees is € 75 billion; up to € 10 billion may be drawn by companies (as provided by the ad-hoc law to strengthen corporate liquidity; "*Unternehmens-Liquiditätsstärkungsgesetz*"). Moreover up to € 15 billion are earmarked for strengthening the equity capital base of banks and insurance companies ("*Finanzmarktstabilitätsgesetz*"), as guarantees for bad loans and assets, the supply of equity capital, notably with the federal government acquiring a stake in financial institutions. A third element is a deposit guarantee for private savers and small and medium-sized enterprises ("*Bankwesengesetz*"), for which up to € 10 billion are allocated. Finally, financial market supervision has been reinforced.

On the expenditure side, the acquisition of equity capital and capital transfers to individual banks burden the federal budget, although such commitments should be confined to 2009 and 2010 (Table 14). Potential obligations not provided for in the budget are, however, guarantees and compensation of deposits with banks becoming insolvent. In 2008, the federal government underwrote € 900 million in equity capital (*Hypo Alpe Adria*); for 2009, a total of € 9.3 billion is foreseen in the budget. For capital transfers (to the state-owned *Kommunalkredit AG*), € 1,003 million are budgeted for 2009 and € 503 million for 2010.

Table 13: Overview of measures to safeguard and stabilise the Austrian financial market

	Maximum budgetary impact Billion €
"*Interbankmarktstärkungsgesetz*" (guarantees)	75
Financial institutions	65
Companies	10
"*Finanzmarktstabilitätsgesetz*" (strengthening of equity base)	15
Deposit guarantees	10
Total	175

Source: Federal Ministry of Finance.

On the revenue side, the federal government will receive dividends from assets acquired and guarantee fees as long as the liquidity-supporting measures are in force. In principle, financial stakes have been underwritten for an indefinite period, though there is the intention of their early redemption. In this regard, a number of incentives have been set (increase of repurchase amount to 150 percent of the nominal value after 10 years; step-up clauses, i.e., gradual increase in interest rates after 6 years).

If the private share in the equity capital amounts to 30 percent, the dividends to be paid by the banks are 8 percent of the nominal value after tax, otherwise 9.3 percent. Since the government can raise equity capital on the market at more favourable conditions than the banks, revenues from dividends – if actually paid – should exceed expenditure for the supply of equity capital. Yet, dividends will not or only in part be paid if the bank makes an annual loss or if profits are too low. For 2009, *Hypo Alpe Adria* and *Volksbanken* have already announced losses and thus a lack of dividends. However, the level of the guarantee fee is unrelated to the earnings situation and depends on the maturity of the papers issued and their currency of denomination.

Table 14: Budgetary impact of the bank rescue "package"

	2008 Preliminary outturn	2009 Draft budget	2010	2011	2012	2013
	Million €					
Expenditure	900	10,303	503	0	0	0
Equity capital	900	9,300	0			
Capital transfers	0	1,003	503			
Revenue	0	170	755	720	690	660
Dividends equity capital	0	36	582			
Guarantee fees	0	134	173			

Q: Federal Ministry of Finance.

By the end of June 2009, a total of € 4,874 million in new equity capital had been raised (Table 15); in general (with the exception of the *Volksbanken*), it is subject to an interest rate of 8 percent due to an adequate degree of private-sector participation. Further arrangements (such as the raise of € 550 million in equity capital by *BAWAG*) will be settled shortly.

Table 15: Amount of measures to stabilise financial markets

	Claims to equity capital (*Finanzmarktstabilisierungsgesetz*) Capital	Dividends	Guarantees for new issues granted (*Interbankmarkt-stärkungsgesetz*)[1]
	Million €	Percent	Million €
Hypo Alpe Adria AG	900	8.0	
Erste Group Bank AG	1,224	8.0	4,050
Österreichische Volksbanken AG	1,000	9.3	2,000
Raiffeisen Zentralbank Österreich AG	1,750	8.0	4,250
Kommunalkredit Austria AG			5,500
Total	4,874		15,800

Source: Federal Ministry of Finance. – [1] Issues actually undertaken; several issues, respectively.

For issues actually carried out by financial institutions guarantees were given to a total amount of € 15.8 billion up to the end of June 2009 (Table 15). A further extension of guarantees is currently in preparation.

On the impact of support measures for banks and financial markets on the government deficit, Eurostat issued a ruling on 15 July 2009. Thereby, equity capital for inherently sound banks is considered a financial transaction (with financial claims of the federal government vis-à-vis banks corresponding to federal financial obligations) and has therefore no effect on the deficit. However, the capital transfer to the *Kommunalkredit AG* is likely to increase the deficit. In any case, the capital raised for the re-capitalisation of banks will push up the debt level 2008 by € 6.7 billion. In 2009, further debt-increasing funds will be raised in line with the Financial Market Stabilisation Act. The retreat from re-capitalisation measures, planned to take place as from 2014, will therefore reduce debt levels accordingly. Government guarantees for issues of financial institutions are not considered to be debt-increasing, since they are relevant for the debt situation only if they are called. In order to enhance transparency of potential future budgetary risks, Eurostat intends, however, to publish as from this autumn additional information on all government activities to support financial institutions.

Austria's fiscal policy in the European context

The crisis-induced additional expenditure and revenue shortfalls lead in all European countries to an increase in the government expenditure ratio and a decline in the revenue and tax ratios (Table 16).

According to the Spring 2009 economic forecast by the European Commission, the government expenditure ratio for the EU 27 will move up to an average 51.1 percent of GDP in 2010, for the EU 15 to 51.5 percent. At the same time, the revenue ratio declines to 43.8 percent (EU 27) and 44.1 percent (EU 15) of GDP, respectively, and the tax burden to 38.7 percent (EU 27) and 39 percent of GDP (EU 15). A similar trend is expected for Austria, where the expenditure ratio is projected at 52.4 percent, the revenue ratio at 46.7 percent and the tax ratio at 41.7 percent of GDP. Although the Austrian government ratios will thereby still exceed the EU average, the difference will be substantially smaller in 2010 than in 2000, at least for the expenditure and the revenue ratio. However, the gap between the Austrian tax ratio and the EU average will be higher in 2010 than ten years ago, since the tax burden eases more gradually in Austria than elsewhere.

Moreover, the European Commission expects that Austria, like most other EU member countries[5], will breach the deficit ceiling of 3 percent of GDP in 2010 (Table 17).

Austria's planned general government deficit of 5.7 percent of GDP would still remain below the EU average. On the other hand, other smaller EU member countries, notably the Scandinavian countries, which have made better use of the pre-crisis

[5] Exceptions are Luxembourg, Finland, Bulgaria and Cyprus.

economic boom for budgetary consolidation than Austria, will likely see a more limited deterioration of their budget balance.

Table 16: Government ratios in a European comparison

	Expenditure ratio			Revenue ratio			Tax ratio		
	2000	2005	2010	2000	2005	2010	2000	2005	2010
	As a percentage of GDP								
EU 27	*44.8*	*46.9*	*51.1*	*45.4*	*44.4*	*43.8*	*40.8*	*39.4*	*38.7*
EU 15	45.0	47.2	51.5	45.8	44.7	44.1	41.1	39.8	39.0
Belgium	49.2	52.2	54.4	49.1	49.4	48.2	45.2	44.9	44.0
Germany	45.1	46.8	49.0	46.4	43.5	43.0	42.3	39.1	38.8
Greece	46.7	43.3	45.3	43.0	38.1	39.5	34.6	31.5	31.6
Spain	39.1	38.4	47.1	38.1	39.4	37.3	33.9	35.6	32.7
France	51.6	53.4	56.3	50.2	50.4	49.3	44.1	43.6	42.6
Ireland	31.5	33.7	49.1	36.3	35.4	33.5	31.6	30.7	27.7
Italy	46.2	48.2	51.1	45.3	43.8	46.3	41.8	40.4	42.8
Luxembourg	37.6	41.6	45.7	43.6	41.6	42.9	39.2	37.6	37.0
The Netherlands	44.2	44.8	50.3	46.1	44.5	44.1	39.9	37.6	37.7
Austria	52.1	49.9	52.4	50.3	48.2	46.7	43.3	42.3	41.7
Portugal	43.1	47.6	48.7	40.2	41.6	42.0	34.3	35.1	35.0
Finland	48.3	50.3	54.4	55.2	52.9	51.5	47.4	44.2	41.3
Denmark	53.6	52.8	56.9	55.8	57.8	53.1	49.4	50.9	46.4
Sweden	55.6	55.2	57.3	59.3	57.2	53.4	51.8	49.5	45.1
UK	36.7	44.1	52.3	40.3	40.7	38.7	37.3	37.1	34.6
Bulgaria	42.6	39.3	39.3	42.2	41.2	39.0	32.6	34.0	33.4
Czech Republic	41.8	45.0	47.5	38.1	41.4	42.7	33.9	37.2	38.0
Estonia	36.5	34.0	47.3	36.2	35.5	43.4	31.2	30.9	35.6
Cyprus	37.0	43.6	45.0	34.7	41.2	42.4	29.3	34.7	37.1
Latvia	37.3	35.6	49.8	34.6	35.2	36.2	29.5	29.0	28.1
Lithuania	39.1	33.3	42.7	35.9	32.8	34.8	30.1	28.5	28.7
Hungary	46.5	50.1	52.0	43.6	42.3	48.1	38.5	37.5	41.2
Malta	41.0	44.7	44.8	34.8	41.8	41.6	28.2	33.8	34.5
Poland	41.1	43.4	46.8	38.1	39.1	39.6	32.8	32.8	33.7
Romania	38.5	33.5	38.9	33.8	32.3	33.3	30.2	27.9	28.2
Slovenia	46.7	45.3	48.6	43.0	43.8	42.1	37.5	38.7	37.3
Slovak Republic	50.9	38.2	39.4	38.6	35.4	34.1	34.1	31.5	28.8

Source: European Commission, Spring 2009 forecast.

Also with regard to the second indicator of government borrowing, the debt ratio, Austria will hold a relatively benign position, with a ratio of 75.2 percent of GDP in 2010. For the EU 15, the average debt ratio is projected at 82 percent, for the EU 27 at 79.4 percent. Whereas only four countries of the EU 15 (Luxembourg, Finland, Denmark and Sweden) will remain below the Maastricht ceiling of 60 percent of GDP, only two of the new EU member countries, Hungary and Malta, will exceed that ceiling. As a consequence of the crisis, the debt ratio in Austria, like in most other EU member countries[6], will be higher in 2010 than in 2005.

Deficits in 2009 and 2010 are boosted by the fiscal stimulus measures to which almost all EU member countries have resorted. They amount in the EU 27 to 1.1 percent of aggregate GDP in 2009 and to 0.7 percent of GDP in 2010 (Table 18). In addition, EU government budgets are burdened by the cyclically-induced "automatic" revenue shortfalls and additional expenditure. Calculations by the European Commission suggest that the budgetary impact of the anti-crisis measures and the operation of automatic stabilisers total 5 percent of EU GDP in 2009 and 2010 (*European Commission,* 2009). Next to Spain (2.3 percent of GDP in 2009), Austria has adopted the second-largest stimulus "package" worth 1.8 percent of GDP in 2009, markedly above the EU-27 average. Also in 2010, Austria's stimulus measures amount to 1.8 percent of GDP, exceeded only by Germany with a budgetary cost of 1.9 percent of GDP[7].

[6] Exceptions are Sweden, Denmark, Bulgaria, Cyprus and Malta.

[7] An international comparison of the size of the stimulus "packages" is difficult and largely depends on the definition of measures, as previous compilations show. Thus, the OECD estimates the Austrian measures cumulated over the period 2008-2010 as worth only 1.1 percent of GDP in 2008, since the tax cuts are included only in 2009 and off-budget infrastructure investment is not taken into account (*OECD,* 2009). *Saha – von Weizsäcker* (2009), for their part, arrive at an estimate of 1.3 percent of GDP for 2009 alone.

Table 17: Maastricht balance and debt levels of EU member countries

	Maastricht balance				Level of government debt			
	2000	2005	2008	2010	2000	2005	2008	2010
	As a percentage of GDP							
EU 27	*0.6*	*– 2.5*	*– 2.3*	*– 7.3*	*61.8*	*62.7*	*61.5*	*79.4*
EU 15	0.8	– 2.4	– 2.2	– 7.4	63.1	64.2	63.9	82.0
Belgium	– 0.0	– 2.8	– 1.2	– 6.1	107.8	92.2	89.6	100.9
Germany	1.3	– 3.3	– 0.1	– 5.9	59.7	67.8	65.9	78.7
Greece	– 3.7	– 5.2	– 5.0	– 5.8	101.8	98.8	97.6	108.0
Spain	– 1.0	1.0	– 3.8	– 9.8	59.2	43.0	39.5	62.3
France	– 1.5	– 3.0	– 3.4	– 7.0	57.3	66.4	68.0	86.0
Ireland	4.8	1.7	– 7.1	– 15.6	37.7	27.5	43.2	79.7
Italy	– 0.9	– 4.4	– 2.7	– 4.8	109.2	105.8	105.8	116.1
Luxembourg	6.0	0.0	2.6	– 2.8	6.4	6.1	14.7	16.4
The Netherlands	2.0	– 0.3	1.0	– 6.2	53.8	51.8	58.2	63.1
Austria	– 1.9	– 1.7	– 0.5	– 5.7	66.4	63.7	62.5	75.2
Portugal	– 3.0	– 6.1	– 2.7	– 6.7	50.4	63.6	66.4	81.5
Finland	6.9	2.6	4.1	– 2.9	43.8	41.4	33.4	45.7
Denmark	2.3	5.0	3.6	– 3.9	51.7	37.1	33.3	33.7
Sweden	3.7	2.0	2.5	– 3.9	53.6	51.0	38.0	47.2
UK	3.6	– 3.4	– 5.4	– 13.6	41.0	42.3	52.0	81.7
Bulgaria	– 0.3	1.9	1.5	– 0.3	74.3	29.2	14.1	17.3
Czech Republic	– 3.7	– 3.6	– 1.4	– 4.8	18.5	29.8	29.8	37.9
Estonia	– 0.2	1.5	– 3.0	– 3.9	5.2	4.5	4.8	7.8
Cyprus	– 2.3	– 2.4	0.9	– 2.6	58.8	69.1	49.1	47.9
Latvia	– 2.8	– 0.4	– 4.0	– 13.6	12.3	12.4	19.5	50.1
Lithuania	– 3.2	– 0.5	– 3.2	– 8.0	23.7	18.4	15.6	31.9
Hungary	– 2.9	– 7.8	– 3.4	– 3.9	54.2	61.7	73.0	82.3
Malta	– 6.2	– 2.9	– 4.7	– 3.2	55.9	69.8	64.1	68.9
Poland	– 3.0	– 4.3	– 3.9	– 7.3	36.8	47.1	47.1	59.7
Romania	– 4.7	– 1.2	– 5.4	– 5.6	24.6	15.8	13.6	22.7
Slovenia	– 3.7	– 1.4	– 0.9	– 6.5	26.8	27.0	22.8	34.9
Slovak Republic	– 12.3	– 2.8	– 2.2	– 5.4	50.3	34.2	27.6	36.3

Source: European Commission, Spring 2009 forecast.

Table 18: Volume of fiscal stimulus measures in 2009 and 2010 in EU 27

	2009	2010
	As a percentage of GDP	
EU 27	*1.1*	*0.7*
Euro area	1.1	0.8
Belgium	0.4	0.4
Cyprus	0.1	0.0
Germany	1.4	1.9
Greece	0.0	0.0
Spain	2.3	0.6
France	1.0	0.1
Ireland	0.5	0.5
Italy	0.0	0.0
Luxembourg	1.2	1.4
The Netherlands	0.9	1.0
Malta	1.6	1.6
Austria	1.8	1.8
Portugal	0.9	0.1
Finland	1.7	1.7
Slovenia	0.6	0.5
Slovak Republic	0.1	0.0
Denmark	0.4	0.8
Sweden	1.4	1.6
UK	1.4	0.0
Bulgaria	0.0	0.0
Czech Republic	1.0	0.5
Estonia	0.2	0.3
Latvia	0.0	0.0
Lithuania	0.0	0.0
Hungary	0.0	0.0
Poland	1.0	1.5
Romania	0.0	0.0

Q: European Commission (2009).

Concluding remark

At present, the biggest challenge for fiscal policy is to mitigate the impact of the financial and economic crisis, tolerating to that end a deterioration in the government's debt position. However, as soon as the crisis is over, measures to consolidate public finances will have to be taken in order to prevent an increase in public debt to the extent outlined in the federal fiscal framework and the updated Stability Programme. Although the re-transfer of capital injections for banks, envisaged to take place as from 2014, will lower public debt somewhat, the still high level of debt is not sustainable since the implicit interest rate burden unduly constrains the room for manoeuvre on the expenditure side.

Should government debt rise as foreseen in the (from today's perspective optimistic) projections of the Stability Programme, interest payments would increase from 2.6 percent of GDP in 2008 to 3.6 percent in 2013. Moreover, growth prospects are subdued also for the medium term leaving the budgetary leeway narrowly circumscribed.

Consolidation of public finances can be tackled from various angles, some of which should be addressed as from now. Priority should be given to a growth- and employment-friendly stance of fiscal policy in order to widen the scope for government action going forward. Furthermore, the comprehensive reform projects to raise public sector efficiency, which will generate savings only in later years but may require up-front additional investment costs (in particular an institutional and administrative reform), should be defined in substance and timing and initiated as from now, in order to yield the hoped-for savings once the crisis has been overcome. The Strategy Report contains tentative areas for savings, including the continuation of administrative reform, the adjustment of staff capacity as well as cuts in expenditure not subject to legal commitment. The potential for such savings is, however, not quantified, with the exception of the reduction in federal government posts by 2.800 until 2013.

There is at present also a window of opportunity for the introduction of a tax on financial transactions, co-ordinated at the EU level. Its returns could in part replace the national contributions to the EU budget, thereby easing the burden on national budgets. With a very low tax rate of 0.01 percent, funds up to and above € 90 billion per year could thereby be raised EU-wide (*Schulmeister – Schratzenstaller – Picek*, 2008). Such a tax would also produce positive allocation effects, since it would rein back in particular the very short-term speculative transactions and thus contribute towards greater stability on financial markets.

Other tax increases would, however, be counter-productive in the face of the crisis as they would reduce the positive impact expected from the income tax cuts carried forward into 2009 to stem the adverse effects of the crisis. If, nevertheless, the measures referred to should prove insufficient to achieve post-crisis fiscal consolidation, tax increases may indeed be considered as part of a comprehensive consolidation strategy. Such tax increases should, however, be embedded into a reform design for the entire revenue structure that includes a simplification of tax codes, abolition of tax exemptions, a shift of taxation towards socially undesirable activities (consumption of environmental and energy resources, of tobacco and alcohol) as well as taxes on wealth in favour of lower taxes on labour.

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Draft Federal Budget 2009-10 and Fiscal Framework 2009-2013 – Summary

The double budget 2009-10 is appropriate for the projected course of business activity: it envisages a significant increase of expenditures and allows the automatic stabilisers to work. The Maastricht deficit of the general government will rise to 4.7 percent of GDP in 2010 and the following years. A decrease (to 3.9 percent of GDP) is not expected before 2013. Accordingly the debt ratio of the general government will rise to 78.5 percent of GDP by 2013.

The structural (i.e., cyclically-adjusted) deficit will increase from 1.3 percent of GDP in 2008 to 2.9 percent of GDP in 2009 and to about 3.8 percent of GDP in the following years, and will decline slightly (to 3.3 percent of GDP) only in 2013. Thus, the worsening debt situation is not only due to the cyclical slump, but also to permanent measures such as the tax reform, which was brought forward into 2009 in order to stimulate business activity, as well as further not crisis-related revenue and expenditure measures decided in 2008 (anti-inflation measures; National Parliament's decisions of September 24th).

The share of transfers in federal expenditures keeps increasing – from 35.6 percent in 2000 to 41.7 percent in 2010. A growing share of the federal budget is also spent for pensions paid by the federal government. Expenditures for education, research, infrastructure and families – expenditure categories which are of a particular importance from a growth and employment perspective – have shown above-average increases since 2000. The stabilisation package for the Austrian financial market comprises inter alia recapitalisation measures (participation capital and capital transfers up to € 15 billion) as well as state guarantees for the issuance of securities (up to € 65 billion for banks and € 10 billion for firms). Up to now, € 4.9 billion in participation capital and state guarantees of € 15.8 billion € for the issuance of securities by banks have been granted.

The structural divergencies of the Austrian tax system compared to the EU average, which have repeatedly been criticised because of their negative effects on growth and employment, persist. Whereas the share of labour taxes (over 40 percent of total tax revenue) exceeded the average and kept rising, the contribution of wealth taxes declined to 1.4 percent in 2007.

As soon as the immediate crisis has been overcome, consolidation measures will have to be taken to prevent the debt situation from worsening to the extent envisaged in the federal fiscal framework. Currently priority should be given to an orientation of budget policies towards enhancing growth and employment, in order to increase the medium-term room for manoeuvre. Major reform projects enhancing efficiency in the public sector (especially administrative and state reform), too, should now be fleshed out and launched, in order to yield the expected economies once the crisis is over. This is also a favourable moment for the introduction of an EU-wide financial transaction tax. If these measures are not sufficient for a budget consolidation after the end of the crisis, tax increases will have to be included in a comprehensive consolidation concept. However, they would have to be embedded in a structural reform of the tax system: with simplifications of the tax system and the removal of exemptions; rising taxes on socially undesirable activities (environmental taxes and taxes on the consumption of alcohol and tobacco) as well as wealth taxes (particularly real property tax and capital gains tax); and decreasing labour taxes.