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Draft Federal Budget for 2011 Takes First Steps Towards Consolidation

The draft federal budget for 2011 is part of a pluri-annual consolidation programme designed to reduce the deficit in the Maastricht definition from over 4 percent of GDP in 2010 to 2.2 percent by 2014. A number of particular measures taken so far, both on the expenditure and the revenue side, are deemed useful also from a structural point of view. What is lacking, however, is their integration into a comprehensive reform strategy. The latter ought to address on the spending side the fiscal relations between the levels of government, the system of health and hospitals care, subsidies and special regulations privileging certain groups in the public retirement system. On the revenue side, priority should be given to an overhaul of the tax structure, making it more growth- and employment-friendly while maintaining the same revenue-generating capacity over the medium term.

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With the trough of the recession following the global financial market crisis having been passed, fiscal policy is faced with the need to return to a sustainable path[1]. The task goes beyond a recovery of the cost of the crisis incurred via two cyclical stimulus and two labour market stabilisation programmes (*Breuss – Kaniovski – Schratzenstaller,* 2009), the operation of automatic stabilisers (revenue losses and additional expenditure on cyclically-sensitive items) and other measures of partly sizeable budgetary effect[2]. Rising claims on public resources over the longer term from demographic and climate change as well as from investment in human capital and innovation require the restoration and widening of budgetary leeway.

Whereas the slump in 2009 with a contraction of real GDP by 3.9 percent had been more severe than anticipated, the projections for 2010 and 2011 were repeatedly revised upwards during last year. The WIFO forecast of December 2010 for real GDP growth of 2 percent in both years signals a good opportunity for turning fiscal policy towards restraint while having regard to cyclical conditions[3]. According to the latest WIFO medium-term forecast (*Baumgartner et al.,* 2011), real GDP will expand by an average 2.2 percent p.a. over the period 2011 to 2015, even allowing for the planned consolidation measures. Nominal GDP growth is expected to accelerate to 3.8 percent and 4 percent p.a., after the setback of –3.1 percent in 2009 and the rebound by 3.2 percent in 2010. Like the federal budget for 2011, the government's entire medium-term financial framework up to 2014 is determined by the consolidation programme[4].

[1] The article was completed at the end of January, 2011.

[2] In particular the "anti-inflation package" of spring 2008 and the measures adopted by parliament in September 2008 (*Schratzenstaller,* 2009).

[3] The draft federal budget for 2011 is based upon the WIFO forecast of September 2010; in December 2010, the GDP projection for 2011 has been slightly revised upwards.

[4] More detailed information on the draft federal budget for 2011 can be found in the Budget Report of December 2010 (*Federal Ministry of Finance,* 2010A). The Federal Financial Framework 2011-2014 and the preliminary outturn for 2009 are presented in the Strategy Report of April 2010 (*Federal Ministry of Finance,* 2010B).

Table 1: Projections of key economic variables

	WIFO forecast March 2009		WIFO medium-term forecast January 2010			WIFO forecast September 2010			WIFO forecast December 2010		
	2009	2010	2009	2010	2011	2009	2010	2011	2010	2011	2012
Gross domestic product											
Percentage changes from previous year, volume	– 2.2	+ 0.5	– 3.4	+ 1.5	+ 1.6	– 3.9	+ 2.0	+ 1.9	+ 2.0	+ 2.2	+ 2.0
Nominal	– 0.7	+ 1.3	– 1.7	+ 2.1	+ 2.9	– 3.1	+ 3.0	+ 3.7	+ 3.2	+ 3.8	+ 3.8
Billion €, nominal	280.1	283.9	277.2	283.1	291.2	274.3	282.5	292.9	283.2	293.9	305.1
Consumer prices											
Percentage changes from previous year	+ 0.6	+ 1.1	+ 0.5	+ 1.3	+ 1.5	+ 0.5	+ 1.8	+ 2.1	+ 1.8	+ 2.1	+ 1.8
Gross wage bill, nominal											
Percentage changes from previous year	+ 1.3	+ 0.5	+ 1.4	+ 1.1	+ 2.4	+ 0.8	+ 2.2	+ 3.0	+ 2.5	+ 2.8	+ 2.8
Per capita	+ 2.7	+ 1.2	+ 2.3	+ 1.2	+ 1.9	+ 1.5	+ 1.2	+ 2.2	+ 1.4	+ 2.0	+ 2.3
Dependent employment											
Percentage changes from previous year	– 1.2	– 0.6	– 1.3	– 0.3	+ 0.3	– 1.4	+ 0.8	+ 0.6	+ 1.0	+ 0.6	+ 0.5
Unemployment											
Change from previous year in 1,000	+ 53.0	+ 33.0	+ 47.6	+ 20.0	+ 17.0	+ 48.1	– 10.3	± 0.0	– 9.6	± 0.0	+ 5.5
Absolute, in 1,000	265.3	298.3	259.9	279.9	296.9	260.3	250.0	250.0	250.7	250.7	256.2
Unemployment rate											
As a percentage of dependent labour force	+ 7.3	+ 8.2	+ 7.1	+ 7.7	+ 8.1	+ 7.2	+ 6.9	+ 6.8	+ 6.9	+ 6.8	+ 6.9
As a percentage of total labour force (Eurostat)	+ 5.0	+ 5.8	+ 5.0	+ 5.4	+ 5.7	+ 4.8	+ 4.4	+ 4.3	+ 4.5	+ 4.4	+ 4.5

Source: WIFO.

The federal budget 2011 – an overview

Federal government revenue and expenditure

Since 2008, the global financial market and economic crisis had left deep marks in the federal government budget; now, in 2011, the move towards consolidation is shaping the government accounts. In 2009, federal revenue fell by 3.2 percent; the draft federal budget for 2010 foresaw a further slump by 7.7 percent compared with the final result for 2009, which eventually, however, should turn out much less dramatic. Correspondingly, the projected revenue increase of 8.6 percent from the draft budget for 2010 is probably overstated, even if the new discretionary tax hikes together with the cyclically-induced tax increases will make for a solid expansion of government revenues.

Table 2: Federal budget overview

	2008	2009	2009	2010	2011	2009	2010	2011	Ø 2009-2011
	Outturn	Draft budget	Outturn	Draft budget		Changes from previous year			
			Million €			Percent			
Revenue	64,435	63,884	62,376	57,592	62,540	– 3.2	– 7.7	+ 8.6	+ 0.1
Expenditure	73,999	77,470	69,457	70,767	70,162	– 6.1	+ 1.9	– 0.9	+ 0.5
Administrative balance	– 9,564	–13,586	– 7,080	–13,176	– 7,622	– 26.0	+ 86.1	– 42.2	+ 3.8
Maastricht balance	– 1,328	– 8,999	– 7,362	–11,564	– 7,737	+ 454.3	+ 57.1	– 33.1	+ 2.5
Primary balance	+ 5,850	– 1,161	– 2,213	– 4,958	– 1,544	– 137.8	+ 124.0	– 68.9	– 16.5
Gross tax revenue	68,528	64,767	63,314	64,045	68,980	– 7.6	+ 1.2	+ 7.7	+ 4.4
Net tax revenue	44,961	38,762	37,638	38,631	41,477	– 16.3	+ 2.6	+ 7.4	+ 5.0
			As a percentage of GDP						
Revenue	22.8	22.8	22.7	20.4	21.4				
Expenditure	26.1	27.7	25.3	25.0	24.0				
Administrative balance	– 3.4	– 4.9	– 2.6	– 4.6	– 2.6				
Maastricht balance	– 0.7	– 3.2	– 2.7	– 4.1	– 2.6				
Primary balance	1.7	– 0.6	– 0.1	– 1.0	– 0.1				
Gross tax revenue	24.2	23.1	23.1	22.7	23.6				
Net tax revenue	15.9	13.8	13.7	13.7	14.2				

Source: Federal Ministry of Finance, Budget Report 2011; Court of Auditors; WIFO calculations.

The trend in federal revenues is largely determined by the profile of tax receipts. In 2009, gross tax receipts fell by an unexpectedly heavy 7.6 percent to a total € 63.31 billion (Table 12). The moderate increase by 1.2 percent to € 64 billion assumed in the draft federal budget for 2010 has likely been exceeded thanks to better cyclical conditions. Compared with the draft budget for 2010, the federal budget for 2011 foresees a strong increase in gross tax revenues by 7.7 percent to a total € 69 billion that is probably overstated since the base for 2010 will likely be higher. A similar pattern can be observed for net tax revenues: after a fall by 16.3 percent in 2009 to a level of € 37.6 billion, the draft budget for 2010 projected a rebound by 2.6 percent to a total € 38.6 billion, which has probably been surpassed due to the cyclical revival. The draft federal budget for 2011 expects a further increase by 7.4 percent.

Budget balance definitions

	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.

In spite of the economic recession, federal government outlays were 6.1 percent lower in 2009 than in the year before; even after adjustment for the cost of bank rescue operations[5], expenditure declined by 4 percent, pointing to a restrictive fiscal stance that was rather counter-productive given the severity of the recession. For 2010, the budget provided for a spending increase of 1.9 percent over the final result for 2009 which from today's perspective may turn out lower. The draft federal budget for 2011 (the first of a series of "consolidation budgets" planned for the next few years) provides for an expenditure decrease of 0.9 percent vis-à-vis the draft budget 2010; yet, in view of the likely undershooting of the 2010 target, spending may remain broadly flat year-on-year.

The increase in spending driven by the crisis has pushed up the general government expenditure ratio from 48.7 percent of GDP in 2008 to 52.7 percent in 2010, the subsequent economic recovery and the consolidation measures will lower the ratio to 51.9 percent in 2011 (Table 3). Contrary to expectations, the total revenue as well as the tax ratio edged up in 2009 despite the recession and the tax reform, followed by a slight decline in 2010. As a result of the consolidation efforts, the overall revenue and the tax ratio of 48.7 percent and 43 percent of GDP respectively, will be higher than in 2008 (48.2 percent and 42.6 percent of GDP). The increase in the deficit (in the Maastricht definition) since 2008 has thus been mainly driven from the expenditure side. Whereas the government expenditure and revenue ratios for 2011 will be markedly lower than in 1995, the current tax-to-GDP ratio will exceed the level of the mid-1990s.

Table 3: Government ratios in Austria

	1995	2000	2005	2006	2007	2008	2009	2010	2011
	As a percentage of GDP								
Expenditure ratio[1]	56.2	52.0	50.1	49.3	48.3	48.7	52.3	52.7	51.9
Revenue ratio	50.5	50.3	48.4	47.8	47.9	48.2	48.8	48.3	48.7
Maastricht balance	− 5.8	− 1.7	− 1.7	− 1.5	− 0.4	− 0.5	− 3.5	− 4.5	− 3.2
Tax ratio[2]	41.4	43.2	42.3	41.8	42.0	42.6	42.7	42.4	43.0

Source: Federal Ministry of Finance, Budget Report 2011; Statistics Austria. – [1] Harmonised (excluding Swaps). – [2] Without imputed social contributions.

[5] In 2008, € 6.7 billion were raised for bank support measures, of which € 5.8 billion were added to reserves; in 2009, bank support burdened the federal budget to the tune of some € 4.8 billion (for details see Table 17: Budgetary effects of bank support operations and aid to Greece).

Overview of the federal budget

Outturn 2009

Revenue of the general budget turned out at € 62.4 billion in 2009, expenditure at € 69.5 billion. The revenue target of € 63.9 billion was missed by € 1.5 billion, due to the crisis. At the same time, however, expenditure was also markedly lower (by € 8 billion) than the planned € 77.5 billion, such that the administrative balance was € –7.1 billion or 2.6 percent of GDP, rather than the anticipated € –13.6 billion (5 percent of GDP). The central government deficit in the Maastricht definition turned out at € 7.4 billion (2.7 percent of GDP), compared with a projected € 9 billion (3.2 percent of GDP).

The undershooting of expenditure vis-à-vis the draft federal budget was mainly owed to the fact that for the support of banks "only" € 4.9 billion were needed, € 5.4 billion less than the budgeted € 10.3 billion. Also interest payments were over-estimated by € 0.7 billion, since the high interest rate spread prevailing at the time when the budget was drafted narrowed soon thereafter and less capital had to be raised for bank support. Moreover, balance of payments support was not required (€ –0.4 billion) and € 0.1 billion each were saved for guarantees not called and for unemployment insurance. In addition, the possibility of accumulating reserves, introduced with the new legal framework for the federal budget in 2009, led to a restrictive budget execution across almost all ministries. Expenditure overruns were recorded mainly for the federal subsidies to the statutory retirement scheme (€ +0.3 billion). Revenue shortfalls were mainly related to the severe recession and concerned notably gross tax revenues (€ –1.5 billion) and, accordingly, the revenue share of the federal government (€ –1.1 billion).

Draft federal budget 2010

The draft federal budget for 2010 provided for a fall in revenue by 7.7 percent to a total € 57.6 billion from the outturn 2009, and for an expenditure increase of 1.9 percent to € 70.8 billion. This implied a widening of the administrative deficit of the federal government to € 13.2 billion (4.6 percent of GDP), and a Maastricht deficit of € 11.6 billion (4.1 percent of GDP). Although the preliminary outturn is not yet available, it is likely that tax revenues have surprised on the upside, thanks to the strong cyclical recovery. Expenditure, for its part, has probably remained lower than planned. According to the latest forecast by the Federal Ministry of Finance, the Maastricht deficit of the federal government was equivalent to 3.6 percent of GDP.

Draft federal budget 2011

According to the draft budget for 2011, revenue is to increase from the draft 2010 budget by 8.6 percent to an overall € 62.5 billion, while expenditure will decline by 0.9 percent to a total € 70.2 billion. This would yield an administrative balance of € –7.6 billion and a Maastricht balance of € –7.7 billion or –2.6 percent of GDP.

Medium-term Financial Plan – Federal Financial Framework until 2014

According to the Federal Medium-term Financial Framework 2011-2014, federal revenue will increase from € 58.9 billion in 2011 to € 66.1 billion in 2014. Expenditure is projected to grow from € 69.1 billion to € 72.3 billion. The administrative deficit of the federal government would thereby fall from € 10.2 billion or 3.5 percent of GDP in 2011 to € 6.1 billion (1.9 percent of GDP) in 2014. The Maastricht balance of the federal government will gradually narrow from –3.4 percent of GDP in 2011 to –1.7 percent of GDP in 2014. The consolidation measures and liquidation of reserves carried out since the adoption of the Federal Financial Framework in April 2010, together with the improved business situation, lead to a shift in the medium-term path of expenditure and revenue, rendering obsolete the targets of the current Federal Financial Framework. Since, however, the liquidation of reserves will allow compliance with the expenditure ceiling for 2011 and given that the ceilings for the following years are only indicative, adjustment of the Federal Financial Framework before the next regular date in spring 2011 is not formally required by law, even if such an adjustment would be desirable from the point of view of availability of transparent, plausible, comprehensive and timely information on budgetary developments.

Evolution of government debt

The general government deficit in the Maastricht definition was reduced to around 0.5 percent of GDP each in 2007 and 2008, the lowest ratio on record since the start of a consistent time series in 1976 (with the exception of a zero-deficit in 2001 achieved thanks to one-off factors). Due to the crisis, the deficit exceeded the Maastricht ceiling of 3 percent of GDP in 2009 and, according to current plans, will fall slightly below that mark only by 2012 (Table 4). The federal government's consolidation programme foresees a further narrowing of the deficit to 2.2 percent of GDP by 2014.

The largest part of the general government deficit is incurred by the federal government, where the gap between expenditure and revenue increased from 0.7 percent of GDP in 2008 to 3.6 percent in 2010, beyond which it is to narrow step by step to 1.6 percent in 2014. The Maastricht balance of the lower government levels including the Social Security Institutions swung from a small surplus up to 2009 towards deficit, reaching almost 1 percent of GDP in 2010 before stabilising around 0.6 percent of GDP in the following years.

As a consequence in particular of the high current deficits since 2009, government debt, having been brought in 2007 below the Maastricht ceiling of 60 percent of GDP for the first time since 1992, will rise to over 72 percent of GDP by 2012, levelling off thereafter. A smaller part of the increase in the debt ratio (about 2½ percent of GDP) is temporary, resulting from government support for the banking sector and from aid to Greece, both of which are to a large extent debt-, but not deficit-increasing. Once the recapitalisation operations are reversed[6] and the loans to Greece repaid, the debt level will diminish accordingly.

Table 4: Public debt by government level

	2007	2008	2009	2010	2011	2012	2013	2014
	As a percentage of GDP							
Maastricht-balance by government level[1]								
General government	− 0.4	− 0.5	− 3.5	− 4.5	− 3.2	− 2.9	− 2.5	− 2.2
Federal government	− 0.5	− 0.7	− 2.7	− 3.6	− 2.6	− 2.4	− 1.9	− 1.6
Länder, municipalities, social security agencies	+ 0.1	+ 0.2	− 0.8	− 0.9	− 0.6	− 0.6	− 0.6	− 0.6
Public debt, general government[1]	59.3	62.5	67.5	70.2	71.3	72.3	72.6	72.5
Liabilities of public enterprises[2]	13.6	14.7	15.9	17.2	17.4	.	.	.

Source: Federal Ministry of Finance, Government Debt Committee, Statistics Austria, WIFO calculations. + . . . surplus, − . . . deficit. – [1] Budget Report 2011. – [2] Financial liabilities of major federal government enterprises (ASFINAG, Federal Real Estate Corporation – BIG, Austrian Federal Railways – ÖBB) and long-term liabilities of hospital operating companies of the Länder (data for 2009 extrapolated to 2010 and 2011) and market-determined enterprises of municipalities (data for 2008 extrapolated to 2009-2011).

The primary balance swung from a surplus in the years before the crisis (2008 +2.1 percent of GDP) to a deficit since 2009. The primary deficit reached a peak of 1.8 percent of GDP in 2010, before moderating to an expected 0.5 percent of GDP in 2011. The structural balance is not quoted in the current official budget documentation.

In order to appropriately assess potential financial obligations for the government it is necessary to include the debt of outsourced companies that are not included in the "official" debt ratio of the government sector. The current ESA definition follows the 50 percent rule, i.e., if a company can cover its production cost to at least 50 percent by its own sales revenues, it is deemed a market producer and not included in the government sector. Nevertheless, the debt of outsourced market-determined companies may become relevant for the government accounts for three reasons: if the 50 percent criterion is violated and the off-budget debt has to be re-classified as public debt, if current obligations can no longer be serviced and public authorities have to step in, or if the outsourced company has only pre-financed its investment via the capital market and the financing cost is borne entirely or in part by the state[7]. Since ultimately, therefore, the public sector is financially liable for the outsourced companies, their financial situation and performance deserve special attention. Also for this reason, Eurostat is looking for possibilities in the context of an overhaul of ESA rules to make all contingent liabilities of the public sector (besides guarantees also off-budget debt items) more transparent. In the past, and not only in Austria, a number of public enterprises, most of them loss-making, have been outsourced in order to make the public deficit and debt figures look better with a view to compliance with the Maastricht criteria[8].

[6] Originally, the measures designed to strengthen the equity capital base were to be reversed only as from 2014. An amendment to the Bank Law now provides for the possibility of earlier redemption. In 2011, participation capital to the amount of € 900 million will be repaid (by Österreichische Volksbanken AG and Erste Bank).

[7] This goes, for example, as from 2007 for the implementation of railway infrastructure by the Austrian Federal Railways (ÖBB). The federal government takes over indirectly 70 percent of the investment cost by paying over a period of 30 years 70 percent of the annuities (annual interest and redemption payments; *Grossmann – Hauth*, 2010). In the future, the federal govenrnment will shoulder 100 percent of the annuities of the Austrian Federal Railways (*ÖBB).*

[8] For details on Austria see *Schratzenstaller* (2010).

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).

The last years saw a particularly marked increase in the debt of major federal government enterprises (the Austrian Federal Railways – ÖBB, ASFINAG and the Federal Real Estate Corporation – BIG): their financial liabilities will increase between 2007 and 2011 from almost € 25 billion to over € 36 billion (12.4 percent of GDP for 2011; *Federal Ministry of Finance,* 2010A)[9]. The long-term obligations of the hospital operative agencies of the Länder amounted to € 2.2 billion at the end of 2009, those of the market-determined companies of the municipalities to € 12.5 billion at the end of 2008 (*Government Debt Committee,* 2010). Overall, the long-term liabilities of the sub-national levels of government are equivalent to 5 percent of GDP for 2011. Thus, to the official government debt ratio of more than 71 percent of GDP in 2011 should be added 17 percentage points for the liabilities of public enterprises. Following a Eurostat decision, the debt of the hospital operators of the Länder must be included into public debt as of March 2011 (with the next Maastricht notification), raising the debt ratio by nearly 1 percentage point.

The consolidation "package" 2011-2014

Overview of the consolidation measures

The draft federal budget for 2011 is embedded into the medium-term consolidation path envisaged by the government (Table 4). This path stretches over the years from 2011 to 2014 and provides for a consolidation "package" to which, from a general government perspective, the federal government contributes more than half through expenditure restraint (Table 5). The other (almost) half is to be generated by higher taxes, a relatively large proportion against the background of empirical studies attributing greater chances of success to consolidation strategies relying on spending cuts[10]. At the federal level, the savings over the period 2011 to 2014 account for 64 percent and the tax increases (i.e., the share of the federal government in higher tax revenues) for 36 percent of overall deficit reduction. Cumulated over the period up to 2014, the total consolidation amount for the general government (savings in the federal budget plus tax increases in gross terms, i.e., including revenue shares of Länder and municipalities) equals almost € 15.5 billion, with the annual contribution rising from 0.9 percent of GDP in 2011 to 1.5 percent in 2014. At the federal level, the consolidation required amounts to about € 12.8 billion (federal budget savings plus tax increases net of revenue shares of Länder and municipalities).

[9] According to current plans, debt of ASFINAG will peak at € 14.2 billion in 2019, that of the Austrian Federal Railways (ÖBB) in 2025.

[10] A comprehensive survey of the major empirical studies is presented in *Aiginger et al.* (2010).

Table 5: Overview of budgetary impact of consolidation measures

	2011	2012	2013	2014	2011-2014
			Million €		
Expenditure savings federal government	1,409	1,981	2,241	2,514	8,144
Tax increases gross	1,219	1,811	2,010	2,281	7,321
Tax increases, federal share[1]	758	1,151	1,281	1,459	4,648
Consolidation federal government	2,167	3,131	3,522	3,973	12,792
Consolidation general government	2,628	3,792	4,251	4,795	15,465
As a percentage of GDP	0.9	1.3	1.4	1.5	
			Ratio expenditure savings : tax increases		
General government	53.6 : 46.4	52.2 : 47.8	52.7 : 47.3	52.4 : 47.6	52.7 : 47.3
Federal government	65.0 : 35.0	63.3 : 36.7	63.6 : 36.4	63.3 : 36.7	63.7 : 36.3

Source: Federal Ministry of Finance, Budget Report 2011; "Budgetbegleitgesetz" 2011; WIFO calculations. Including anti-fraud "package". – [1] Calculation of federal share according to "Budgetbegleitgesetz" 2011.

Expenditure-based consolidation measures in the federal budget

The contribution of the federal government to fiscal consolidation (Table 6) rises from € 1.4 billion in 2011 to € 2.5 billion in 2014. From the original plans of the Financial Framework Law 2011-2014, adopted in April 2010, the aimed-for savings have been considerably reduced since the more favourable business outlook lowers the fiscal effort required to meet the deficit targets. Thus, savings in 2011 are reduced by € 0.2 billion and in 2014 by € 0.9 billion compared with plans dated from April 2010.

The reference scenario in this context is the Federal Financial Framework 2009-2013 from spring 2009 (*Schratzenstaller,* 2009). A contribution to consolidation only means that the current Federal Financial Framework 2011-2014 foresees a lower level of expenditure than the preceding Framework 2009-2013 that it replaces. It does not necessarily imply a decrease in expenditure in absolute terms from the previous year. Contributions to consolidation are to be made in all sub-categories; in some, expenditure actually edges down year-on-year, in others it increases. What the medium-term trend 2012-2014 is in the different spending categories cannot be assessed since the current Financial Framework has not been updated[11]. Neither is information available about the medium-term trend of overall expenditure for the period 2012-2014. It is only for 2011 that budgeted expenditure can be compared with that of the draft budget for 2010. In such a comparison, overall expenditure is planned to decline slightly from last year. Increases are foreseen for expenditure categories 2 (labour, social affairs, health and families) and 3 (education, research, arts and culture), whereas spending is planned to fall below the respective levels of the draft budget for 2009 in the expenditure categories 0 and 1 (law and security), 4 (economic affairs, infrastructure and environment) and 5 (cash management and interest; *Federal Ministry of Finance,* 2010A).

In some areas considered crucial for future economic growth, the targeted budgetary savings are (partly) offset by additional allocations. Thus, universities and technical colleges (sub-category 31: science and research) will benefit from a supplementary € 80 million p.a. over the period 2011-2014, a cumulated amount of € 320 million to be set against overall cuts of € 262.1 million in this sub-category. The same amount of € 320 million will be spent on the expansion of all-day care in schools (sub-category 30: education, arts and culture), compared with a consolidation target of cumulated € 735.5 million. An additional € 100 million per year for energy-saving renovation of buildings, half of which attributed to sub-category 40 (economy) and the other half to sub-category 43 (environment), a total of € 200 million each, will exceed the consolidation targets in this area of a cumulated € 93 million and € 166 million in sub-categories 40 and 43, respectively. For the promotion of research, an additional € 100 million p.a. are allocated, the larger part of

[11] Such an update would have to allow not only for the contributions to consolidation, but also the adjustment of expenditure ceilings due to liquidation of reserves and the largely cyclically-induced changes in variable expenditure items.

which is accounted for by the introduction of a higher standard research premium[12], the rest by additional funds for the Research Promotion Agency (FGG) included in sub-category 34 (transport, innovation, technology research).

Table 6: Consolidation targets by expenditure category

	Budget report 2011				Strategy report 2011-2014				Difference between budget and strategy report			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
	Million €								Million €			
Categories 0, 1: Justice, security	*–211.2*	*–349.9*	*–411.4*	*–451.8*	*–249.7*	*–401.7*	*–471.8*	*–523.4*	*–38.5*	*–51.8*	*–60.4*	*–71.6*
President's office	–0.3	–0.4	–0.5	–0.6	–0.3	–0.4	–0.5	–0.6	±0.0	±0.0	±0.0	±0.0
Federal legislation	–5.6	–8.7	–9.7	–11.0	–5.6	–8.7	–9.7	–11.0	±0.0	±0.0	±0.0	±0.0
Constitutional court	–0.4	–0.7	–0.9	–1.0	–0.4	–0.7	–0.9	–1.0	±0.0	±0.0	±0.0	±0.0
Administrative court	–0.6	–0.9	–1.1	–1.2	–0.6	–0.9	–1.1	–1.2	±0.0	±0.0	±0.0	±0.0
Ombudsman board	–0.2	–0.4	–0.5	–0.5	–0.2	–0.4	–0.5	–0.5	±0.0	±0.0	±0.0	±0.0
Court of Auditors	–1.1	–1.8	–2.1	–2.3	–1.1	–1.8	–2.1	–2.3	±0.0	±0.0	±0.0	±0.0
Federal chancellery	–8.6	–13.7	–16.9	–18.7	–12.2	–19.1	–22.7	–25.1	–3.6	–5.4	–5.8	–6.4
Interior	–47.7	–77.7	–91.9	–104.3	–47.7	–77.7	–91.9	–104.3	±0.0	±0.0	±0.0	±0.0
Foreign affairs	–15.7	–24.8	–28.6	–30.6	–15.7	–24.8	–28.6	–30.6	±0.0	±0.0	±0.0	±0.0
Justice	–7.4	–22.3	–26.9	–27.4	–42.3	–68.7	–81.5	–92.6	–34.9	–46.4	–54.6	–65.2
Military affairs, sport	–80.3	–129.5	–151.7	–169.4	–80.3	–129.5	–151.7	–169.4	±0.0	±0.0	±0.0	±0.0
Financial administration	–43.2	–68.8	–80.4	–84.6	–43.2	–68.8	–80.4	–84.6	±0.0	±0.0	±0.0	±0.0
Public charges	–0.1	–0.2	–0.2	–0.2	–0.1	–0.2	–0.2	–0.2	±0.0	±0.0	±0.0	±0.0
Category 2: Labour, social affairs, health, family	*–848.2*	*–1,026.6*	*–1,138.4*	*–1,269.0*	*–935.7*	*–1,531.1*	*–1,801.8*	*–2,030.5*	*–87.5*	*–504.5*	*–663.4*	*–761.5*
Labour	–120.4	–146.4	–151.3	–169.3	–124.6	–203.9	–236.9	–267.1	–4.2	–57.5	–85.6	–97.8
Social and consumer affairs	–85.7	–140.1	–165.6	–186.8	–85.7	–140.1	–165.6	–186.2	±0.0	±0.0	±0.0	+0.6
Social security	–282.8	–317.0	–376.5	–447.3	–247.6	–409.9	–483.6	–544.9	35.2	–92.9	–107.1	–97.6
Pensions	–41.4	–53.8	–66.1	–78.6	–214.0	–353.7	–422.3	–483.7	–172.6	–299.9	–356.2	–405.1
Health	–28.9	–47.4	–56.5	–64.1	–28.9	–47.4	–56.5	–64.1	±0.0	±0.0	±0.0	±0.0
Family and youth	–289.0	–321.9	–322.4	–322.9	–234.9	–376.1	–436.9	–484.5	54.1	–54.2	–114.5	–161.6
Category 3: Education, research, arts and culture	*–152.3*	*–254.3*	*–298.2*	*–332.9*	*–167.3*	*–269.3*	*–313.2*	*–347.9*	*–15.0*	*–15.0*	*–15.0*	*–15.0*
Education, arts and culture	–111.9	–179.9	–209.7	–234.0	–111.9	–179.9	–209.7	–234.0	±0.0	±0.0	±0.0	±0.0
Science and research	–34.4	–64.5	–77.2	–86.0	–49.4	–79.5	–92.2	–101.0	–15.0	–15.0	–15.0	–15.0
Economy (research)	–1.3	–2.2	–2.5	–2.8	–1.3	–2.2	–2.5	–2.8	±0.0	±0.0	±0.0	±0.0
Transport, innovation, technology (research)	–4.7	–7.7	–8.8	–10.1	–4.7	–7.7	–8.8	–10.1	±0.0	±0.0	±0.0	±0.0
Category 4: Economy, infrastructure, environment	*–190.0*	*–322.1*	*–362.3*	*–419.2*	*–236.3*	*–396.4*	*–448.6*	*–514.4*	*–46.3*	*–74.3*	*–86.3*	*–95.2*
Economy	–14.2	–23.0	–26.6	–29.2	–14.2	–23.0	–26.6	–29.2	±0.0	±0.0	±0.0	±0.0
Transport, innovation, technology	–4.7	–131.1	–156.5	–191.8	–75.5	–131.1	–156.5	–191.8	±0.0	±0.0	±0.0	±0.0
Agriculture, forestry	–30.7	–49.0	–56.7	–66.7	–77.0	–123.3	–143.0	–161.9	–46.3	–74.3	–86.3	–95.2
Environment	–29.2	–47.7	–42.9	–46.2	–29.2	–47.7	–42.9	–46.2	±0.0	±0.0	±0.0	±0.0
Public assets	–40.3	–71.1	–79.4	–85.1	–40.3	–71.1	–79.4	–85.1	±0.0	±0.0	±0.0	±0.0
Financial market stability	–0.1	–0.2	–0.2	–0.2	–0.1	–0.2	–0.2	–0.2	±0.0	±0.0	±0.0	±0.0
Category 5: Cash management, interest	*–7.1*	*–27.9*	*–30.6*	*–40.6*	*±0.0*	*±0.0*	*±0.0*	*±0.0*	*+7.1*	*+27.9*	*+30.6*	*+40.6*
Cash administration	–7.1	–27.9	–30.6	–40.6	±0.0	±0.0	±0.0	±0.0	+7.1	+27.9	+30.6	+40.6
Total	–1,408.9	–1,980.8	–2,240.8	–2,513.6	–1,589.0	–2,598.5	–3,035.4	–3,416.2	–180.1	–617.7	–794.6	–902.6

Source: Federal Ministry of Finance, Budget Report 2011, Strategy Report 2011-2014; WIFO calculations.

In view of the performance gaps in these key forward-looking areas, their budgetary reinforcement is to be welcomed. Indeed, still more funds ought to be channelled to these areas, in addition, to efficiency-enhancing re-organisation measures, if only to dampen the short-term negative effects of fiscal consolidation on growth and employment.

A detailed discussion of the incidence of the consolidation package in different ministries or sub-categories would go beyond the scope of the present analysis. We

[12] Allowing for the simultaneous abolition of all tax credits for research, the net revenue shortfall for 2011 is estimated at € 80 million, declining gradually to € 65 million by 2014.

therefore limit ourselves to the presentation of the most important measures in quantitative terms (Table 7)[13].

Table 7: Overview of major consolidation measures

Budgetary impact 2014

	Million €	Percentage shares
Categories 0, 1: Justice, security	451.8	18.0
Category 2: Labour, social affairs, health, family	1,269.0	50.5
Cut care allowance step 1 and 2	142.0	5.6
Sub-Category 21 Social affairs and consumer protection	186.6	7.4
Moderate adjustment pensions	50.0	2.0
Reform invalidity pensions	76.0	3.0
Suspension of pension adjustment first year	120.0	4.8
Pro-rata supplementary pension first year	67.0	2.7
Lower assessment rate for retirees' health insurance	64.0	2.5
Higher pension contributions of self-employed (lower federal government contribution)	44.0	1.8
Sub-Category 22 Social security	447.3	17.8
Family benefit 13th monthly instalment cut	168.0	6.7
Family benefit after job training cancelled	18.0	0.7
Family benefit for job-seeking children cancelled	14.0	0.6
Family benefit for students age 24+ cancelled (some exceptions)	54.0	2.1
Cut children's supplement to family benefit cut	26.0	1.0
Sub-Category 25 Family and youth	322.9	12.8
Category 3: Education, research, arts and culture	332.9	13.2
Impact of projected number of pupils	80.0	3.2
School development programme adjusted	53.0	2.1
Sub-Category 30 Education, arts and culture	234.0	9.3
Sub-Category 31 Science and research, sub-category 33 economy (research), sub-category 34 transport, innovation, technology (research)	98.9	3.9
Category 4: Economy, infrastructure, environment	419.2	16.7
Investment in railroad infrastructure cut	136.0	5.4
Support for agriculture cut	55.0	2.2
Category 5: Cash management, interest	40.6	1.6
Consolidation amount, total	2,514.0	100.0

Source: "Budgetbegleitgesetz" 2011, WIFO calculation.

The area of Social Affairs contributes half of the total consolidation amount, mainly in the sub-categories 21 (social matters and consumer protection), 22 (social insurance) and 25 (family and youth matters). The main reason for this large contribution is the high share of the social agenda, accounting for almost half of total federal government spending.

Among single expenditure programmes, family cash benefits and retirement benefits bear the brunt of consolidation, especially when the abolition of the single-earner tax credit for taxpayers without child-care obligations is included, implying higher tax revenues rather than a spending cut. The reduction of these benefits, which are flat-rate with the exception of the multiple-children supplement to the family subsidy, have the largest incidence on the low-income groups[14].

In the area of family benefits, an opportunity has been missed to combine consolidation efforts with necessary structural reforms[15]:

- First, a re-allocation of resources within the expenditure for families would be necessary. While the overall amount of family support is high by international standards, its composition is unsatisfactory since a large part consists of cash

[13] Since the full exonerating effect of some measures will only accrue over the medium term, Table 7 shows the estimated savings for 2014, the current planning horizon of the federal government. The "mitigating adjustments" adopted end-November 2010 are taken into account.

[14] This does not apply to the abolition of the single-earner tax credit for retirees which could not be claimed by low-pension recipients exempt from income tax. The abolition is in itself appropriate from an equal treatment point of view; however, a more gradual phasing-out, starting from younger age cohorts, should have been considered.

[15] For need and options for reform of Austrian family policy, see *Lutz – Schratzenstaller* (2010).

benefits which partly inhibit labour force participation of women. Such benefits should be reduced in favour of child care facilities suffering from quantitative and qualitative deficits. Greater efforts at expanding the infrastructure for child care are deemed indispensable.

- Second, one should aim at a simpler and more transparent system of cash benefits to cover the cost of child care: it would seem appropriate to merge the family subsidy, the family tax credit and the family tax allowance into a single flat-rate transfer.
- Third, the reduction of the family subsidy for students above the age of 24 should be integrated into a comprehensive reform of financing of students in higher education.

With a view to the financing needs of education, science, research and development, the cuts of funds applied in these areas appear problematic, despite the budgetary reinforcements envisaged in parallel.

The savings in the federal government budget planned for the next few years result from a host of single measures, each in general of limited amount. Sweeping structural reforms across ministries or levels of government, which may yield only small savings in the short term but substantial ones in the longer run have so far hardly been initiated. Yet, the latter are essential if the dynamism of expenditure in the major categories is to be dampened on a sustained basis, thereby creating leeway for the long-term challenges and future claims on public financial resources. The focus of reform efforts should be set on state governance (federal relations), health and hospital management, subsidies and group-specific privileges in the pension system where the latest measures to trim the benefits of manual workers subject to unfavourable working conditions can only be considered as a first step[16]. Urgently needed is also a comprehensive evaluation and potential scale-back or re-adjustment of large infrastructure projects, given the substantial increase of debt incurred by the Austrian Federal Railways (ÖBB) and ASFINAG.

Revenue-based consolidation measures

In total, additional revenues of € 1.2 billion are expected for 2011 and almost € 2.3 billion in 2014, when all measures will have taken their full effect. Once fully implemented, one-third of the higher revenue will result from the increase of existing or the introduction of new environmental taxes (mineral oil tax, car registration tax, abolition of energy tax refund for service companies, air ticket charge less cut of car tax for forwarding companies by 40 percent; € 685 million in net terms), and another one-third from wealth-related taxes[17] (stability levy from banks, securities capital gains tax, € 750 million). The last third of additional revenue will derive from the increase in corporate tax and taxation of foundations (€ 300 million), higher tobacco tax (€ 150 million), the abolition of the single-earner tax credit for taxpayers without children (€ 100 million) and expected higher returns from stricter enforcement of anti-fraud regulations (€ 400 million).

The additional revenue from the tax increases will be distributed among the federal government, the Länder and the municipalities according to the distribution key in force. For the joint federal revenues, this is in compliance with current legislation and there is thus no other alternative. However, the new stability levy and the air ticket charge could have been designed as exclusive central government taxes, or, alternatively, the sharing of revenues with Länder and municipalities could have been tied to compliance with specific saving targets. By introducing these taxes unconditionally as joint federal revenues, the federal government therefore abandons a possible leverage to enforce a contribution by the Länder to fiscal consolidation that is missing so far.

[16] Estimates of potential savings to be achieved in these areas over the medium term are presented in *Aiginger et al.* (2010).

[17] Strictly speaking only the stability levy is a wealth-related tax, since the securities capital gains tax is considered to be part of the taxes on capital income.

Table 8: Revenue measures 2011 to 2014

	Tax revenue gains/losses planned				
	2011	2012	2013	2014	2011-2014
			Million €		
"Budgetbegleitgesetz"	*1,119*	*1,611*	*1,711*	*1,881*	*6,322*
Introduction stability levy for banks ("Bankenabgabe")	500	500	500	500	2,000
Introduction air ticket charge	60	90	90	90	330
Income tax	10	20	70	220	320
Introduction securities capital gains tax ("Kapitalertragsteuer new")	30	50	100	250	430
New regulation of commuter allowance	– 20	– 30	– 30	– 30	– 110
Corporate tax	50	280	280	300	910
Taxation of foundations					
Raise of intermediate tax rate 12.5 percent to 25 percent	50	50	50	50	200
Taxation real estate gains of legal entities as founders	0	30	30	50	110
Abolition of interest deduction at acquisition of corporate stakes	0	200	200	200	600
VAT	82	86	86	86	340
Additional VAT revenues[1]	66	66	66	66	264
Introduction of reverse-charge-system for cleaning firms	17	20	20	20	77
Charges: of credit contract charge cancelled	– 150	– 150	– 150	– 150	– 600
Energy tax refund for service firms cancelled	0	100	100	100	300
Car registration tax: CO_2-supplement introduced	25	25	55	55	160
Increase in tobacco tax	100	150	150	150	550
Mineral oil tax: CO_2-supplement introduced	417	470	470	470	1,827
Motor car tax: exoneration forwarding companies	– 30	– 30	– 30	– 30	– 120
Single-earner tax credit for taxpayers without children cancelled	100	100	100	100	400
Research premium increased, research tax allowance cancelled	– 80	– 80	– 80	– 80	– 320
VAT liability for aircraft introduced	15	15	15	15	60
Tax exemption for privileged assembling activities phased out	15	30	50	50	145
Other measures in substantial law	5	5	5	5	20
Anti-fraud "package"	*100*	*200*	*300*	*400*	*1,000*
Total	*1,219*	*1,811*	*2,011*	*2,281*	*7,322*
Distribution of additional revenue[2]					
Federal government	758	1,151	1,282	1,459	4,648
Länder	298	427	472	532	1,730
Municipalities	163	233	257	290	943

Source: "Budgetbegleitgesetz" 2011, WIFO calculations. – . . . revenue losses. – [1] From increase in consumption taxes. – [2] Assumption: revenue gains from anti-fraud "package" distributed the same way as gains from tax measures according to *"Budgetbegleitgesetz"*.

A number of single measures, meaningful also from the structural point of view, may contribute to the achievement of key policy goals. This goes in particular for the increase of some environmental and wealth-related taxes as well as of the tobacco tax. Likewise, tax exemptions with undesirable effects will be abolished (such as the single-earner tax credit for taxpayers without children, the energy tax refund for service companies, abolition of the interest deduction for acquisitions of equities within the company, phasing-out of the speculative period gains realised by sale of foundations if the founder is an incorporated enterprise), normally associated with a simplification of the tax code, and new measures are taken to raise the efficiency of tax collection (introduction of the reverse charge principle for cleaning companies, anti-fraud "package").

What is still missing is the integration of these haphazard tax measures into a comprehensive, revenue-neutral (over the medium term) reform of the tax structure which takes account of environmental and social concerns, thereby combining the need for consolidation with strategic policy goals and the orientation of the overall tax system towards growth and job creation (*Aiginger et al.,* 2010, *Aiginger – Schratzenstaller,* 2010). Such a reform of the tax structure would have to be guided by the long-term goal of the gradual increase in environmental taxes and of taxes on activities with harmful consequences for the overall economy or the individual (tobacco and alcohol consumption, gambling), and the greater reliance on certain taxes on wealth (real estate, inheritance and gifts, financial transactions). The additional revenues thereby obtained should be used primarily to exonerate wage earners, notably the lower and middle-income groups, who are subject to particularly high taxes in Austria, thereby rendering the overall tax system more growth- and employment-friendly (*Aiginger et al.,* 2008).

Table 9: Key elements of tax increases for consolidation purposes 2011 to 2014

		Revenue gain at full implementation 2014, million €
Air ticket charge ("Flugticketabgabe")		
As of 1 April 2011: Departure of passengers (except transit/transfer) from a domestic airport	Short distances € 8 per person Medium distances € 20 per person Long distances € 35 per person	90
Environmental adjustment of car registration tax ("Normverbrauchsabgabe")		
1 March 2011: Increase in CO_2 surcharge for vehicles with CO_2 emission above 180 g per km or 220 g per km	Over 180 g per km: + € 25 to € 50 per g per km Over 220 g per km: + € 25 to € 75 per g per km	55
1 January 2013: Lowering of CO_2 emission ceilings for the surcharge	Surcharge € 25 per g per km from 150 instead of 160 g per km Surcharge € 50 per g per km from 170 instead of 180 g per km Surcharge € 75 per g per km from 210 instead of 220 g per km	
Increase in mineral oil tax for fuels		
CO_2 emissions of fuels Petrol Diesel	CO_2 surcharge to mineral oil tax € 20 per t CO_2 emission Increase in tax due from € 0.442 € per l to € 0.482 € per l Increase in tax due from € 0.347 per l to € 0.397 € per l	470 gross 410 net[1]
Securities capital gains tax ("Wertpapier-Kapitalertragsteuer")		
As of 1 October 2011: Income from capital asset gains (share and securities funds: acquisition as from 1 January 2011, bonds and certificates: acquisition as from 1 October 2011) and from derivatives (acquisition as from 1 October 2011); compensation with losses only for same income category, no loss carry-over	Final tax 25 percent (option of regular taxation)	250
Stability levy ("Bankenabgabe")		
Unconsolidated balance sheet total of domestic banks and subsidiaries of foreign banks minus certain assets and liabilities (essentially safe deposits and equity capital)	Tax base above € 1 billion up to € 20 billion: tax rate 0.055 percent Tax base above € 20 billion: tax rate 0.085 percent	500 gross 350 net[2]
Current value of derivatives as of account book	Tax rate 0.013 percent	
Anti-fraud "package"		
Several measures to fight tax fraud		400

Source: "Budgetbegleitgesetz" 2011, WIFO compilation. – [1] Net, i.e., after deduction of the increase in the commuter tax allowance by 10 percent (–30) and the cut of motor car tax for forwarding companies (–30). – [2] Net, i.e., after the abolition of the credit contract charge (–150).

Moreover, the "Budgetbegleitgesetz" postpones the assessment of the tax values of agricultural and forest property and of commercial real estate, originally due on 1 January 2010 to 1 January 2015. No updated assessment is foreseen either for non-agricultural real estate. The last assessment for agricultural land property took place in 1988, for other real estate property in 1973 (with subsequent flat-rate tax value increases). Thus refraining from adjusting in the near term the tax values of real estate to the actual earning-capacity or current market values implies that tax revenues from real estate will continue to decline in real terms. Adjustment of the tax values would strengthen the fiscal autonomy of local communities, as it would create leeway for a (revenue-neutral) shift in the tax composition towards promoting growth and employment.

Imponderables of the medium-term consolidation path

The medium-term consolidation path can be adhered to under the following conditions:

- The consolidation targets must actually be achieved both on the expenditure and the revenue side.
- Länder and municipalities must not exceed over the next few years their overall deficit ceiling of 0.6 percent of GDP defined by the federal government in the Federal Financial Framework ("Bundesfinanzrahmen") and the draft federal budget for 2011. This may not be easy to achieve, given the aggregate deficits of almost 1 percent of GDP incurred each in 2009 and 2010.
- Further financial transfers to the banks in distress which had to be nationalised (Hypo Alpe Adria AG) cannot be ruled out and would have adverse consequences for the budget.

- It is assumed that the debt crisis in the euro area will not lead to higher interest rates on government debt.
- The improvement of government balances in Austria may also be delayed if debt-ridden euro area countries were to strengthen their consolidation efforts, thereby holding back the incipient cyclical recovery.

Trends in the composition of expenditure

The share of transfers in overall federal expenditure follows a long-term upward trend (2000: 35.6 percent according to *Berghuber – Schratzenstaller*, 2007; 2011: 42.5 percent), whereas the composition is rather stable. The bulk of transfers, at 62.5 percent in 2011, is accounted for retirement benefits; family-related transfers claim a share of 21.3 percent, unemployment benefits of 9.8 percent and long-term care benefits of 6.4 percent of total transfer spending. The cuts applied to family and to long-term care benefits as from 2011 will slow the upward trend markedly; on annual average 2000 to 2011 the spending in these two categories will increase by 3.5 percent (2000-2010 +4.4 percent p.a.) and 3.8 percent (2000-2010 +4.1 percent p.a.), respectively.

Table 10: Major federal government transfers

	2000 Outturn	2008 Outturn	2009 Draft budget	2009 Outturn	2010 Draft budget	2011 Draft budget	2008-09	2009-10	2010-11	Ø 2000-2011
	Million €						Changes from previous year in percent			
Retirement income	11,901	15,729	16,864	17,165	17,607	18,625	+ 9.1	+ 2.6	+ 5.8	+ 4.2
Federal employees pensions	2,499	3,205	3,310	3,321	3,388	3,535	+ 3.6	+ 2.0	+ 4.3	+ 3.2
Reimbursement to Länder for pensions of teachers	697	1,004	1,030	1,069	1,042	1,152	+ 6.5	– 2.5	+ 10.5	+ 4.7
Postal employees pensions	872	1,176	1,187	1,190	1,193	1,216	+ 1.1	+ 0.3	+ 1.9	+ 3.1
Austrian Federal Railways employees pensions	1,695	1,985	2,067	2,054	2,149	2,141	+ 3.5	+ 4.6	– 0.4	+ 2.1
Subsidies to social retirement insurance[1]	6,139	8,360	9,270	9,530	9,835	10,582	+ 14.0	+ 3.2	+ 7.6	+ 5.1
Families	4,322	6,513	6,258	6,188	6,645	6,335	– 5.0	+ 7.4	– 4.7	+ 3.5
Family allowance	2,787	3,384	3,456	3,444	3,456	3,211	+ 1.8	+ 0.3	– 7.1	+ 1.3
Maternity, child-care benefit[2]	421	1,130	1,162	1,156	1,175	1,127	+ 2.3	+ 1.6	– 4.1	+ 9.4
Retirement insurance contributions for parents raising children	77	556	593	550	888	852	– 1.0	+ 61.3	– 4.0	+ 24.4
Other	1,037	1,443	1,046	1,038	1,126	1,145	– 28.1	+ 8.6	+ 1.7	+ 0.9
Unemployment compensation	1,859	2,153	3,010	2,796	3,365	2,914	+ 29.9	+ 20.4	– 13.4	+ 4.2
Long-term care benefit	1,264	1,620	1,803	1,773	1,886	1,915	+ 9.4	+ 6.4	+ 1.5	+ 3.8
Total	19,347	26,015	27,934	27,921	29,503	29,790	+ 7.3	+ 5.7	+ 1.0	+ 4.0
	Percentage shares									
Old-age insurance	61.5	60.5	60.4	61.5	59.7	62.5				
Families	22.3	25.0	22.4	22.2	22.5	21.3				
Unemployment compensation	9.6	8.3	10.8	10.0	11.4	9.8				
Long-term care benefit	6.5	6.2	6.5	6.3	6.4	6.4				

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.

Net federal government expenditure on retirement benefits (i.e., gross expenditure minus corresponding revenues, notably old-age insurance contributions) is also gaining importance, rising to almost one-quarter of total federal expenditure in 2011 (since 2000 +4.5 percent p.a.). Particularly strong is the upward drift for the federal subsidies to the social retirement insurance (+6.8 percent p.a.), the largest single item within gross federal retirement expenditure.

Table 11: Federal government expenditure on retirement benefits

	2000	2008	2009	2009	2010	2011	2008-09	2009-10	2010-11	Ø 2000-2011
	Outturn		Draft budget	Outturn	Draft budget					
	Million €						Percentage changes from previous year			
Federal employees pensions	2,499	3,205	3,310	3,321	3,388	3,535	+ 3.6	+ 2.0	+ 4.3	+ 3.2
Reimbursement to Länder for pensions of teachers	697	1,004	1,030	1,069	1,042	1,152	+ 6.5	– 2.5	+ 10.5	+ 4.7
Postal employees pensions	872	1,176	1,187	1,190	1,193	1,216	+ 1.1	+ 0.3	+ 1.9	+ 3.1
Austrian Federal Railways employees pensions	1,695	1,985	2,067	2,054	2,149	2,141	+ 3.5	+ 4.6	– 0.4	+ 2.1
Subsidies to social retirement insurance	4,152	6,677	7,363	7,655	7,808	8,568	+ 14.6	+ 2.0	+ 9.7	+ 6.8
Minimum pension supplements	741	952	996	996	990	998	+ 4.6	– 0.6	+ 0.7	+ 2.7
Transfers to the balancing fund of the social retirement insurance agencies	1,246	731	911	880	1,037	1,016	+ 20.3	+ 17.9	– 2.0	– 1.8
Total gross expenditure	11,901	15,729	16,864	17,165	17,607	18,625	+ 9.1	+ 2.6	+ 5.8	+ 4.2
Federal employees pension contributions	561	574	547	588	551	608	+ 2.3	– 6.3	+ 10.4	+ 0.7
Contributions according to § 13 Pension Act	47	127	126	130	127	132	+ 2.5	– 3.0	+ 4.5	+ 9.8
Contributions from teachers employed by the Länder	14	38	38	40	40	42	+ 3.8	+ 0.3	+ 6.5	+ 10.8
Pension contributions postal employees	273	206	207	211	207	217	+ 2.4	– 1.6	+ 4.5	– 2.1
Pension contributions and supplements Austrian Federal Railways employees	435	413	416	400	410	374	– 3.3	+ 2.5	– 8.7	– 1.3
Other pension revenue	82	146	142	223	141	181	+ 52.3	– 36.8	+ 28.4	+ 7.4
Total revenue	1,412	1,505	1,476	1,591	1,475	1,554	+ 5.7	+ 7.3	+ 5.4	+ 0.9
Net pension expenditure	10,490	14,224	15,388	15,574	16,132	17,071	+ 9.5	+ 3.6	+ 5.8	+ 4.5

Source: Federal Ministry of Finance, WIFO calculations.

Trends in the level and composition of revenues

On average over the period 2008 to 2011, total federal revenues decrease by 4 percent p.a. (Table 12). The central government's share in joint federal tax revenues and the exclusive central government tax revenues (i.e., the net tax revenues of the federal government), accounting for two-thirds of total revenues, decline by 2.6 percent p.a. between 2008 and 2011. The share of quasi-tax revenues (mainly unemployment insurance contributions and employers' contributions to the Family Benefit Fund) is rising as these revenues grow by 2.1 percent per year.

Gross federal tax revenues in 2009 fell € 1.45 billion short of projections, net revenues by € 1.12 billion. The recession led to revenue shortfalls particularly of corporate tax (€ –0.97 billion), VAT (€ –0.27 billion) and wage tax (€ –0.1 billion). Revenue developments since 2009 have been shaped by the tax reform of 2009 (with foregone wage and declared income tax revenues of € 2.135 billion in 2009 and € 2.858 billion in 2010) and the tax cuts of the cyclical stimulus "package" II (revenue shortfall of € 0.25 billion due to accelerated depreciation allowance granted in 2009 and 2010). The outlook for 2011 is for a sharp rebound in gross tax revenues driven by the cyclical recovery and the tax-related consolidation measures.

Despite the tax cut of 2009, the share of wage tax in total gross tax revenues has been rising steadily since the mid-2000s, reaching 31.3 percent in 2011 (Table 13). With the exception of 2009, wage tax revenues have expanded in each year. The same is true for VAT, the tax with the highest yield; its share in gross tax revenues fell nevertheless from 34 percent in 2005 to below 32 percent in 2008, stabilising thereafter around 34 percent in 2011. As a consequence of the recession and the tax cut of 2009, the revenue shares have shifted markedly since 2009 towards consumption taxes which now again account for over 50 percent of total gross tax revenues. Although the bulk of the tax-related consolidation measures in 2011 concerns consumption taxes, their share in total gross tax revenues is edging down, mainly because the share of wealth-related taxes rises to 2 percent on account of the introduction of the stability levy in 2011. The revenue share of assessed income tax goes up by 0.6 percentage point to 3.6 percent, while that of corporate tax declines by the same amount. As expected, the share of wage tax is edging down slightly, while energy-related taxes gain somewhat in importance.

Table 12: Trend in federal government revenues

	2008 Outturn	2009 Draft budget[1]	2009 Outturn	2010 Draft budget	2011 Draft budget	Ø 2008-2011
			Million €			Year-to-year percentage changes
Government taxes, gross	*68,528*	*64,767*	*63,314*	*64,045*	*68,980*	*+ 0.2*
Wage tax	21,308	20,000	19,897	20,300	21,600	+ 0.5
Assessed income tax	2,742	2,600	2,605	1,900	2,500	– 3.0
Corporate tax	5,934	4,800	3,834	4,500	4,500	– 8.8
Capital gains taxes	3,750	3,000	3,015	2,800	3,030	– 6.9
Value added tax	21,853	21,900	21,628	22,100	23,600	+ 2.6
Excise taxes	5,633	5,561	5,582	5,511	6,236	+ 3.4
Transport taxes	5,027	4,996	4,953	5,057	5,251	+ 1.5
Other	2,280	1,910	1,798	1,877	2,263	– 0.2
Minus						
Transfers to Länder, municipalities etc.	– 21,517	– 23,805	– 23,397	– 23,014	– 25,104	+ 5.3
Transfers to EU budget	– 2,050	– 2,200	– 2,279	– 2,400	– 2,400	+ 5.4
Government taxes, net	*44,961*	*38,762*	*37,638*	*38,631*	*41,476*	*– 2.7*
Transfer of revenue shares[1]	1,759		1,609	1,624	1,787	+ 0.5
Tax-like revenues	9,165	9,315	9,278	9,374	9,762	+ 2.1
Unemployment insurance contributions	4,710	4,579	4,615	4,599	4,847	+ 1.0
Employers' contribution to Family Benefit Fund	4,399	4,693	4,624	4,731	4,875	+ 3.5
Other revenues[1]	14,849		13,851	7,963	9,515	– 13.8
Withdrawal from reserves			5,800			
Total revenues	*70,734*	*63,884*	*62,376*	*57,592*	*62,540*	*– 4.0*

Source: Federal Ministry of Finance, Budget Report 2011. – [1] In the draft federal budget for 2009, "transfer of revenue shares" and "other revenues" were not cited separately, in total € 15,807 million.

Table 13: Shares of broad tax categories in gross tax revenues

	Taxes on income				Taxes on consumption		VAT	Taxes on wealth
	Total	Assessed income tax	Corporate tax	Wage tax	Total	Energy-based		
	In 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	47.8	4.1	6.1	31.4	51.0	7.0	34.2	1.4
2010[1]	47.5	3.0	7.0	31.7	51.1	7.2	34.5	1.3
2011[1]	47.2	3.6	6.5	31.3	50.6	7.5	34.2	2.0

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

Special features of the Austrian federal budget

Apart from the fiscal "packages" designed to sustain real economic activity during the crisis, the government adopted at the end of October 2008 a set of measures to secure and stabilise the Austrian financial market. Originally, this "bank package" was dimensioned at a total € 100 billion. Up to € 15 billion were earmarked, within the framework of the Financial Market Stability Act ("Finanzmarktstabilitätsgesetz"), for the strengthening of equity capital of banks and insurance companies (acquisition of stakes by the federal government, financial guarantees for potential losses of credits and assets; Tables 14 and 15).

Budgetary impact of measures for the stabilisation of financial markets

As of end of October 2010, Austrian banks have been granted € 5.874 billion with the acquisition of financial stakes, and € 384 million as capital injections and shareholder subsidies (to Kommunalkredit Austria AG). In addition, the federal government accepted a guarantee of € 1 billion for Kommunalkredit Austria AG. Thus, the measures according to the Financial Market Stability Act have so far reached a total of € 7.3 billion.

Table 14: Size of measures for financial market stabilisation

Level as of end of October 2010

	Acquisition of equity capital[1]	Capital increase	Liabilities[2]	Guarantees for new issues granted [3]
		Million €		
Hypo Alpe Adria AG	1,350			1,350
Erste Group Bank AG	1,224[4]			4,050
Österreichische Volksbanken AG	1,000[4]			3,000
Raiffeisen Zentralbank Österreich AG	1,750			4,250
Kommunalkredit Austria AG[5]		384	1,000	8,547
BAWAG	550			
Total	5,874	384	1,000	21,197

Source: Source: Federal Ministry of Finance, WIFO calculations. – [1] Dividend 8 percent: Hypo Alpe Adria AG, Erste Group Bank, RZB; dividend 9.3 percent: ÖVAG, BAWAG. – [2] Guarantee. – [3] Issues actually carried out; several issues, respectively. – [4] Partial repayment planned in 2011. – [5] Including KA Finanz AG.

The deposit guarantee for private savers and small and medium-sized enterprises of unlimited amount, extended until end-2009, was budgeted at € 10 billion (Banking Act); this guarantee has never been called[18]. The guarantee for securities issued by banks (Inter-bank Market Reinforcement Act) was originally budgeted at € 75 billion. Of this amount, € 10 billion were re-allocated in 2009 as guarantees to enterprises (Corporate Liquidity Reinforcement Act) and € 15 billion in 2010 as aid to Greece and Euro Area Financial Stability Facility (Balance of Payments Stabilisation Act), such that the total amount of guarantees for securities issued by banks was reduced to € 50 billion and that of the financial institutions "package" proper to € 75 billion. Guarantees for bank issues were so far extended to an amount of € 21.197 billion, from a ceiling (not always exhausted) of € 28.147 billion. The total amount of the measures under the financial institutions "package" has attained € 35.4 billion to date, almost half of the ceiling provided.

Guarantees for companies have been called to the tune of € 0.729 billion. € 0.604 billion have so far been extended as loans to Greece.

Part of these measures have a direct impact on the budget balance (via revenue or expenditure), the other part are contingent liabilities.

The expenditure side of the federal budget is burdened by the acquisition of financial stakes and capital transfers to several financial institutions, loans to Greece and the cost of re-financing of these operations for the federal government (Table 16). For the acquisition of financial stakes in banks, the government spent € 900 million in 2008 and € 4.524 billion in 2009, for equity capital increases € 220 million in 2009. These outlays were nevertheless markedly lower than the budgeted € 9.3 billion. Also the actual capital transfers of € 90 million in 2009 significantly undershot the € 1.003 billion anticipated in the draft budget. In 2010, the capital transfers (€ 69 million in the first three quarters to Kommunalkredit Austria AG) have probably also been lower than the € 500 million foreseen in the draft budget, but € 450 million were recently spent on the acquisition of equity capital for Hypo Alpe Adria AG. For 2011, the federal budget makes no provisions for further capital transfers to banks, although need for additional financial support (particularly for Hypo Alpe Adria AG) may not be excluded, with adverse consequences for the budget balance. Overall, federal expenditure is directly affected only by the capital transfers and the implicit re-financing cost, whereas other expenditure in support of the equity capital base is

[18] As from 1 January 2010, such deposits are guaranteed by the statutory deposit insurance up to € 100,000 per person and financial institution.

to be refunded over the medium term, with the cost of re-financing to be covered by dividends (the earnings situation permitting). The re-financing cost of the financial sector "package" amounted to € 134 million in 2009, rising to € 158 million so far in 2010.

Table 15: Measures for the safeguard and stabilisation of the Austrian financial market plus aid to Greece

Level as of end of October 2010

	Total amount	Claims
	Billion €	
Financial sector "package" total	75	35.405
"Interbankmarktstärkungsgesetz" (guarantees)	50	28.147
"Finanzmarktstabilitätsgesetz" (strengthening of equity base)	15	7.258
"Bankwesengesetz" (deposit guarantees)	10	0.000
"Unternehmensliquiditätsstärkungsgesetz" (guarantees)	10	0.729
"Zahlungsbilanzstabilisierungsgesetz" (aid to Greece)	15	0.604
Total	100	36.738

Source: Federal Ministry of Finance.

Greece is granted loans of € 604 million in 2010, with a further € 839 million budgeted for 2011[19]. No further information is available on the refinancing cost.

Against this expenditure should be set the income from dividends of the acquired capital[20], fees for guarantees assumed, redemption of equity capital and loans, penalties and interest on loans to Greece. Due to lack of profits, the anticipated dividend earnings did not materialise (shortfall from Hypo Alpe Adria AG). In 2010 also, receipts up to the third quarter of € 263 million were far below the budgeted € 582 million for the entire year, again due to the shortfall from Hypo Alpe Adria AG (€ 72 million) and the ÖVAG (€ 93 million), but also because only half of the expected acquisition of equity capital was actually necessary. For 2011, receipts from dividends are expected at € 289 million. Guarantee fees, due independent from the earnings situation, rose to a total € 217 million, far above the budgeted € 134 million in 2009, given the unexpectedly high claims. At € 225 million up to the third quarter, they also exceeded the budgeted € 173 million for 2010. For 2011, guarantee fees are expected to yield € 237 million. Also in 2011, the first redemption of acquired equity capital will become due (ÖVAG and Erste Bank, of a total € 900 million). No further information is available on interest income from loans to Greece, except that it exceeds the refinancing cost; for 2011, it is budgeted at € 30.9 million.

As contingent liabilities, the guarantees assumed are not included in the budget; they only impact on the budget balance once they are called.

Allowing for the refinancing cost to the federal government for the financial sector "package", the measures taken burdened the federal budget at € 897 million in 2008, € 4.753 billion in 2009 and € 793 million (including aid to Greece) in 2010. For 2011, the projected revenue will exceed expenditure (due to first redemptions of acquired equity capital), yielding a positive balance of € 362 million. If all equity capital support to Austrian banks and loans to Greece are repaid as scheduled, expenditure (capital transfers to banks and refinancing cost for the federal government) will be lower than revenue derived from the support measures (interest income, guarantee fees and dividends); should no guarantees be called, the meas-

[19] The loans are financed via withdrawal from reserves. For 2009, loans amounting to € 400 million and for 2010 of € 1 billion were budgeted. The original purpose was current account stabilisation related to Eastern Europe; an amendment to the Current Account Stabilisation Act provided the legal base for the re-allocation of funds towards aid to Greece.

[20] At a private share of 30 percent in equity capital, the dividend to be paid by banks is 8 percent of nominal capital after tax, otherwise 9.3 percent.

ures taken will altogether have no negative effect on the budget in the medium term.

The support to equity capital (acquisition of financial stakes, capital increases and transfers) within the framework of the financial sector "package" and the loans to Greece raise the level of public debt, whereas the repayment of capital and loans reduce it accordingly. The measures taken so far (acquisition of financial stakes, capital increases and transfers of € 6.3 billion, aid to Greece of € 0.6 billion) amount to 2.4 percent of GDP for 2010, raising the debt ratio by the same amount.

The government deficit in the Maastricht definition will be affected by the measures in different ways. Capital increases and acquisitions of financial stakes in banks deemed fundamentally "healthy" do not increase the "Maastricht" deficit, according to a Eurostat ruling of 15 July 2009, since they are considered to be financial transactions (the liabilities are paralleled by financial claims of the federal government vis-à-vis the banks). Also guarantees in support of equity capital are in the first instance deficit- and debt-neutral; only in case they are called, deficit and debt levels rise accordingly. Capital transfers, however, are non reimbursable subsidies and therefore increase the deficit.

Table 16: Budgetary impact of the financial sector "package" and the aid to Greece

	2008	2009		2010		2011
	Outturn	Draft budget	Outturn	Draft budget	Outturn[1]	Draft budget
	Million €					
Expenditure	900	10,303	5,030	903	1,281	1,064
Acquisition of stakes in banks	900	9,300	4,524	0	450	0
Capital increases of banks	0	0	220	3	0	3
Capital transfers to banks	0	1,003	90	500	69	0
Refinancing cost financial sector "package"	0	.	134	.	158	222
Other expenditure		0	62	0	0	0
Loans to Greece	0	400	0	1,000	604	839
Revenue	3	170	277	755	488	1,426
Dividends from acquisition of stakes	0	36	0	582	263	289
Guarantee fees	3	134	217	173	225	237
Repayment of financial acquisitions	0	0	0	0	0	900
Other revenue	0	0	60	0	0	0
Balance	– 897	– 10,533	– 4,753	– 748	– 793	362

Source: Federal Ministry of Finance, WIFO calculations. – [1] First to third quarter.

Environmental aspects of the draft budget

From the environmental perspective, the consolidation programme features positive elements, but also some problematic aspects. Thus, the reinforcement of subsidies for energy-saving renovation of buildings, from € 50 million each in 2009 and 2010 as part of the stimulus initiative to € 100 million p.a. between 2011 and 2014, is to be welcomed. Likewise, the emphasis on environmental taxes, accounting for over one-third of the tax-related consolidation measures, should be approved given the fact that the contribution of environmental taxes to government finances has diminished over the last years and the Austrian climate-protection targets are likely to be missed. However, the ecological effectiveness of the higher taxes will be reduced by a number of compensation measures:

- For freight forwarding companies, motor car tax has been cut by 40 percent, leaving it barely above the EU average. From the environmental point of view, the motor car tax base should be re-adjusted over the medium term towards a vehicle's emission intensity. Commuters will be exonerated by an increase in the commuter tax allowance by about 10 percent, but without any environmental incentive being attached. The agricultural and forestry sector will be exempted from the mineral oil tax increase, and the tax privilege for diesel used for agricultural production is maintained.

- A long-term perspective for the compensation of energy tax payments is missing. After the abolition for service companies, the energy tax compensation for energy-intensive producers in manufacturing should be gradually phased out, in order to provide incentives for more energy-efficient production while setting an appropriate time horizon for policy implementation and private sector adjustment.
- The single measures ought to be integrated into a strategy of steady and gradual increase in environmental taxes, in order to reinstate the priority of guidance for individual behaviour over the fiscal revenue purpose.
- Such re-orientation of the tax structure towards environmental goals ought to be integrated into a comprehensive overhaul of the tax system that should generate an equal overall amount of revenue over the medium term.
- Tax measures at the national level ought to be supplemented by Austrian policy efforts at the supra-national, and in particular at EU level in favour of a co-ordinated introduction of environmental taxes that cannot be effectively implemented domestically (e.g., taxation of aviation fuel), and of higher minimum tax rates for energy use and their regular upward adjustment. Such a policy move would be appropriate also against the background that environmental taxes have lost importance in almost all EU countries (*European Commission,* 2010A).

Austria's fiscal policy in the European context

The financial market and economic crisis and the fiscal consolidation starting 2011 in many countries determine the trend in government ratios in the EU (Table 18). While until 2010, government expenditure ratios generally rose and revenue/tax ratios declined, a turnaround can be observed in 2011. On average for the EU 27, the expenditure ratio stood at 45.6 percent in 2007, the year before the crisis, rising to 50.6 percent by 2010, according to the latest projections by the European Commission. Until 2012, the ratio may fall to 48.4 percent, still almost 3 percentage points above the average for 2007. The government revenue ratio for the EU 27 averaged 44.7 percent in 2007, the tax ratio (tax burden) 39.8 percent. In spite of the fiscal measures adopted on the revenue side, on which many EU countries rely for an important contribution to consolidation, the European Commission expects the average overall tax burden to be lower in 2012 than it was in 2007. In Austria, the trend will be somewhat different as both the revenue ratio and the tax burden will be higher in 2012 than five years earlier. The government ratios in Austria remain above the EU average, with the gap expected to widen until 2012, after it had somewhat narrowed until the middle of the last decade.

Since the outbreak of the crisis, the general government deficit in Austria has been consistently below the EU average. In 2010, it rose to 4.3 percent of GDP according to the latest forecast by the European Commission, well below the EU-27 average of 6.8 percent. Nevertheless, countries which had used the solid business conditions before the crisis for the strengthening of their budget balances (Finland, Sweden) exhibited markedly lower deficits in 2010 than Austria. In these countries, deficits will fall below the Maastricht ceiling of 3 percent of GDP already in 2012, while Sweden may even run a surplus. The high deficits in 2009 and 2010 were partly driven by the stimulus programmes adopted in nearly all EU countries. On average for the EU 27, the general government deficit equalled 1.5 percent of GDP in 2009 and 1.4 percent in 2010 (*European Commission,* 2010B). The European Commission claims that the operation of automatic stabilisers weighed more heavily on the budget balance than the discretionary expenditure on stimulus measures.

Austria's public debt ratio, starting from 59.3 percent of GDP in 2007 (slightly above the EU-27 average of 58.8 percent), rose to 70.4 percent of GDP in 2010, markedly below the EU-27 average; until 2012, it will also rise less (to 73.3 percent) than on average in the EU 27. In the EU 15, only Luxembourg and the Scandinavian countries will have debt ratios below the Maastricht ceiling of 60 percent of GDP in 2012, whereas the latter will be exceeded among the new EU countries only by Cyprus, Hungary and Malta.

Table 17: Government ratios in a European comparison

	Expenditure ratio				Revenue ratio				Tax ratio			
	2007	2010	2011	2012	2007	2010	2011	2012	2007	2010	2011	2012
	As a percentage of GDP											
EU 27	*45.6*	*50.6*	*49.2*	*48.4*	*44.7*	*43.9*	*44.1*	*44.2*	*39.8*	*38.7*	*39.1*	*39.2*
EU 15	45.9	51.1	49.7	48.9	45.1	44.4	44.7	44.8	40.2	39.1	39.5	39.7
Belgium	48.4	53.2	52.9	53.0	48.1	48.3	48.3	48.3	43.8	43.4	43.4	43.4
Germany	43.6	46.7	45.6	44.4	43.8	43.1	42.9	42.7	39.6	38.8	38.8	38.6
Greece	46.5	49.8	49.3	49.2	40.1	40.5	42.3	41.9	31.9	31.6	33.7	33.7
Spain	39.2	45.7	43.4	42.9	41.1	36.4	37.0	37.4	37.1	32.2	32.8	33.1
France	52.3	56.6	56.1	55.8	49.6	48.8	49.8	50.0	43.2	41.9	43.0	43.3
Ireland	36.8	67.5	45.2	43.8	36.8	35.1	34.9	34.7	31.4	28.1	28.5	28.9
Italy	47.9	51.0	49.9	49.3	46.4	46.0	45.7	45.8	43.1	42.4	42.1	42.2
Luxembourg	36.2	42.9	42.7	42.7	39.9	41.2	41.4	41.5	35.7	36.9	37.2	37.2
Netherlands	45.3	51.7	50.7	49.5	45.4	45.9	46.8	46.7	38.7	38.3	39.4	39.3
Austria	48.5	52.8	52.3	52.1	47.9	48.5	48.7	48.8	42.1	42.4	42.7	42.9
Portugal	43.8	49.3	46.8	46.9	40.9	42.0	41.9	41.7	32.9	31.7	32.9	32.7
Finland	47.2	56.0	55.0	55.1	52.4	52.7	53.3	53.9	43.1	42.9	43.5	44.1
Denmark	50.8	58.0	57.0	56.2	55.6	52.8	52.6	52.6	48.9	45.3	45.3	45.5
Sweden	51.0	53.0	51.7	50.6	54.5	52.0	51.5	51.5	47.6	45.3	45.0	45.0
UK	44.0	51.1	49.5	47.9	41.2	40.6	40.9	41.5	37.3	36.8	37.4	37.9
Bulgaria	39.7	38.0	37.1	36.0	40.8	34.1	34.1	34.2	33.9	28.2	28.2	28.1
Czech Republic	42.5	45.8	44.9	44.1	41.8	40.6	40.3	39.9	37.3	35.0	34.9	34.7
Estonia	34.4	42.5	42.0	41.4	36.9	41.5	40.1	38.7	31.9	34.5	33.5	32.7
Cyprus	42.2	46.1	46.1	46.2	45.5	40.2	40.4	40.5	39.8	34.0	34.7	34.8
Latvia	35.7	42.7	41.7	39.7	35.4	35.0	33.8	32.5	30.5	27.1	26.2	25.2
Lithuania	34.8	42.7	41.4	41.7	33.8	34.3	34.4	35.0	29.7	28.6	28.8	29.5
Hungary	50.0	48.8	47.3	46.9	45.0	45.1	42.6	40.8	39.9	38.5	36.7	34.8
Malta	42.4	44.6	44.1	44.3	40.1	40.5	41.1	41.0	34.5	33.8	34.0	34.0
Poland	42.2	46.2	45.5	44.6	40.3	38.2	38.9	38.6	34.8	31.5	31.8	32.0
Romania	36.2	40.2	37.2	36.4	33.6	32.9	32.3	32.9	29.1	27.0	27.2	27.2
Slovenia	42.4	49.7	49.0	48.3	42.4	43.9	43.7	43.7	37.8	37.6	37.6	37.6
Slovakia	34.3	40.0	38.0	37.4	32.5	31.8	32.6	32.4	29.3	27.4	28.0	27.7

Source: European Commission, Autumn 2010 forecast.

Concluding remark

The draft federal budget for 2011 by and large presents isolated expenditure and revenue measures yielding effects in the short term, in order to tackle the necessary fiscal consolidation. These measures need to be supplemented soon by a thorough reform of the composition of expenditure which will generate savings on a sustained basis, as well as by a redesign of the tax structure conducive to growth and job creation. To this end, co-operation of the Länder will have to be secured, since they are important players in areas where public expenditure is rising swiftly. Of crucial importance is a reform of federal fiscal relations which streamlines government tasks and expenditure, thereby aligning legal, spending and financing responsibilities at all government levels and strengthening the taxation autonomy of the Länder and the municipalities. If policy fails to implement major structural reform to raise efficiency in the public sector, it will not be possible to reinforce the much-needed forward-looking investment in education, science and research, nor to meet the long-term challenges of environmental protection and population ageing (income maintenance, health and care services).

The process of setting up the draft federal budget for 2011 has also demonstrated the need for greater compliance by the authorities with the principles laid down in the new legal framework for budgeting and fiscal management. This concerns notably the respect of the constitutional time constraints for the submission of the draft budget, the improvement of transparency, access and timeliness of budget documents, as well as consideration of the implications of fiscal measures for equality of opportunity and treatment. The principle of Gender Budgeting, laid down in the Austrian Constitution since 2009 and to be implemented across the board in the federal budget as from 2013, has played no role whatsoever for the selection and assessment of the consolidation measures. If, against the spirit of a fiscal management that respects actual gender equality, policy has abstained from an ex-ante evaluation of the consolidation measures during the planning process, at least an ex-post evaluation should be carried out as soon as possible.

Table 18: Government balance (Maastricht definition) and public debt of EU countries

	Maastricht balance					Level of government debt				
	2007	2009	2010	2011	2012	2007	2009	2010	2011	2012
	As a percentage of GDP									
EU 27	*– 0.9*	*– 6.8*	*– 6.8*	*– 5.1*	*– 4.2*	*58.8*	*74.0*	*79.1*	*81.8*	83.3
EU 15	– 0.6	– 6.3	– 6.3	– 4.6	– 3.9	60.5	76.3	81.6	84.3	85.8
Belgium	– 0.3	– 6.0	– 4.8	– 4.6	– 4.7	84.2	96.2	98.6	100.5	102.1
Germany	+ 0.3	– 3.0	– 3.7	– 2.7	– 1.8	64.9	73.4	75.7	75.9	75.2
Greece	– 6.4	– 15.4	– 9.6	– 7.4	– 7.6	105.0	126.8	140.2	150.2	156.0
Spain	+ 1.9	– 11.1	– 9.3	– 6.4	– 5.5	36.1	53.2	64.4	69.7	73.0
France	– 2.7	– 7.5	– 7.7	– 6.3	– 5.8	63.8	78.1	83.0	86.8	89.8
Ireland	+ 0.0	– 14.4	– 32.3	– 10.3	– 9.1	25.0	65.5	97.4	107.0	114.3
Italy	– 1.5	– 5.3	– 5.0	– 4.3	– 3.5	103.6	116.0	118.9	120.2	119.9
Luxembourg	+ 3.7	– 0.7	– 1.8	– 1.3	– 1.2	6.7	14.5	18.2	19.6	20.9
Netherlands	+ 0.2	– 5.4	– 5.8	– 3.9	– 2.8	45.3	60.8	64.8	66.6	67.3
Austria	– 0.4	– 3.5	– 4.3	– 3.6	– 3.3	59.3	67.5	70.4	72.0	73.3
Portugal	– 2.8	– 9.3	– 7.3	– 4.9	– 5.1	62.7	76.1	82.8	88.8	92.4
Finland	+ 5.2	– 2.5	– 3.1	– 1.6	– 1.2	35.2	43.8	49.0	51.1	53.0
Denmark	+ 4.8	– 2.7	– 5.1	– 4.3	– 3.5	27.3	41.5	44.9	47.5	49.2
Sweden	+ 3.6	– 0.9	– 0.9	– 0.1	+ 1.0	40.0	41.9	39.9	38.9	37.5
UK	– 2.7	– 11.4	– 10.5	– 8.6	– 6.4	44.5	68.2	77.8	83.5	86.6
Bulgaria	+ 1.1	– 4.7	– 3.8	– 2.9	– 1.8	17.2	14.7	18.2	20.2	20.8
Czech Republic	– 0.7	– 5.8	– 5.2	– 4.6	– 4.2	29.0	35.3	40.0	43.1	45.2
Estonia	+ 2.5	– 1.7	– 1.0	– 1.9	– 2.7	3.7	7.2	8.0	9.5	11.7
Cyprus	+ 3.4	– 6.0	– 5.9	– 5.7	– 5.7	58.3	58.0	62.2	65.2	68.4
Latvia	– 0.3	– 10.2	– 7.7	– 7.9	– 7.3	9.0	36.7	45.7	51.9	56.6
Lithuania	– 1.0	– 9.2	– 8.4	– 7.0	– 6.9	16.9	29.5	37.4	42.8	48.3
Hungary	– 5.0	– 4.4	– 3.8	– 4.7	– 6.2	66.1	78.4	78.5	80.1	81.6
Malta	– 2.3	– 3.8	– 4.2	– 3.0	– 3.3	61.7	68.6	70.4	70.8	70.9
Poland	– 1.9	– 7.2	– 7.9	– 6.6	– 6.0	45.0	50.9	55.5	57.2	59.6
Romania	– 2.6	– 8.6	– 7.3	– 4.9	– 3.5	12.6	23.9	30.4	33.4	34.1
Slovenia	– 0.0	– 5.8	– 5.8	– 5.3	– 4.7	23.4	35.4	40.7	44.8	47.6
Slovakia	– 1.8	– 7.9	– 8.2	– 5.3	– 5.0	29.6	35.4	42.1	45.1	47.4

Source: European Commission, Autumn 2010 forecast.

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Draft Federal Budget for 2011 Takes First Steps Towards Consolidation – Summary

After the worst phase of the financial and economic crisis has been overcome budgetary policies have to put public finances back on a sustainable path. The federal government aims at reducing the budget deficit according to the Maastricht definition below the ceiling of 3 percent of GDP from 2012 onwards. Until 2014 the Maastricht deficit is to be cut back gradually to 2.2 percent of GDP, which should stabilise the debt ratio at slightly above 72 percent of GDP. A smaller share of the increase in the debt ratio – about 2.5 percent of GDP – which is only temporary in principle is due to the government support of the banking sector as well as the bailout of Greece, which add to the overall debt level while leaving the deficit unaffected. Extra-budgetary debt of the federal, regional and local governments has to be added to official total debt: the major state-owned companies (the Austrian railway corporation ÖBB, the Austrian motorway and expressway corporation ASFINAG and the federal real estate corporation BIG) will accumulate financial liabilities of € 36 billion by 2011. The long-term liabilities of hospitals owned by the federal states added up to slightly above € 2 billion in 2009 and those of commercial companies (market producers) owned by local governments amounted to € 12.5 billion at the end of 2008. In total this is equivalent to 17 percent of GDP in 2011.

The consolidation path envisaged for 2011-2014 is based on a consolidation package of which, from the perspective of total government, slightly more than half consists of spending cuts and slightly less than half comprises tax measures. Federal budget cuts amount to a cumulative total of € 8.1 billion. They affect all government departments and result from numerous individual measures of which each contributes relatively moderately to the consolidation. By contrast, far-reaching structural reforms involving several departments or government levels have hardly been initiated yet. Whereas this would hardly yield any savings in the short run, substantial amounts could be saved in the medium term. Besides pensions monetary transfers to families are the single budget item contributing most to the consolidation of the federal budget. In view of the financing requirements for education, science as well as research and development, the spending cuts in these areas are problematic despite the projected "offensive measures", i.e., additional expenditures for specific projects (i.e., afternoon child-care in schools).

Planned additional tax revenues to be used for budget consolidation add up to € 6 billion during 2011-2014. If they materialise as planned, extra revenues from environmental taxes and from wealth-related taxes in the broadest sense will account for a third each. The remaining third is made up by several individual measures. The tax package comprises a number of individual measures that are reasonable from a structural point of view (especially environmental taxes, wealth-related taxes, tobacco tax as well as the abolition of tax exemptions with undesired effects). However, these isolated measures have not yet been embedded into a comprehensive revenue-neutral ecological and social reform of the tax structure. Thus, the link between the necessity to consolidate the budget and strategic economic policy objectives as well as the aim to make the whole tax system more growth and employment-friendly is still lacking.

So far the total size of the bank rescue package has amounted to slightly more than € 35 billion, which is equivalent to almost half of the envisaged budget of € 75 billion. Until now repayable non-voting share capital of € 5.874 billion has been subscribed for and share capital increases of € 220 million have been carried out. In contrast to these measures capital transfers, which have reached a total of roughly € 160 million, directly affect the deficit. A loan of € 604 million was extended to Greece in 2010 and a further € 839 million are envisaged for 2011. Taking into account the refinancing costs for the bank rescue package as well as corresponding revenues (dividends on share capital, insurance premiums, repayment of share capital) the measures to support the banking sector as well as financial aid to Greece placed a net burden on the federal budget in 2008-2010. The revenues expected for 2011 exceed the envisaged expenditures.

The revenue and expenditure ratios of the Austrian general government remain above the EU average. The difference with respect to the EU average, which had been on a declining trend until the middle of the last decade, will rise again until 2012. Compared to those of other EU countries Austria's budget deficit and also its debt ratio are clearly below the average.