Margit Schratzenstaller

The Draft Federal Budget for 2006: Key Features and Trends in a Longer-Term Perspective

The draft federal budget for 2006 represents a further step towards a lasting reduction of the size of the public sector. Federal government revenues decrease to a ratio of 23.7 percent of GDP (2.6 percentage points less than in 2000), while expenditure are down to 26 percent of GDP (–1.7 percentage points from 2000). The federal government deficit in the Maastricht definition is set to edge down only slightly in 2006, to 2.2 percent of GDP, as a consequence of the tax reform 2004-05. Transfer expenditure will further gain in importance, with notably family benefits rising markedly since 2000. Government spending has set priorities in the areas of investment in infrastructure and research over the last years. On the revenue side, sustainability is being enhanced by the rising share of tax and tax-like revenues.

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Budgetary policy is currently facing challenges that are difficult to reconcile: on the one hand, it should provide stimulus to long-term economic growth and contribute towards raising Austria's attractiveness for investors; on the other hand, it should strive for a medium-term general government position close to balance or in surplus, in line with the European Stability and Growth Pact. The draft federal budget for 2006 mirrors these conflicting aims.

The draft federal budget for 2006 is shaped by the impact of the tax reform 2005-06 and the high level of unemployment. The federal government deficit in the Maastricht definition (like the general government deficit) will therefore edge down only slightly in 2006. The budget is also subject to certain risks, relating notably to the uncertain near-term cyclical outlook, as the global upswing may have reached its peak or pass it soon. A further risk is a continued rise in oil prices from the present high level or in the exchange rate, which both would weigh on economic activity. It should therefore not be ruled out that the growth rates of GDP for 2006 of 2.3 percent in real and 3.9 percent in nominal terms, as projected by WIFO last December and underlying the federal budget draft, will not be achieved, with negative consequences particularly for government revenues.

In an environment of heightened cyclical uncertainty an annual budget drafting schedule shortly ahead of the fiscal year is preferable to a bi-annual one, as illustrated also by the deviations of the 2004 budget outturn from the draft proposal. In this way, policy can better take up current macro-economic conditions and respond to them in a flexible manner by adjusting revenue and expenditure accordingly. Nevertheless, the annual budget process should be embedded into a medium-term strategy where budgetary components are planned ahead in some detail and such plans are regularly updated. The strategy may extend over, say, five years and outline the major trends and priorities with regard to key policy objectives (for example the achievement of the Lisbon goals).

The tax reform 2004-05 will lead to revenue shortfalls peaking in 2006 at almost € 3.6 billion and to a cumulated increase in real GDP by almost ½ percent, according to WIFO simulations (*Breuss – Kaniovski – Schratzenstaller,* 2004). In view of the existing cyclical risks, its timing now appears somewhat more favourable than in the original assessments.

The Federal Budget – An Overview

Preliminary outturn 2004

The general household shows revenues amounting to € 60.35 billion and outlays of € 64.98 billion, according to preliminary figures for the final outturn. Outlays were € 2.31 billion, revenues € 1.11 billion higher than planned. Therefore, the deficit, on an administrative base, rose to € 4.63 billion or 2 percent of GDP from the planned € 3.43 billion (1.5 percent of GDP). The federal deficit in the Maastricht definition reached € 4.05 billion, remaining at 1.7 percent of GDP rather than declining to 1.4 percent of GDP as planned. The expenditure overrun was largely due to higher-than-planned unemployment subsidies, higher outlays for civil servants' pensions caused by earlier retirement, the cost of restructuring of the federal railways (capital increase) and higher family benefits, which were only partly offset by savings on personnel and material costs. Revenues rose overall from the previous year, in spite of gross tax receipts falling short of plans by € 1.4 billion, owing to additional revenues from carryovers from past years in the social security system, proceeds from the sale of federal housing schemes and liquidation of reserves.

Federal budget 2005

The draft federal budget 2005 provides for revenues of € 58.97 billion (–2.3 percent) and expenditure of € 64.42 billion (–0.9 percent) in the general household, yielding a deficit of € 5.45 billion or 2.2 percent of GDP on an administrative base. In the Maastricht definition, the central (federal) government deficit will rise to € 5.82 billion, equivalent to 2.4 percent of GDP.

Federal budget 2006

According to the draft federal budget 2006, revenues will increase to € 60.35 billion (+2.3 percent) and expenditure to € 66.16 billion (+2.7 percent), implying an administrative federal deficit rising to € 5.81 billion (2.3 percent of GDP). The Maastricht deficit is set to narrow to € 5.59 billion (2.2 percent of GDP).

Austria's budgetary policy from a long-term and international perspective

The draft federal budget for 2006 represents a further step towards the government's long-term goal of downsizing the public sector on a sustained base. The Austrian updated Stability Programme of November 2004 (*Federal Ministry of Finance,* 2004A) provides for a decline in the revenue ratio to 45.8 percent of GDP by 2008 (Table 1).

Table 1: Public sector ratios in Austria

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				As a percentage of GDP[1]					
Expenditure ratio	51.3	50.7	50.4	50.6	50.1	49.5	48.0	46.7	45.8
Revenue ratio	49.8	51.0	50.2	49.5	48.8	47.5	46.2	46.0	45.8
Maastricht balance	– 1.5	0.3	– 0.2	– 1.1	– 1.3	– 1.9	– 1.7	– 0.8	0.0
Tax burden	42.8	44.8	43.7	43.1	42.8	41.6	40.5	40.3	40.0
Tax ratio	27.4	29.3	28.6	28.0	27.7	26.8	25.9	25.8	25.6
Social contributions	16.6	16.5	16.3	16.3	16.2	15.9	15.6	15.6	15.6

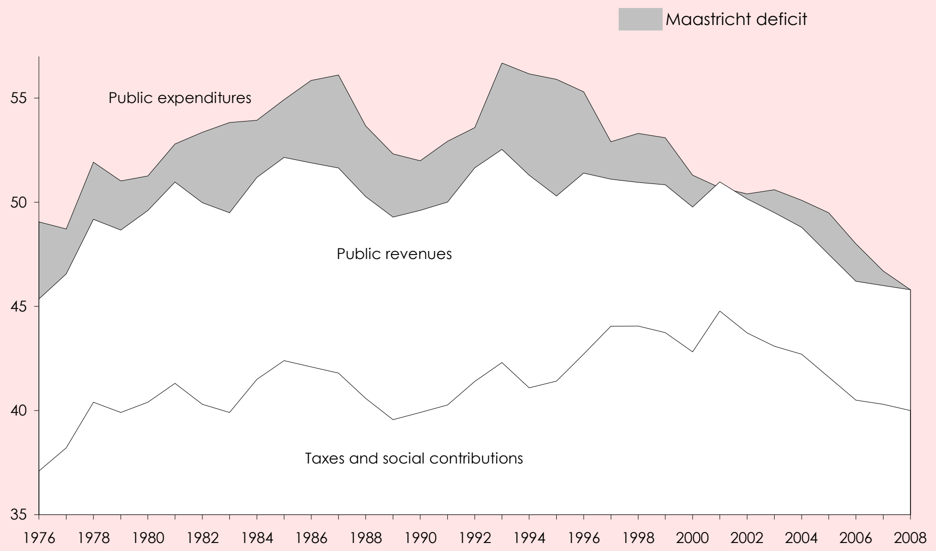
Source: Statistics Austria, Federal Ministry of Finance. As from 2005 according to the Austrian Stability Programme 2005 to 2008. – [1] Gross Domestic Product including newly calculated FISIM.

Over the period 2000 to 2008, the revenue ratio is set to fall by 4 percentage points. In order to arrive at a balanced general government budget (in the Maastricht definition) by 2008, the expenditure ratio is also planned to be cut to 45.8 percent, by 5.6 percentage points from 2000. The overall tax burden is envisaged to fall from 42.8 percent of GDP in 2000 to 40 percent in 2008, the major part being accounted for by taxes in the narrow sense: the tax ratio is going down from 27.4 percent of GDP in 2000 to 25.6 percent in 2008 (–1.8 percentage points), mainly as a consequence of the tax reform 2004-05. Over the same period, the ratio of social contributions to GDP is seen edging down by 1 percentage point.

For the trend in the (general) government ratios in Austria since the mid-1970s, three sub-periods may be distinguished (Figure 1)[1]:

Figure 1: Government ratios in Austria

As a percentage of GDP



Source: Statistics Austria, Federal Ministry of Finance. As from 2005, according to Austrian Stability Programme 2005 to 2008.

- For the period from 1976 until 1987, a steady increase in the expenditure ratio can be observed, accompanied by a similar trend in the revenue ratio and the tax burden, but with some widening in the Maastricht deficit.
- The period from 1987 to 1993 shows a first determined, but eventually not sustained, effort to consolidate government finances. It starts with a relatively strong reduction in the expenditure and revenue ratios. Already before the expenditure ratio hit its low in that period, the revenue ratio started rising again. As from 1990, the expenditure ratio also headed up, reaching an all-time peak at 52.5 percent of GDP in 1993.
- Since 1994, the expenditure ratio has followed a steady downward trend, largely driven by the need for consolidation related to EU accession. The revenue ratio first edged down only tentatively and, indeed, rebounded in 2001[2], the only year in which the Maastricht balance turned slightly positive. After 2001, the expenditure and revenue ratios have been lower progressively, and the two are planned to coincide by 2008, implying a zero general government balance. The tax burden defied the downward trend of the overall expenditure and revenue ratios between 1994 and 2001, abating only since 2002.

The successful implementation of the consolidation path projected until 2008 for the general government budget will crucially depend on whether the expenditure ratio can actually be cut as planned. The target for 2008 calls for a ceiling on expenditure growth of 1.3 percent per year between 2005 and 2008, compared with an annual average increase in nominal GDP assumed at around 4 percent. From today's perspective this target looks ambitious, requiring not only the further elaboration and political implementation of the plans to reign in government spending (i.e., administrative reform – "stage two", trimming of subsidies, health reform, review of government tasks), but also the hoped-for savings from these measures to actually materialise. The envisaged marked restraint on public spending and thus on an important

[1] For the years prior to 1976, no comparable data are available.

[2] Mainly owing to tax-related measures, i.a., the one-time effect of the introduction of interest on tax arrears that prompted the front-loading of corporate and income tax payments.

component of overall demand is bound to exert a restrictive impact on business activity and economic growth, at least in the short run.

Glossary of Terms

Administrative balance (net balance): revenue minus expenditure (including interest payments, but excluding redemptions); surplus, if revenue exceeds expenditure and vice versa (administrative deficit = net borrowing). Transactions are recorded on a cash basis, i.e., at the time they take place.

General household: revenue and expenditure without increase or redemption of financial debt; the balance corresponds to the administrative balance (net balance).

Balancing household: revenue from newly incurred debt minus expenditure on redemption; the balance corresponds to the net balance (with reverse sign).

Financial debt: current credits, loans, bonds or long-term (over 10 years) monetary liabilities extending beyond the turn of the year.

GDP-relevant balance: net balance, adjusted for asset-related transactions (e.g., revenues or outlays from real estate sales or purchases) as well as increase or liquidation of reserves; indicator for the budgetary effect on aggregate demand.

Gross tax revenue: revenue from exclusively federal or shared federal taxes before transfers to federal funds, states, communities and the EU.

Maastricht balance (financing balance): net balance adjusted (according to ESA 95 definitions) for items that, while related to revenue and expenditure, do not affect the budgetary situation from the macro-economic perspective. Instead of administrative expenditure and revenue, it refers to the change in government claims and liabilities; thus, a negative financing balance means that net financial assets have been reduced. Allowance is also made (marking the difference between the Maastricht balance and the ESA balance) for interest flows from derivative financial transactions (swap transactions, forward-rate agreements). Moreover, unlike with the calculation of the administrative balance, transactions are recorded according to the accrual principle, i.e., at the point of time when a claim or a liability is created. Deviations from the corresponding items recorded on a cash basis may therefore occur notably for tax revenues and interest payments. The Maastricht balance is an indicator for the actual (economic) budgetary position in a given period (as different from the presentation along administrative criteria and such of financial statistics); it is the yardstick for the obligations deriving from the European Stability and Growth Pact.

Net tax revenue: revenue from exclusively federal or shared federal taxes net of transfers to federal funds, states, communities and the EU.

Outsourcing: transfer of responsibilities that are financed at a legally fixed amount from the budget (e.g., universities) to newly established or existing (private or public) institutions.

Outturn: result of budgetary execution, referring to actual expenditure and revenue.

Overall household: consists of general and balancing household; balance always zero, as the general household surplus or deficit is always offset by a deficit or surplus of equal size in the balancing household.

Primary balance: revenue minus expenditure net of interest payments on public debt, i.e., net deficit minus interest payments; indicator for the sustainability of fiscal policy.

Reserves: amounts not spent during a fiscal year and therefore disposable for the following year; additions to reserves are recorded as expenditure, liquidations of reserves as revenue.

Swap-transactions (currency swap contracts): contracts where the parties mutually agree to honour the obligations (interest and/or debt redemption payments) from credits taken up by the other party.

Transitory item: reimbursements and transfers between government institutions including corporate-like establishments; do not affect the budget balance, since deducted from both expenditure and revenue.

Source: *Federal Ministry of Finance* (2004B, 2004C, 2005A), *Staatsschuldenausschuss* (2004), *Statistics Austria* (2002).

Compared with the EU 15 member states, the public sector in Austria, as measured by expenditure and revenue ratios and the tax burden, will still be of above-average size in 2006, even if the gap has narrowed markedly since the mid-1990s (Table 2)[3].

In 2006, Austria's government balance position will have weakened from 2000, as in many other EU 25 member states, albeit to a lesser extent than the EU average (Table 3). The deficit in the Maastricht definition, at 1.7 percent of GDP, will be smaller than the 2.5 percent of GDP expected for both the EU 25 and EU 15. While public debt will have increased as a percentage of GDP since 2000 in the EU 15 and EU 25, Austria has succeeded in reducing the debt ratio.

[3] The issue of the limited international comparability of these ratios cannot be dealt with further in the present context.

Table 2: Government ratios in a European comparison

	Expenditure ratio			Revenue ratio			Tax burden		
	1995	2000	2006	1995	2000	2006	1995	2000	2006
	As a percentage of GDP[1]								
EU 15	51.3	45.8	47.7	46.1	46.8	45.2	40.8	42.1	40.6
Belgium	52.9	49.2	49.0	48.5	49.4	48.5	45.1	46.0	45.1
Denmark	59.9	54.1	53.5	57.6	56.7	55.7	49.4	49.7	48.6
Germany	49.4	45.7	46.2	46.1	47.1	43.4	41.3	43.0	39.5
Greece	51.0	52.0	48.7	40.9	47.9	44.3	32.6	38.8	37.6
Spain	45.0	39.9	40.4	38.4	39.1	40.5	33.4	35.6	36.8
France	55.2	52.5	54.4	49.7	51.2	51.1	43.6	45.0	44.2
Ireland	41.6	32.0	34.6	39.5	36.4	34.0	33.5	32.0	29.7
Italy	53.4	46.9	48.5	45.8	46.2	44.0	41.2	42.7	40.6
Luxembourg	45.0	38.5	46.0	47.6	44.7	44.2	42.4	40.5	39.9
The Netherlands	51.4	45.3	49.2	47.3	47.5	47.6	40.6	41.5	41.7
Austria	56.7	52.0	49.2	50.9	50.5	47.4	41.9	43.4	41.6
Portugal	45.0	45.1	47.8	39.6	42.3	43.1	33.6	36.4	36.7
Finland	59.6	49.1	49.8	55.7	56.1	51.3	46.4	48.1	44.2
Sweden	67.8	57.4	56.6	60.8	62.3	57.4	49.7	53.8	49.8
UK	44.9	37.4	44.1	39.1	41.2	41.4	36.0	38.1	38.0

Source: European Commission, Spring 2005 forecast. – [1] Gross Domestic Product excluding newly calculated FISIM.

Table 3: Maastricht balance and debt levels of EU member states

	Maastricht balance		Level of government debt	
	2000	2006	2000	2006
	As a percentage of GDP[1]			
EU 25	+ 0.8	– 2.5	62.9	64.2
EU 15	+ 1.0	– 2.5	64.1	65.1
Belgium	+ 0.2	– 0.6	109.1	91.7
Denmark	+ 2.6	+ 2.2	52.3	38.2
Germany	+ 1.3	– 2.8	60.2	68.9
Greece	– 4.1	– 4.4	114.0	108.9
Spain	– 0.9	+ 0.1	61.1	44.2
France	– 1.4	– 3.4	56.8	67.1
Ireland	+ 4.4	– 0.6	38.3	29.6
Italy	– 0.6	– 4.6	111.2	106.3
Luxembourg	+ 6.2	– 1.9	5.5	7.9
The Netherlands	+ 2.2	– 1.6	55.9	57.9
Austria	– 1.5	– 1.7	66.7	64.1
Portugal	– 2.8	– 4.7	53.3	68.5
Finland	+ 7.1	+ 1.6	44.6	43.7
Sweden	+ 5.0	+ 0.8	52.8	49.2
UK	+ 3.8	– 2.7	42.0	42.5
Czech Republic	– 3.7	– 4.0	18.2	37.0
Estonia	– 0.6	+ 0.5	4.7	4.0
Cyprus	– 2.4	– 1.9	59.9	66.6
Latvia	– 2.8	– 1.5	12.9	14.3
Lithuania	– 2.5	– 1.9	23.8	20.9
Hungary	– 2.4	– 4.1	55.4	57.9
Malta	– 6.3	– 2.8	57.0	77.1
Poland	– 1.6	– 3.8	36.8	47.6
Slovenia	– 3.5	– 2.1	27.4	30.4
Slovakia	– 12.3	– 4.0	49.9	44.9

Source: European Commission, Spring 2005 forecast. – [1] Gross Domestic Product excluding newly calculated FISIM.

The federal budget from 2000 to 2006

Table 4 shows the key figures of the Austrian federal budget for the years from 2000 to 2006.

Federal outlays, planned at € 66.16 billion for 2006, will rise by 2.7 percent from this year, more strongly than revenues, projected at € 60.35 billion, up by 2.3 percent from 2005[4]. The growth rates for 2006 are thus set to exceed the annual average 2000-2006 where expenditure rose by 2.1 percent and revenues by 1.4 percent.

Table 4: The federal budget – an overview

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
		Outturn			Budget draft	Preliminary outturn	Budget draft		Percentage change	Year-to-year percentage change
	Million €									
Revenue	55,393	58,995	59,428	57,890	59,236	60,347	58,969	60,351	+ 2.3	+ 1.4
Expenditure	58,247	60,409	61,818	61,387	62,666	64,977	64,420	66,161	+ 2.7	+ 2.1
Administrative balance	– 2,853	– 1,415	– 2,390	– 3,498	– 3,430	– 4,630	– 5,451	– 5,810	–	–
Maastricht balance	– 3,365	– 1,111	– 1,906	– 3,921	– 3,250	– 4,046	– 5,816	– 5,587	–	–
Tax revenues gross	50,387	56,210	54,951	53,498	57,618	56,207	56,310	58,316	+ 3.6	+ 2.5
Tax revenues net	33,041	37,933	36,666	35,468	38,616	37,660	37,483	38,902	+ 3.8	+ 2.8
	As a percentage of GDP									
Revenue	26.3	27.4	26.9	25.6	25.3	25.8	24.1	23.7		
Expenditure	27.7	28.0	28.0	27.1	26.8	27.8	26.3	26.0		
Administrative balance	–1.4	–0.7	–1.1	–1.5	–1.5	–2.0	–2.2	–2.3		
Maastricht balance	–1.6	–0.5	–0.9	–1.7	–1.4	–1.7	–2.4	–2.2		
Tax revenues gross	23.9	26.1	24.9	23.7	24.6	24.0	23.0	22.9		
Tax revenues net	15.7	17.6	16.6	15.7	16.5	16.1	15.3	15.3		

Source: Federal Ministry of Finance.

The federal revenue and expenditure ratios continue to decline in 2006. Since 2000, the revenue ratio has fallen by 2.6 percentage points, to 23.7 percent of GDP, the expenditure ratio by 1.7 percentage points, to 26 percent of GDP. The federal deficit in the Maastricht definition is set to edge down to € 5.59 billion or 2.2 percent of GDP. Gross tax revenues are projected to rise by 3.6 percent in 2006 from the current year, more strongly than on annual average 2000-2006 (+2.5 percent), when revenue growth was dragged down by the cyclical weakness and tax cuts (cyclical stimulation measures and the tax reform). Federal net tax revenues should rise by 3.8 percent in 2006. Thereby, the gross tax ratio will moderate somewhat from this year, while the net tax ratio remains unchanged. Since 2000, the gross tax ratio has been reduced by 1 and the net tax ratio by 0.4 percentage point.

Table 5: Federal expenditure and revenue, adjusted

	2000	2001	2002	2003	2004	2004	2005	2006
		Outturn			Budget draft	Preliminary outturn	Budget draft	
	Million €							
Expenditure general budget	58,247	60,409	61,818	61,387	62,666	64,977	64,420	66,161
– Transitory items	– 978	– 1,178	– 1,874	– 929	– 519	– 1,056	– 921	– 949
Expenditure, adjusted	57,269	59,232	59,944	60,458	62,147	63,921	63,499	65,212
Revenue general budget	55,393	58,995	59,428	57,890	59,236	60,347	58,969	60,351
– Transitory items	– 978	– 1,178	– 1,874	– 929	– 519	– 1,056	– 921	– 949
Revenue, adjusted	54,416	57,817	57,554	56,960	58,717	59,291	58,048	59,402
Administrative balance	– 2,853	– 1,415	– 2,390	– 3,498	– 3,430	– 4,630	– 5,451	– 5,810

Source: Federal Ministry of Finance, WIFO calculations.

Adjusted for transitory items, federal expenditure are planned at € 65.21 billion for 2006, 2.7 percent higher than in 2005, revenues at € 59.4 billion, up by 2.3 percent.

[4] The following data refer to the general budget, abstracting from the supplementary budget designed for cyclical stabilisation purposes.

Table 6: Components of the federal administrative balance

	2000	2001	2002	2003	2004	2004	2005	2006
		Outturn			Budget draft	Preliminary outturn	Budget draft	
					Million €			
Balance of current transactions	+ 3,610	+ 5,611	+ 3,707	+ 622	+ 2,412	+ 1,544	+ 284	+ 358
Investment and real estate acquisitions	+ 11	+ 342	+ 401	+ 242	– 117	– 162	– 155	– 142
Capital transfers, net	– 5,669	– 5,716	– 5,838	– 5,531	– 5,987	– 4,955	– 6,018	– 6,057
GDP-relevant balance	– 2,048	+ 237	– 1,730	– 4,667	– 3,693	– 3,573	– 5,889	– 5,842
Balance of asset transactions	– 525	– 365	– 77	– 46	– 42	– 971	+ 270	– 84
Change in reserves, net	– 280	– 1,286	– 583	+ 1,216	+ 305	– 86	+ 168	+ 117
Administrative balance	– 2,853	– 1,415	– 2,390	– 3,498	– 3,430	– 4,630	– 5,451	– 5,810
Interest (net of currency swaps)	+ 7,938	+ 7,107	+ 7,099	+ 6,807	+ 6,960	+ 7,008	+ 7,232	+ 7,109
Primary balance	+ 5,085	+ 5,693	+ 4,709	+ 3,310	+ 3,530	+ 2,378	+ 1,782	+ 1,299

Source: Federal Ministry of Finance, WIFO calculations.

The federal administrative balance (net balance) is projected to increase to € 5.81 billion in 2006, corresponding to 2.3 percent of GDP (Table 6). The primary balance of the federal budget, a key factor for the long-run stability of the household since it determines the trend of the debt ratio (together with the overall rate of economic growth and the level of interest rates), is declining further. The GDP-relevant balance remains relatively high at € –5.84 billion or –2.3 percent of GDP, on account of the tax cuts 2004-05. From the revenue side, therefore, the federal budget for 2006 is moderately expansionary, counter-balanced however by a restrictive stance of planned spending. Any withdrawals of reserves (which may improve the net balance) play a negligible role also in 2006.

Budget Balances

GDP-relevant balance
\+ Balance of asset transactions
\+ Change in reserves, net (additions minus withdrawals)
= Net balance (administrative balance)
– Interest payments
= Primary balance

Table 7: General government balance in the Maastricht definition

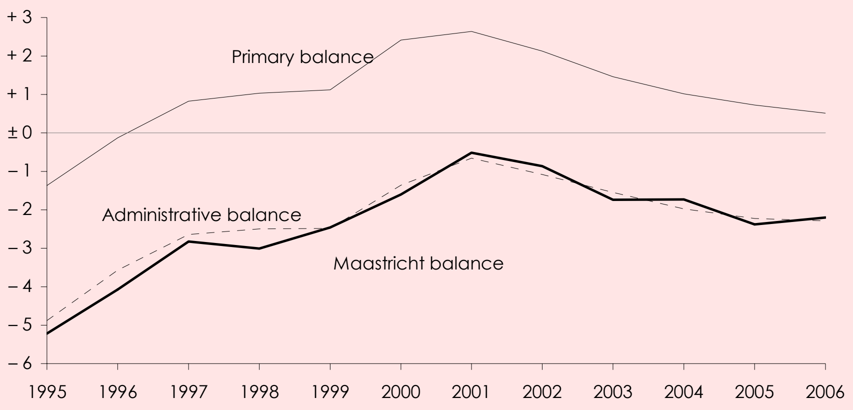
	2000	2001	2002	2003	2004	2005	2006	2007	2008
					As a percentage of GDP				
Jurisdiction									
General government	– 1.47	+ 0.25	– 0.21	– 1.11	– 1.32	– 1.9	– 1.7	– 0.8	± 0.00
Federal government	– 1.60	– 0.52	– 0.86	– 1.73	– 1.73	– 2.4	– 2.2	– 1.4	– 0.75
States (excluding Vienna)	+ 0.20	+ 0.51	+ 0.41	+ 0.45	+ 0.39	+ 0.4	+ 0.4	+ 0.5	+ 0.55
Municipalities (including Vienna)	+ 0.04	+ 0.26	+ 0.25	+ 0.18	+ 0.06	+ 0.2	+ 0.2	+ 0.2	+ 0.20
States and municipalities	+ 0.24	+ 0.77	+ 0.66	+ 0.63	+ 0.45	+ 0.6	+ 0.6	+ 0.7	+ 0.75
Social security bodies	– 0.11	± 0.00	– 0.01	± 0.00	– 0.04	– 0.1	– 0.1	– 0.1	± 0.00

Source: Statistics Austria, Federal Ministry of Finance. As from 2005 according to the national Stability Pact 2005 to 2008. + . . . surplus, – . . . deficit.

Table 7 shows the trend in the general government balance in the definition of Maastricht since 2000, overall and for the different territorial authorities. From a small surplus in 2001, the general government balance swung to progressively higher deficits up to 2005, due to the cyclical weakness of the past years, the tax reform 2004-05 and several cyclical stimulus packages. As from 2006, the deficit is planned to be reduced, eventually becoming "zero" in 2008. The federal government is supposed to cut its deficit, while the states (including the city of Vienna) are expected to accumulate higher surpluses and the municipalities to achieve balanced budgets on aggregate in each year. Meeting these targets as laid down in the national Stability Pact 2005 will be a major challenge over the next years, notably for the states and municipalities (*Schratzenstaller,* 2005A). Also the social security sector will have to strengthen its financial position until 2008.

Figure 2: Budget balances of the federal government

As a percentage of GDP



Source: Federal Ministry of Finance, WIFO calculations. 2005 and 2006 according to draft federal budget.

Gender Budgeting in the Federal Budget

Gender Budgeting is a key element in a gender mainstreaming strategy that aims at integrating the gender perspective into all areas of policy, in order to promote equality between men and women. Gender Budgeting sets out to include the gender perspective at all levels and at all stages of the budgetary process as well as to restructure public revenue and expenditure in favour of gender equality. Both direct and indirect effects of budgetary policy (e.g., on employment, income, allocation of time of men and women) are subject of the assessment. The review of government budgets from the gender perspective is supposed to identify existing gender-specific disparities and those budgetary measures that contribute towards perpetuating or exacerbating them. On this basis, (budgetary) measures to reduce or eliminate such disparities shall be designed and implemented.

A federal government resolution of March 2004 has for the first time called upon Ministries to carry out an analysis from the gender perspective for a selected budgetary item of the draft federal 2005 budget, and to present the results in the explanatory annex to the budget (*Schratzenstaller,* 2005B). This first step towards a permanent integration of Gender Budgeting into the federal budget has been followed up in the draft federal budget for 2006. The results differ markedly between Ministries with regard to scope, depth and methods of analysis, and the gender-specific effects examined. While all Ministries identify gender-specific aspects in the budget, the analysis often remains at the surface, with sometimes only intentions being declared.

In order to implement Gender Budgeting on a sustained basis and eventually arrive at a comprehensive analysis of the federal budget from the gender perspective, a co-ordinated top-down strategy for the future draft budgets, but also for the ex-post evaluation of budgetary execution is essential. The latter ought to consist of mandatory instructions for Ministries, the development and introduction of a methodological framework for carrying out Gender Budgeting, and the evaluation of the analyses by the different Ministries. The integration of external expertise and the build-up of internal know-how are indispensable in this regard.

Trends in the structure of expenditure

General tendencies

Table 8 shows the federal government expenditure by economic categories (expenditure for the production of economic goods and services, on transfers and for financing purposes) for the period 2000 to 2006. Transfer payments have steadily gained in importance since 2000, with the exception of 2004, when the rise in retirement expenditure was noticeably kept in check: while in 2000, transfers accounted for less than 36 percent of total federal government expenditure, their share is expected to exceed 39 percent in 2006. Because of their strong upward momentum of +3.9 percent on annual average, transfers have become the largest expenditure category of the central government.

Table 8: Federal government expenditure by economic categories

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
		Outturn			Budget draft	Preliminary Outturn	Budget draft		Percentage change	Year-to-year percentage change
				Million €						
Public goods and services	16,151	16,313	16,095	16,236	15,891	15,230	15,544	15,762	+ 1.4	− 0.4
Transfers	20,384	22,042	22,849	24,031	23,900	24,229	24,937	25,660	+ 2.9	+ 3.9
Financing	20,734	20,878	21,000	20,191	22,356	24,463	23,018	23,789	+ 3.4	+ 2.3
Total	57,269	59,232	59,944	60,458	62,147	63,921	63,499	65,212	+ 2.7	+ 2.2
				Percentage shares						
Public goods and services	28.2	27.5	26.8	26.9	25.6	23.8	24.5	24.2		
Transfers	35.6	37.2	38.1	39.7	38.5	37.9	39.3	39.3		
Financing	36.2	35.2	35.0	33.4	36.0	38.3	36.2	36.5		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Federal Ministry of Finance, WIFO calculations.

Outlays which have also risen faster since 2000 than the overall average are those for retirement (+4 percent), family (+5.4 percent) and unemployment benefits (+5.5 percent; see Table 9), whereas the pace of nursing care outlays has been moderate, at +1.8 percent p.a. for the 2000-2006 period.

Table 9: Federal government expenditure on transfer payments

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
		Outturn			Budget draft	Preliminary Outturn	Budget draft		Percentage change	Year-to-year percentage change
				Million €						
Retirement insurance	11,901	13,001	13,689	14,281	14,021	14,318	14,640	15,026	+ 2.6	+ 4.0
Federal civil servants	2,525	2,659	2,750	2,879	2,916	3,035	3,248	3,327	+ 2.4	+ 4.7
Reimbursement of state teachers	697	734	758	850	797	914	926	975	+ 5.4	+ 5.8
Postal employees	846	893	972	1,059	1,098	1,123	1,156	1,159	+ 0.2	+ 5.4
Railway employees	1,695	1,728	1,746	1,767	1,777	1,742	1,820	1,830	+ 0.5	+ 1.3
Subsidies to social retirement insurance[1]	6,139	6,987	7,463	7,726	7,433	7,504	7,490	7,735	+ 3.3	+ 3.9
Family support	3,296	3,363	3,684	4,088	4,168	4,239	4,373	4,528	+ 3.6	+ 5.4
Family allowances[2]	2,798	2,803	2,826	2,973	2,978	2,987	3,014	3,014	− 0.0	+ 1.2
Maternity and child care	421	472	734	985	993	1,056	1,039	1,020	− 1.8	+15.9
Pension contributions for child care periods	77	88	124	131	196	196	320	494	+54.5	+36.2
Unemployment benefits	1,859	1,889	2,135	2,248	2,230	2,331	2,426	2,568	+ 5.9	+ 5.5
Nursing care benefits	1,264	1,290	1,294	1,333	1,350	1,350	1,391	1,404	+ 0.9	+ 1.8
Other	2,063	2,499	2,047	2,081	2,131	1,991	2,108	2,135	+ 1.3	+ 0.6
Total	20,384	22,042	22,849	24,031	23,900	24,229	24,937	25,660	+ 2.9	+ 3.9

Source: Federal Ministry of Finance, WIFO calculations – [1] Including minimum pensions and transfers to the retirement insurers balancing fund. – [2] Including child birth and school travel subsidies.

The composition of federal transfer payments has changed somewhat since 2000. The share of retirement expenditure is edging down since 2003, with the pension reforms of 2000 and 2003 taking effect. Nevertheless, with nearly 59 percent of all transfers in 2006, retirement outlays still claim the largest share.

The second largest category of transfers are family benefits, whose share has increased since the introduction of the child care subsidy in 2000, reaching 17.6 percent in 2006. Family-related outlays will rise in 2006 with the higher valorisation of child-rearing periods in the new harmonised pension system, while spending on child care subsidies will recede with the projected decline in the number of births. The deficit in the family burden sharing fund ("Familienlastenausgleichsfonds") of € 407 million in 2004 was once again higher than the budgeted € 280 million. The deficit is expected to widen further this year and next, to a projected € 435 million in 2006.

Table 10: Composition of federal government transfer expenditure

	2000	2001	2002	2003	2004	2004	2005	2006
		Outturn			Budget draft	Preliminary outturn	Budget draft	
	Percentage shares							
Retirement insurance	58.4	59.0	59.9	59.4	58.7	59.1	58.7	58.6
Family support	16.2	15.3	16.1	17.0	17.4	17.5	17.5	17.6
Unemployment benefits	9.1	8.6	9.3	9.4	9.3	9.6	9.7	10.0
Nursing care benefits	6.2	5.9	5.7	5.5	5.6	5.6	5.6	5.5
Other	10.1	11.3	9.0	8.7	8.9	8.2	8.5	8.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Federal Ministry of Finance, WIFO calculations.

Because of the rise in unemployment, jobless subsidies are claiming an increasing share among federal transfer expenditure. The share of nursing care benefits, on the other hand, is going down, not least because benefit levels have remained unchanged since 1996 (before being raised by 2 percent in 2005).

Table 11: Federal expenditure on retirement benefits

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
		Outturn			Budget draft	Preliminary outturn	Budget draft		Percentage change	Year-to-year percentage change
	Million €									
Federal civil servants	2,525	2,659	2,750	2,879	2,916	3,035	3,248	3,327	+ 2.4	+ 4.7
Reimbursement state teachers	697	734	758	850	797	914	926	975	+ 5.4	+ 5.8
Postal employees	846	893	972	1,059	1,098	1,123	1,156	1,159	+ 0.2	+ 5.4
Railway employees	1,695	1,728	1,746	1,767	1,777	1,742	1,820	1,830	+ 0.5	+ 1.3
Subsidies to social retirement insurance	4,152	4,460	4,955	5,822	5,875	5,863	5,964	6,187	+ 3.7	+ 6.9
Minimum pensions	741	878	926	1,107	762	812	822	841	+ 2.3	+ 2.1
Transfers to retirement insurers balancing fund	1,246	1,649	1,582	797	797	829	704	707	+ 0.5	– 9.0
Total expenditure	11,901	13,001	13,689	14,281	14,021	14,318	14,640	15,026	+ 2.6	+ 4.0
Contributions from federal civil servants	561	562	560	561	551	545	564	566	+ 0.3	+ 0.1
Contributions § 13 Pension Act	47	71	75	79	80	123	125	132	+ 5.3	+ 18.7
Contributions from state teachers	14	20	21	22	22	33	33	35	+ 3.6	+ 16.8
Contributions postal employees	273	265	245	228	193	213	199	185	– 6.7	– 6.3
Contributions railway employees	435	434	445	445	426	456	384	388	+ 0.9	– 1.9
Supplementary contributions	50	57	61	64	66	81	66	66	+ 0.0	+ 4.8
Other revenue	46	47	58	52	151	143	250	145	– 41.8	+ 21.2
Total revenue	1,412	1,456	1,464	1,451	1,489	1,594	1,621	1,516	– 6.5	+ 1.2
Net expenditure on retirement benefits	10,490	11,545	12,225	12,830	12,532	12,724	13,018	13,509	+ 3.8	+ 4.3

Source: Federal Ministry of Finance, WIFO calculations.

Federal retirement expenditure have progressed by an annual average of 4 percent in gross terms since 2000 (Table 11). The strongest upward pressure has been recorded for the federal subsidies to the social security pension scheme (+6.9 percent), the refunds for the pensions of the states' teachers (+5.8 percent), the postal workers pensions (+5.4 percent) and those of the federal civil servants (+4.7 percent). However, the pension-related federal revenues[5] have increased by

[5] Retirement contributions of federal employees as well as contributions from state teachers, postal, railway employees, etc.

only 1.2 percent per year since 2000, such that the federal net spending on pensions is rising by 4.3 percent annually. Whereas until 2003 the momentum had slowed and outlays even edged down in 2004, the upward trend resumed in 2005 and 2006. For the latter year, this is due, i.a., to higher federal subsidies to the retirement schemes for self-employed and farmers.

Table 12: Federal outlays for financing purposes

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
		Outturn			Budget draft	Preliminary outturn	Budget draft		Percentage change	Year-to-year percentage change
				Million €						
Interest on financial debt[1]	8,773	8,080	8,362	8,024	8,111	8,320	8,696	9,283	+ 6.8	+ 0.9
Transfers to public authorities	6,503	6,381	6,921	7,373	9,157	9,351	9,478	9,690	+ 2.2	+ 6.9
Global amount on universities					1,703	1,735	1,725	1,725	± 0.0	–
Other	6,503	6,381	6,921	7,373	7,455	7,616	7,753	7,965	+ 2.7	+ 3.4
Transfers to enterprises	2,277	3,117	3,095	3,016	3,930	3,298	3,812	3,811	– 0.0	+ 9.0
Cost of money transfers, exchange rate losses and reimbursements	652	218	164	299	233	349	129	91	– 29.5	–28.0
Loans, acquisition of stakes	683	637	125	135	119	1,554	132	131	– 0.6	–24.1
Transfers to reserves	1,209	1,761	1,651	621	0	899	0	5	+ 1,982.9	–59.6
Other	638	683	682	722	806	692	771	778	+ 0.8	+ 3.4
Total	20,734	20,878	21,000	20,191	22,356	24,463	23,018	23,789	+ 3.4	+ 2.3

Source: Federal Ministry of Finance, WIFO calculations. – [1] Including currency swaps.

Table 13: Federal outlays for the production of goods and services

	2000	2001	2002	2003	2004	2004	2005	2006	2005-06	2000-2006
	Outturn				Budget draft	Preliminary outturn	Budget draft		Percentage change	Year-to-year percentage change
				Million €						
Personnel outlays	10,896	10,865	10,761	10,777	10,571	10,242	10,426	10,402	– 0.2	– 0.8
Federal employees	6,947	6,950	6,935	7,057	6,754	6,640	6,845	6,856	+ 0.2	– 0.2
Compensation for states teachers	2,802	2,825	2,810	2,811	2,808	2,808	2,743	2,712	– 1.1	– 0.5
Postal service	1,148	1,089	1,016	909	1,010	794	838	834	– 0.5	– 5.2
Current material expenditure	4,673	4,936	4,919	5,204	5,147	4,764	4,935	5,189	+ 5.2	+ 1.8
Investment	528	459	377	227	163	187	174	162	– 7.0	–17.9
Acquisition of real estate and other claims	54	53	38	28	10	37	9	9	– 1.9	–25.7
Total	16,151	16,313	16,095	16,236	15,891	15,230	15,544	15,762	+ 1.4	– 0.4

Source: Federal Ministry of Finance, WIFO calculations.

The share of financing outlays in overall federal spending is projected at 36.5 percent for 2006, slightly above the ratio observed in 2000 (Table 12). The annual increase in this category has been 2.3 percent over the period from 2000 to 2006. Above-average rates have been recorded for transfers to other public institutions and to enterprises. These two items have become substantially more important since 2000 (partly due to the government's increased recourse to outsourcing), accounting meanwhile for more than half of all financing expenditure. Financial relations between the general government budget and other public sector institutions are becoming increasingly more complex and intransparent. In order to make them more transparent, but also to facilitate an assessment of the share of off-budget entities and institutions in total public employment, investment and public debt[6], the establishment of a regular reporting practice and a comprehensive data base (such as in the form of a periodical outsourcing report) would be of paramount importance.

The role of federal expenditure on the production of goods and services is gradually declining. Its share in total expenditure has gone down from over 28 percent in 2000 to just above 24 percent in 2006, i.e., by 0.4 percent p.a. (Table 13). This mainly re-

[6] See also *Schratzenstaller* (2004).

flects the shrinking payroll of federal civil servants, states teachers and postal workers (by 0.8 percent per year)[7] as a consequence of outsourcing and a cut in the workforce (partly via early retirement).

Emphasis on growth-enhancing measures

Over the last years, Austrian budgetary policy increasingly committed to reinforcing certain expenditure categories which are deemed crucial for long-term economic growth also in the academic and empirical literature (*European Commission,* 2005). This concerns mainly research, education and infrastructure. An explicit government priority has also been the increase in family subsidies. The expenditure side of the federal budget mirrors these objectives to a different degree (Table 14).

Table 14: Growth-enhancing priorities in the federal budget

	2000	2001	2002	2003	2004	2004	2005	2006	2000-2006
		Outturn			Budget draft	Preliminary outturn	Budget draft		Average
Education (excluding science)									
Million €	5,533	5,733	5,769	5,870	5,881	5,902	5,950	6,012	
Percentage change from previous year	–	+ 3.6	+ 0.6	+ 1.8	+ 0.2	+ 0.5	+ 0.8	+ 1.0	+ 1.4
As a percentage of total expenditure	9.5	9.5	9.3	9.6	9.4	9.1	9.2	9.1	
As a percentage of GDP	2.6	2.7	2.6	2.6	2.5	2.5	2.4	2.4	
Research									
Million €	1,225	1,351	1,408	1,360	1,579	1,387	1,474	1,499	
Percentage change from previous year	.	+ 10.3	+ 4.2	– 3.4	+ 16.1	+ 2.0	+ 6.3	+ 1.7	+ 3.4
As a percentage of all Austrian research expenditure	30.4	30.8	29.4	27.7	29.9	26.3	.	23.6	
As a percentage of total expenditure	2.1	2.2	2.3	2.2	2.5	2.1	2.3	2.3	
As a percentage of GDP	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	
Infrastructure investment									
Million €	3,348	3,388	3,711	3,774	3,796	3,870	3,934	3,711	
Percentage change from previous year	.,	+ 1.2	+ 9.5	+ 1.7	+ 0.6	+ 2.5	+ 1.7	– 5.7	+ 1.7
As a percentage of GDP	1.6	1.6	1.7	1.7	1.6	1.7	1.6	1.5	
Family support									
Million €	4,322	4,494	4,532	4,960	5,246	5,477	5,618	5,789	
Percentage change from previous year	.	+ 4.0	+ 0.8	+ 9.4	+ 5.8	+ 10.4	+ 2.6	+ 3.0	+ 5.0
As a percentage of total expenditure	7.4	7.4	7.3	8.1	8.4	8.4	8.7	8.7	
As a percentage of GDP	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.3	

Source: Federal Ministry of Finance, WIFO calculations.

Most visible, and exceeding the overall average, is the rise in the research-related expenditure by the federal government (+3.4 percent per year). In 2004, however, it fell clearly short of budgetary plans. Ceteris paribus, research outlays have probably amounted to 2.17 percent of GDP[8]. The shortfall is mainly due to the fact that research institutions were not able to absorb the resources offered in the short term. However, the funds are not lost, but may be transferred with a delay. In 2006, the corporate sector in particular ought to step up its spending on research from the previous years, if the Lisbon target of a ratio of 2.5 percent of GDP is to be achieved. In the last years, subsidies for research activities in the form of tax allowances and tax premia have been substantially improved, which should make a contribution in this regard; still, meeting the target set for 2006 will not be easy.

A crucial requirement for a better absorption of the public research funds and thus for meeting the respective Lisbon targets is a long-term commitment by the public authorities, offering the recipients of the funds a stable framework for planning ahead. An intelligible and transparent planning and evaluation of the allocation and disbursement of resources, documented in the federal budget, is also indispensable. Although the research-related items are meanwhile documented better and in greater detail in the budget than in the past (*Federal Ministry of Finance,* 2005A),

[7] Personnel cost (including for the postal service) claims nearly two-thirds of expenditure on the production of goods and services in 2006.

[8] On the basis of the budgeted outlays of all sectors for research and development, they would have amounted to 2.27 percent of GDP. The exact ratio will be known as soon as the data on the actual outlays by the other sectors become available.

the research activities of the central government remain difficult to trace, particularly the long-term trend and the correspondence to the current budgetary positions as well as the precise origin and use of funds.

The increase in infrastructure investment[9] of 1.7 percent p.a. since 2000 has abated recently; indeed, for 2006 the budgetary plans foresee a decline by 5.7 percent from the previous year. After temporary healthy gains, the share of infrastructure spending in GDP has fallen slightly below its level of 2000.

For education (excluding science), budgeted outlays are 1 percent higher for 2006 than for the current year, a smaller increase than on average since 2000 (+1.4 percent p.a.). Educational expenditure account for over 9 percent of all 2006 federal expenditure and for 2.4 percent of GDP, compared with 9.5 percent of federal expenditure and 2.6 percent of GDP in 2000.

The strongest gains are recorded for family-related spending, with an annual average increase of 5 percent between 2000 and 2006. Its share in total federal expenditure has moved up from 7.4 percent in 2000 to 8.7 percent, its ratio to GDP from 2.1 percent to 2.3 percent. The extent to which families are now subsidised via the tax and transfer system is considerable also in an international comparison (*OECD*, 2005). In order to improve the compatibility between work and family obligations and better accommodate parents' individual preferences, but also from an overall economic perspective (demographic change, better use of human resources), public support for families should be shifted from monetary transfers to the provision of services in kind.

Overall, the implementation of the Lisbon goals may be promoted if the relevant targets and indicators were adequately reflected in the government budgets ("Lisbon budgeting").

Trends in the level and structure of expenditure

General tendencies

Federal revenues (tax revenues net, tax-like and other revenues) have increased by an average 1.5 percent p.a. from 2000 to 2006. There is a tendency for a rising share of net tax and tax-like revenues at the expense of "other" revenues, which would strengthen the long-run stability and sustainability of the revenue side of the federal budget.

Net tax revenues will climb by 2.8 percent from 2005 to 2006, to a ratio of 65.5 percent of total revenues. Since 2000, they have advanced by an average 2.4 percent per year. The trend has been superseded by a number of discretionary effects, such as the introduction of interest liability on tax arrears in 2001, the abolition of the 13th annual instalment for advance VAT payments in 2003, or exonerations via the counter-cyclical "packages" and the tax reform 2004-05.

The tax-like revenues (mainly unemployment insurance contributions, employers' contributions to the family burden sharing fund, and federal revenue shares in wage and income tax) are projected to rise by 2.4 percent from 2005 to 2006, accounting for some 16.4 percent of total federal revenues.

The "other" revenues are losing in importance over the medium term, falling by 3 percent per year from 2000 to 2006. Receipts from federal government assets are set to fall markedly in 2006, notably returns on equity capital (from the industrial holding company and the Austrian central bank, a decline by € 200 million in each case, according to the draft federal budget for 2006) and from asset sales. Thus, federal government revenues in 2006 will rely clearly less on one-off measures than in the previous years.

[9] Investment spending on infrastructure is meanwhile, to a large extent, carried out off-budget (via Asfinag and other agencies); the share of the federal government is foreseen at 16.5 percent for 2006.

Table 15: Federal revenues by economic categories

	2000 Outturn	2001	2002	2003	2004 Budget draft	2004 Preliminary outturn	2005 Budget draft	2006	2005-06 Percentage change	2000-2006 Year-to-year percentage change
	Million €									
Taxes, net	33,037	37,933	36,666	35,468	38,616	37,660	37,483	38,902	+ 3.8	+ 2.8
Tax-like revenues	8,434	8,728	8,838	8,969	9,640	9,254	9,383	9,717	+ 3.6	+ 2.4
Other	12,945	11,156	12,050	12,523	10,461	12,377	11,182	10,783	− 3.6	− 3.0
Total	54,416	57,817	57,554	56,960	58,717	59,291	58,048	59,402	+ 2.3	+ 1.5
	Percentage shares									
Taxes, net	60.7	65.6	63.7	62.3	65.8	63.5	64.6	65.5		
Tax-like revenues	15.5	15.1	15.4	15.7	16.4	15.6	16.2	16.4		
Other	23.8	19.3	20.9	22.0	17.8	20.9	19.3	18.2		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Federal Ministry of Finance, WIFO calculations.

Trends in the tax structure

The tendency observed in the last years of the composition of total tax revenues shifting steadily towards indirect taxes is not without problems with regard to the policy objectives that tax systems are supposed to serve beyond the purely fiscal purpose, notably stabilisation and redistribution (*Schratzenstaller,* 2005B). This tendency is set to abate in 2006 (Table 16), under the impact of the progressive direct tax schedule and despite the relief from the 2004-05 tax reform. Profit taxes (income tax of self-employed and corporate tax) are expected to contribute 11.3 percent to total tax revenues in 2006. Thereby, the tax reform brings their share back to the level of 1990, after it had increased since the mid-1990s. The share of wage tax receipts is set to rebound from the decline of the last two years caused by the tax reform, reaching just over 30 percent of total tax revenues. The share of taxes on energy, which has gone up in the last years on account of discretionary increases, is set to decline slightly. The share of property taxes will remain low, at an unchanged 1.4 percent.

Figure 3 compares the composition of revenues (taxes and social security contributions) in Austria with that in the EU 15. Social contributions and payroll taxes continue to claim markedly above-average shares of the total in Austria. Conversely, the shares of direct tax revenues from household income and corporate profits as well as from property are significantly, and that of consumption tax revenues slightly below the EU-15 average.

The revenue projection underlying the federal budget draft for 2006 appears on the whole realistic. Uncertainties surround the cyclically particularly sensitive corporate tax revenue; also, the new group relief tax rules for corporations ("Gruppenbesteuerung") may lead to higher revenue shortfalls than the anticipated € 100 million, particularly over the medium term. The projection of € 19.4 billion VAT revenues for 2006 is rather cautious, following the hitherto unexplained shortfall registered in 2004 (preliminary revenue of € 18.2 billion, compared with the budgeted € 19 billion).

Figure 3: Austria's tax structure compared with the EU 15

2003, percentage shares in total tax revenue

Source: OECD, Revenue Statistics 1965-2003, Paris, 2004.

Table 16: Shares of tax categories in gross tax revenue

	Income taxes			Consumption taxes		Wealth taxes
	Total	Profit taxes (income and corporate tax)	Wage tax	Total	Energy taxes	
	Percent					
1990	42.9	11.2	24.8	50.6	4.6	4.1
1991	44.5	11.0	26.2	49.0	4.4	4.1
1992	45.2	11.4	26.4	48.4	5.4	4.1
1993	45.2	10.0	27.2	48.6	4.9	4.0
1994	42.4	10.1	25.7	53.6	5.2	1.9
1995	46.7	11.1	28.8	50.8	6.0	1.7
1996	47.2	13.5	27.4	50.7	6.5	1.6
1997	48.9	13.7	29.4	49.0	6.7	1.4
1998	48.1	14.0	28.9	47.9	6.1	1.3
1999	47.9	12.6	30.3	49.8	6.4	1.4
2000	47.0	13.3	28.7	50.5	6.5	1.4
2001	50.8	18.2	27.9	47.1	6.5	1.3
2002	48.5	14.0	29.5	49.3	6.9	1.2
2003	49.5	13.1	31.7	49.2	7.5	1.3
2004	48.0	13.0	30.5	50.3	7.7	1.3
2005	45.8	10.7	30.2	52.4	7.9	1.3
2006	46.8	11.3	30.4	51.3	7.6	1.4

Source: Federal Ministry of Finance, WIFO calculations.

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The Draft Federal Budget for 2006: Key Features and Trends in a Longer-Term Perspective – Summary

The 2006 federal budget is marked by the fiscal effects of the 2004-05 tax reform as well as the persistence of high unemployment. Accordingly, the federal Maastricht deficit will decline only slightly (to 2.2 percent of GDP). By 2008, a balanced budget is to be achieved for the general government: the states and local governments are to produce a surplus of 0.75 percent of GDP, and the federal government is to reduce its Maastricht deficit to 0.75 percent of GDP. At the same time, revenue and expenditure ratios at federal and overall level are to be further reduced. The budgetary targets up to 2008 call for the adoption and implementation of existing plans to reduce the upward pressure on spending, especially by reforming public administration, the health care sector, and the division of responsibilities between the levels of government.

The importance of transfer payments has been steadily rising since 2000: in the 2006 budget they will make up almost 40 percent of overall federal expenditure. In particular, spending on family and unemployment subsidies has been growing considerably over the past years. Also, the weight of financing expenditures is rising in the long term, whereas the share of expenditure for public goods and services is declining, also in the long run, due to outsourcing and personnel cuts.

Within federal spending, the focus in recent years has been on research, infrastructure and family benefits. The initiative to permanently incorporate gender budgeting was continued in the 2006 budget; to this end, it is necessary to strengthen the use of external expertise and establish internal know-how.

Since 2000, the importance of one-off measures has diminished as a source of federal revenues, a development that makes the revenue side of the federal budget more sustainable. The shift towards indirect taxation, observed over the past years, is losing momentum in the 2006 budget.