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Short- and Medium-Term Prospects of Fiscal Policy

Draft Federal Budget 2014-15 and Federal Medium-Term Expenditure Framework 2015-2018

Short- and Medium-Term Prospects of Fiscal Policy. Draft Federal Budget 2014-15 and Federal Medium-Term Expenditure Framework 2015-2018
Framework conditions for fiscal policy remain difficult: besides the medium-term outlook of only moderate economic growth, the liquidation of Hypo Alpe-Adria-Bank International AG will weigh on the budget. The need for further subsidies to (partly) nationalised banks in distress cannot be ruled out. Due to statistical revisions, the public debt ratio for 2013 rises to 81.2 percent of GDP. With the draft federal budget for 2014-15 and the Medium-Term Expenditure Framework 2015-2018, the federal government pursues its strategy of consolidation. By 2016, the structural deficit is to be brought down to 0.4 percent of GDP. There remains the need for a fundamental overhaul of the current tax system with its heavy burden on labour, and for further expenditures for education including universities, child-care and research and development to strengthen long-term growth and employment potentials of the Austrian economy.

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1. Introduction

As provided for by the new federal budget reform in force since 2009, the federal government submitted to the Austrian Parliament in due time[1] the Medium-Term Expenditure Framework (MTEF) for the period 2015-2018, adopted by the Council of Ministers on 29 April 2014, together with the draft federal budgets for 2014 and 2015. In principle, the draft federal budget for 2014 should have been submitted by 16 October 2013, i.e., 10 weeks before the end of the calendar year. However, due to the general election held in autumn of 2013, the submission of the 2014 federal budget was postponed to spring 2014, while a provisional budget bill[2] for 2014 was decided in January. At the same time it was agreed to adopt the draft federal budget for 2015 together with the one for 2014, i.e., a "pseudo twin-budget"[3].

The Medium-Term Expenditure framework (MTEF) 2015-2018 of April 2014 replaces the preceding vintage 2014-2017 of April 2013. The latter had merely extrapolated the earlier 2013-2016 issue of March 2012 by one year, as in view of the imminent

[1] The Medium-Term Expenditure Framework is to be submitted by 30 April at the latest.
[2] https://www.bmf.gv.at/budget/das-budget/budgetprovisorium-2014.html.
[3] A pseudo twin-budget exists if in a year that has started with a provisional budget (like in 2014), the federal budget bills for that and the subsequent year are discussed together (even though voted separately) by Parliament. In the case of a genuine twin budget, permitted exceptionally since the budget reform of the Austrian federal government, the federal budget bills are adopted for the two following years.

general election the government had abstained from setting any particular budgetary priorities. With this extrapolation, there was also no adjustment of the budget path for the years from 2014 to 2016 to the changes in macroeconomic conditions since March 2012. The latter had deteriorated between end-2011 and end-2012, with direct repercussions for the level of cyclically-sensitive federal revenues and expenditure. In addition, the Report of the Commission for the long-term sustainability of the pension system of autumn 2012 (*Federal Ministry of Labour, Social Affairs and Consumer Protection,* 2012) implied an increase in the federal transfer to the pension system. Also, the Medium-Term Expenditure Framework (MTEF) 2014-2017 foresaw virtually no further financial support for banks.

Table 1: Key economic data

	Gross domestic product			Consumer prices	Gross wages and salaries, nominal		Dependent active employment	Unemployment		Unemployment rate	
	Real	Nominal	Nominal	Percentage changes from previous year	Total	Per capita	Percentage changes from previous year	Changes from previous year in 1,000	In 1,000	As a percentage of dependent labour force	As a percentage of total labour force (Eurostat)
	Percentage changes from previous year		Billion €		Percentage changes from previous year						
WIFO medium-term forecast January 2012											
2011	+ 3.2	+ 5.5	301.8	+ 3.3	+ 4.8	+ 2.7	+ 1.9	– 3.0	247.8	6.8	4.2
2012	+ 0.4	+ 2.7	309.9	+ 2.1	+ 3.7	+ 2.9	+ 0.6	+ 15.2	263.0	7.1	4.5
2013	+ 1.6	+ 3.2	320.0	+ 1.9	+ 2.4	+ 1.8	+ 0.4	+ 11.5	274.5	7.4	4.7
2014	+ 2.0	+ 3.6	331.6	+ 2.1	+ 3.7	+ 2.7	+ 1.0	+ 6.2	280.6	7.4	4.7
2015	+ 2.2	+ 3.8	344.2	+ 2.3	+ 4.2	+ 3.0	+ 1.1	– 3.7	276.9	7.3	4.6
2016	+ 2.1	+ 3.8	357.1	+ 2.2	+ 4.1	+ 2.9	+ 1.1	– 3.4	273.5	7.1	4.4
WIFO short-term forecast December 2013											
2013	+ 0.3	+ 2.3	314.0	+ 2.0	+ 2.7	+ 1.9	+ 0.6	+ 26.0	286.6	7.6	4.9
2014	+ 1.7	+ 3.5	324.9	+ 1.8	+ 3.1	+ 2.1	+ 0.8	+ 16.0	302.6	7.9	5.2
2015	+ 1.7	+ 3.6	336.4	+ 1.9	+ 3.4	+ 2.4	+ 0.8	+ 2.0	304.6	7.9	5.2
WIFO medium-term forecast February 2014											
2013	+ 0.3	+ 2.3	314.0	+ 2.0	+ 2.7	+ 1.9	+ 0.6	+ 26.6	287.2	7.6	4.9
2014	+ 1.7	+ 3.5	324.9	+ 1.8	+ 3.1	+ 2.1	+ 0.8	+ 15.4	302.6	7.9	5.2
2015	+ 1.7	+ 3.6	336.4	+ 1.9	+ 3.4	+ 2.4	+ 0.8	+ 2.0	304.6	7.9	5.2
2016	+ 1.9	+ 3.6	348.5	+ 1.9	+ 3.4	+ 2.4	+ 0.9	– 1.2	303.4	7.8	5.1
2017	+ 1.9	+ 3.6	361.1	+ 1.9	+ 3.4	+ 2.4	+ 0.8	– 2.1	301.3	7.7	5.1
2018	+ 1.8	+ 3.5	373.6	+ 1.8	+ 3.4	+ 2.4	+ 0.8	– 0.7	300.6	7.7	5.0
WIFO short-term forecast March 2014											
2013	+ 0.4	+ 2.0	313.2	+ 2.0	+ 2.9	+ 2.1	+ 0.6	+ 26.6	287.2	7.6	4.9
2014	+ 1.7	+ 3.5	324.1	+ 1.9	+ 3.3	+ 2.1	+ 1.0	+ 19.0	306.2	8.0	5.2
2015	+ 1.7	+ 3.7	336.1	+ 1.9	+ 3.6	+ 2.4	+ 1.0	+ 8.0	314.2	8.1	5.3
WIFO short-term forecast June 2014											
2013	+ 0.3	+ 2.0	313.1	+ 2.0	+ 2.9	+ 2.1	+ 0.6	+ 26.6	287.2	7.6	4.9
2014	+ 1.4	+ 3.2	322.9	+ 1.8	+ 3.0	+ 1.9	+ 0.9	+ 24.0	311.2	8.1	5.2
2015	+ 1.7	+ 3.6	334.5	+ 1.8	+ 3.5	+ 2.5	+ 0.9	+ 10.0	321.2	8.3	5.3

Source: WIFO.

In autumn 2013, before the formation of a new government and the adoption of a government programme, the coalition partners proceeded to a revision of the state of federal government finances. This revision revealed for the period from 2014 to 2018 a cumulated structural deficit for the general government of € 18.4 billion (on account of reduced growth prospects and the implicit loss of future tax revenues and higher federal transfers to the pension system) and the need for additional bank rescue measures of € 5.8 billion that would deteriorate the budget balance in the Maastricht definition (but not the structural balance). In order to correct this imbalance, the government programme of December 2013 included a "package" of tax increases and expenditure cuts, enacted in March 2014.

Table 1 summarises the macroeconomic key assumptions underlying the Medium-Term Expenditure Framework (MTEF) 2015-2018 and the draft federal budget 2014-15, building on the WIFO medium-term projections of February 2014 (*Baumgartner –*

Kaniovski – Leibrecht, 2014). From the previous vintage of the projections of January 2012, nominal and real GDP growth and labour market prospects were revised down.

Glossary of terms

Administrative balance (net balance): revenue minus expenditure on a cash basis; equivalent to current net borrowing.

Maastricht balance: administrative balance adjusted (according to ESA 2010 definitions) for items that, while associated with revenue and expenditure, do not affect the budgetary situation from the macroeconomic 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 under 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 one-off items and the cyclical component; resulting independently from the level of economic activity.

Financing household: includes receipts and disbursements of a fiscal year on a cash basis.

Operational household ("Ergebnishaushalt"): includes receipts and disbursements of a fiscal year essentially on the basis of ESA accounting rules, but in addition depreciation allowances of fixed assets.

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

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

Reserves: amounts not spent during a fiscal year and therefore disposable for the following year; reserves exonerate the budget balance in the year they are accumulated and burden the balance in the year they are liquidated.

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.

Apart from the subdued growth outlook, other elements are clouding the fiscal policy environment. Among these are the need for financial support of Hypo Alpe-Adria-Bank International AG and possibly other distressed banks (partly) nationalised (Österreichische Volksbanken-AG, Kommunalkredit Austria AG), the need for additional investment in key growth-enhancing areas as well as the ratcheting-up of official public debt with the revision of the European System of National and Regional Accounts in autumn 2014.

2. Key budgetary parameters until 2018

2.1 Overview of medium-term federal expenditure and revenue

Federal government revenues (defined on a cash basis) are projected to rise from € 71.36 billion in 2013 to € 79.38 billion in 2018. This implies an average increase of 2.1 percent p.a. over the period from 2008 to 2018. Federal government expenditures (cash basis) are planned to increase from € 75.57 billion in 2013 to € 80.52 billion in 2018, i.e., at an average rate of 0.8 percent p.a. between 2008 and 2018. Gross tax revenues grow from € 76.37 billion in 2013 to € 91.19 billion in 2018 (2008-2018 +2.9 percent p.a.), net tax revenues from € 45.80 billion to € 55.07 billion (+2 percent p.a.).

The negative administrative balance of the federal budget is planned to narrow from € –4.2 billion (1.3 percent of GDP) in 2013 to € –1.14 billion (0.3 percent of GDP) in 2018. The federal balance in the Maastricht definition is expected to decline from € –4.91 billion (1.6 percent of GDP) to € –2.38 billion (0.6 percent of GDP) by 2018.

Table 2: Federal budget overview

	2008	2009	2010 Outturn	2011	2012	2013 Prelimi-nary outturn	2014 Draft federal budget	2015	2016 Medium-Term Expenditure Framework	2017	2018
						Million €					
Revenue/receipts[1]	64,435	62,376	59,434	63,452	65,931	71,364	72,196	71,525	74,721	77,236	79,379
Expenditure/disbursements[1,2]	73,999	69,457	67,287	67,814	72,880	75,567	75,761	74,687	77,699	78,983	80,516
Administrative balance	– 9,564	– 7,080	– 7,853	– 4,362	– 6,949	– 4,204	– 3,565	– 3,162	– 2,978	– 1,747	– 1,137
Maastricht balance[3]	– 3,025	– 8,767	– 9,921	– 7,137	– 8,034	– 4,905	– 8,935	– 5,021	– 3,050	– 2,713	– 2,380
Gross tax revenues	68,528	63,314	65,492	69,858	73,153	76,370	79,380	81,780	85,320	88,260	91,190
Net tax revenues	44,961	37,638	39,816	41,931	43,807	45,801	47,882	49,197	51,597	53,433	55,074
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ø 2008-2018
						Percentage changes from previous year					
Revenue/receipts[1]	– 3.2	– 4.7	+ 6.8	+ 3.9	+ 8.2	+ 1.2	– 0.9	+ 4.5	+ 3.4	+ 2.8	+ 2.1
Expenditure/disbursements[1,2]	– 6.1	– 3.1	+ 0.8	+ 7.5	+ 3.7	+ 0.3	– 1.4	+ 4.0	+ 1.7	+ 1.9	+ 0.8
Administrative balance	– 26.0	+ 10.9	– 44.5	+ 59.3	– 39.5	– 15.2	– 11.3	– 5.8	– 41.3	– 34.9	– 19.2
Maastricht balance[3]	+ 189.8	+ 13.2	– 28.1	+ 12.6	– 38.9	+ 82.1	– 43.8	– 39.3	– 11.0	– 12.3	– 2.4
Gross tax revenues	– 7.6	+ 3.4	+ 6.7	+ 4.7	+ 4.4	+ 3.9	+ 3.0	+ 4.3	+ 3.4	+ 3.3	+ 2.9
Net tax revenues	– 16.3	+ 5.8	+ 5.3	+ 4.5	+ 4.6	+ 4.5	+ 2.7	+ 4.9	+ 3.6	+ 3.1	+ 2.0
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					As a percentage of GDP						
Revenue/receipts[1]	22.8	22.6	20.8	21.2	21.5	22.8	22.3	21.3	21.5	21.4	21.3
Expenditure/disbursements[1,2]	26.2	25.1	23.6	22.7	23.7	24.1	23.4	22.2	22.3	21.9	21.6
Administrative balance	– 3.4	– 2.6	– 2.8	– 1.5	– 2.3	– 1.3	– 1.1	– 0.9	– 0.9	– 0.5	– 0.3
Maastricht balance[3]	– 1.1	– 3.2	– 3.5	– 2.4	– 2.6	– 1.6	– 2.8	– 1.5	– 0.9	– 0.8	– 0.6
Gross tax revenues	24.2	22.9	23.0	23.3	23.8	24.4	24.5	24.3	24.5	24.5	24.4
Net tax revenues	15.9	13.6	14.0	14.0	14.3	14.6	14.8	14.6	14.8	14.8	14.8

Source: *Federal Ministry of Finance* (2014A, 2014B), WIFO calculations. – [1] As from 2013 (second stage of the Budget Reform): change in terminology. – [2] Limited comparability due to one-off advance payments 2012 (€ 1,252 million) and first-time employers' contribution for retirement benefits of civil servants 2013 (€ 853 million). – [3] Federal government: including other units.

The various consolidation measures on the revenue and the expenditure side, adopted since the end of 2010 (*Schratzenstaller,* 2011, 2012), contribute importantly towards slowing the pace of expenditure and the resilience of federal government revenues in the face of the severe crisis and sluggish GDP growth (Table 3). The share of expenditure-based measures in the overall consolidation effort rises from 47 percent in 2013 to nearly 60 percent in 2018, averaging 56 percent over the entire period.

In order to cover the fiscal gap identified in autumn 2013 and to secure compliance with the original consolidation target for the structural general government balance, the government adopted a third consolidation "package" in spring 2014. The bulk of measures consist of tax hikes (Tax Amendment Act 2014) amounting to some € 0.7 billion in 2014 and over € 1 billion annually as from 2015. Like the two earlier tax-based consolidation "packages", the latest one includes a broad array of measures. The latter are on the whole rather growth- and employment-friendly and put certain emphasis on steering individual behaviour (tobacco and environmental taxes) and on reining in tax evasion and fraud.

A smaller fraction of the additional consolidation amount derives from cuts in discretionary federal government spending (2014: € 0.5 billion, until 2018 € 0.3 billion per year). Like with the earlier consolidation "package" I, cuts are applied more or less across-the-board of Ministries, rather than setting spending priorities or exempting forward-looking items.

Table 3: Consolidation "packages" overview

	2013	2014	2015	2016 Billion €	2017	2018	Total
Total consolidation amount	*6.6*	*9.4*	*10.4*	*11.4*	*11.4*	*11.1*	*60.2*
Expenditure side	*3.1*	*4.8*	*5.8*	*6.6*	*6.6*	*6.6*	*33.5*
Accompanying Budget Act 2011 (consolidation package I)	1.0	1.1	1.1	1.1	1.1	1.1	6.5
Family policy measures	0.3	0.3	0.3	0.3	0.3	0.3	1.8
Pensions	0.5	0.5	0.5	0.5	0.5	0.5	3.0
Other social policy measures	0.2	0.3	0.3	0.3	0.3	0.3	1.7
1st and 2nd Stability Act 2012 (consolidation package II)	1.7	2.6	3.4	3.9	3.9	3.9	19.4
Pensions, unemployment insurance	0.9	1.5	2.1	2.5	2.5	2.5	12.0
Public enterprises, subsidies	0.4	0.6	0.6	0.6	0.6	0.6	3.4
Personnel and administrative reform	0.4	0.5	0.8	0.8	0.8	0.8	4.1
Health care reform: Länder, municipalities, social security agencies	0.4	0.6	1.0	1.3	1.3	1.3	5.9
Cuts in federal discretionary spending (consolidation package III)	0.0	0.5	0.3	0.3	0.3	0.3	1.7
Revenue side	*3.5*	*4.6*	*4.6*	*4.8*	*4.8*	*4.5*	*26.7*
Accompanying Budget Act 2011 (consolidation package I)	1.9	2.2	2.2	2.2	2.2	2.2	12.9
Introduction of new taxes (e.g., financial institution stability and air ticket fee)	0.7	0.9	0.9	0.9	0.9	0.9	5.2
Tax increases (e.g., tobacco tax, foundations)	0.5	0.6	0.6	0.6	0.6	0.6	3.5
CO_2 surcharges (car registration tax, mineral oil tax)	0.5	0.5	0.5	0.5	0.5	0.5	3.0
Abolition of tax concessions (e.g., credit act charge)	– 0.2	– 0.2	– 0.2	– 0.2	– 0.2	– 0.2	– 1.2
Additional VAT revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.6
Anti-fraud package	0.3	0.4	0.4	0.4	0.4	0.4	2.3
1st and 2nd Stability Act 2012 (consolidation package II)	1.6	1.7	1.3	1.5	1.4	1.3	8.7
Taxation of real estate and premises	0.3	0.4	0.5	0.7	0.7	0.7	3.3
Closing of VAT loopholes	0.3	0.3	0.3	0.3	0.3	0.3	1.8
"Solidarity" surcharge on high incomes	0.1	0.1	0.1	0.1	0.0	0.0	0.4
Withholding tax Switzerland and Liechtenstein	0.7	0.6	0.1	0.1	0.1	0.1	1.7
One-off contribution to financial institution stability fee	0.1	0.1	0.1	0.1	0.1	0.1	0.6
Advance taxation of pension funds	0.0	0.0	0.0	0.0	0.0	0.0	– 0.1
Commuter allowance	– 0.1	– 0.2	– 0.2	– 0.2	– 0.2	– 0.2	– 1.1
Other (e.g., mineral oil tax increase, 50 percent cut in building saving premium)	0.3	0.5	0.5	0.5	0.5	0.5	2.8
Tax Amendment Act 2014 (consolidation package III)	.	0.7	1.1	1.1	1.2	1.0	5.1
Increase in consumption taxes (e.g., tobacco tax, car insurance tax)	.	0.4	0.5	0.6	0.6	0.6	2.7
Business taxes (e.g., adjustment of "solidarity" surcharge to financial institution stability fee)	.	0.2	0.4	0.3	0.3	0.1	1.3
Adjustments to taxation of high incomes	.	0.1	0.1	0.1	0.2	0.2	0.7
Other measures	.	0.1	0.1	0.1	0.0	0.0	0.3
Anti-fraud measures	.	0.1	0.1	0.1	0.1	0.1	0.5
Ex-post corrections (retention of tax allowance on profits, craftsman bonus)	.	– 0.1	– 0.1	– 0.1	0.0	0.0	– 0.3
Total consolidation as a percentage of GDP	2.1	2.9	3.1	3.3	3.2	3.0	.
Percentage share of expenditure-side consolidation	47.0	51.1	55.8	57.9	57.9	59.5	55.6
Percentage share of revenue-side consolidation	53.0	48.9	44.2	42.1	42.1	40.5	44.4

Source: *Fiscal Council* (2014A), WIFO calculations. Rounding differences.

2.2 Medium-term prospects for key macroeconomic variables until 2018

With the economic crisis, the general government expenditure ratio[4] rose to 52.8 percent of GDP in 2010, the highest reading since 2004 (53.8 percent; all-time high: 56.3 percent in 1995). According to the current medium-term budgetary plans, the ratio is set to abate gradually only as from 2015, despite the consolidation measures in force since 2011 (Table 4). Starting from 2017, the expenditure ratio should drop below 50 percent of GDP, for the first time since 2005.

The general government revenue ratio is climbing to 49.7 percent of GDP, close to its peak of 50.4 percent of GDP recorded in 1995. It is projected to edge down to 49 percent of GDP by 2018. The tax ratio, which had reached an all-time high of 44.9 percent of GDP in 2001, will go up to 43.8 percent of GDP in 2014 before slowly easing to 43.3 percent of GDP by 2018.

General government net borrowing (in the Maastricht definition) increased from 0.9 percent of GDP in 2008 to 4.5 percent of GDP in 2010. In 2011 and thereafter the ratio was contained below the Maastricht ceiling of 3 percent of GDP, down to

[4] All ratios discussed here follow the definitions of ESA 1995, before the revision to ESA 2010 of autumn 2014.

1.5 percent of GDP in 2013. The EU recommendation issued in the context of the Excessive Deficit Procedure (i.e., the corrective arm of the European Stability and Growth Pact) to bring down the deficit below the Maastricht ceiling by 2013 at the latest was thus fulfilled already by 2011[5]. As the government debt ratio (abstracting from financial support measures for banks) was set to decline as from 2014 and the structural deficit narrowed by the prescribed amount between 2011 and 2013, the Excessive Deficit Procedure for Austria was abrogated in June 2014.

Table 4: Key macroeconomic indicators, 2008-2018

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	As a percentage of GDP										
Expenditure ratio[1]	49.3	52.6	52.8	50.8	51.6	51.2	52.4	50.7	50.0	49.7	49.4
Revenue ratio	48.3	48.5	48.3	48.3	49.1	49.7	49.7	49.3	49.3	49.1	49.0
Tax burden[2]	42.7	42.4	42.1	42.2	43.0	43.7	43.8	43.5	43.5	43.4	43.3
Maastricht balance general government	– 0.9	– 4.1	– 4.5	– 2.5	– 2.6	– 1.5	– 2.7	– 1.4	– 0.7	– 0.6	– 0.5
Federal government	– 1.1	– 3.2	– 3.5	– 2.4	– 2.6	– 1.6	– 2.8	– 1.5	– 0.9	– 0.8	– 0.6
Länder, municipalities	+ 0.1	– 1.0	– 1.2	– 0.3	– 0.1	– 0.1	0.0	0.0	+ 0.1	+ 0.1	0.0
Social security agencies	0.0	+ 0.1	+ 0.2	+ 0.2	+ 0.2	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1
Primary balance	+ 1.7	– 1.3	– 1.8	+ 0.2	± 0.0	+ 1.0	– 0.1	+ 1.2	+ 1.8	+ 1.9	+ 2.0
Structural budget balance	– 1.9	– 2.8	– 3.2	– 2.2	– 1.6	– 1.1	– 1.0	– 0.9	– 0.4	– 0.4	– 0.3
Public debt	63.8	69.2	72.0	73.1	74.4	74.5	79.2	77.6	75.6	73.4	71.5

Source: Statistics Austria, *Federal Ministry of Finance* (2014A, 2014B). – [1] Harmonised (excluding Swaps). – [2] Without imputed social contributions. Rounding differences.

According to current budgetary plans, the Maastricht deficit will rebound to 2.7 percent of GDP in 2014, due to the bad bank being set up for Hypo Alpe-Adria-Bank International AG, before falling steadily to 0.5 percent of GDP by 2018. A balanced general government budget, required for 2016 by the updated Austrian Stability Pact, will not be reached over the medium-term horizon on current plans.

The actual Maastricht deficits for the years from 2010 to 2013 were consistently below the ex-ante targets, thanks to tight budgetary execution (using the option of carrying over unspent reserves introduced in 2009) and to the extraordinarily favourable (re)financing conditions, partly also due to one-off effects (e.g., revenues from sales of mobile phone licenses in 2013) and higher-than-expected gross tax revenues (in 2010 and 2011).

The structural deficit widened until 2010 to 3.2 percent of GDP and was brought down thereafter in sizeable steps to 1.1 percent of GDP in 2013. It is planned to remain broadly constant until 2015, before falling to 0.4 percent in 2016, the benchmark stipulated by the national debt brake. For 2018, the structural deficit is projected at 0.3 percent of GDP. In June 2014, upon an assessment of the updated Austrian Stability Programme of April, the EU Council recommended Austria to take additional consolidation measures for the current year, in order to ensure compliance with the EU rules for the adjustment path of the structural budget balance[6]. The Council also reiterated its recommendation to achieve a budget close to balance in structural terms already in 2015.

The primary balance also followed a positive trend, i.e., from a deficit in 2009 and 2010 to quasi-balanced in 2011 and 2012 and a surplus in 2013. After a setback to –0.1 percent of GDP in 2014, it will return to a surplus growing over time to 2 percent of GDP in 2018.

[5] For further detail see *Fiscal Council* (2014A).

[6] Already in May 2014, in a letter to the European Commission, the Austrian Ministry of Finance had pledged for 2014 an additional consolidation amount of almost € 1 billion in the event of a "significant deviation" from the budgetary target for 2014 and of cyclically-related extra revenues from income tax and social contributions.

On current plans, the government debt ratio will reach a peak of 79.2 percent of GDP in 2014. With the economic crisis it has been rising steadily since 2008, after having declined from a pre-crisis high of 68.2 percent of GDP in 1995 to 60.2 percent of GDP in 2007. Until 2018, the debt ratio is planned to moderate to 71.5 percent of GDP, allowing for the debt-raising impact of the establishment of a bad bank for Hypo Alpe-Adria-Bank International AG. Not included in the projection is the revision of ESA to be implemented in autumn 2014 and the inclusion, required by Eurostat as from 1 September 2014, of the liabilities of the nationalised KA Finanz AG into public debt, which will shift the general government debt ratio for 2013 up from 74.5 percent to 81.2 percent of GDP.

Beyond the statistically recorded general government debt, a comprehensive assessment of public sector liabilities needs to also consider off-budget debt and guarantees. The long-term liabilities of enterprises owned by public authorities that are not included in the government sector rose to € 32.4 billion at the end of 2013 or 10.3 percent of GDP, of which € 21.9 billion had been incurred by the federal government and € 10.5 billion by the municipalities (*Fiscal Council,* 2014B). This compares with a total € 25.4 billion or 10.8 percent of GDP in 2004, of which € 13.5 billion relating to the federal government and € 11.9 billion to the municipalities (*Government Debt Committee,* 2011). With the revision of the European System of National and Regional Accounts (ESA) in autumn 2014, a number of enterprises or establishments at federal, regional or municipal level have been included into the government sector. The revision has implications for the general government deficit and debt level, retroactively for most years between 1995 and 2013. As from 2009, the debt level is further increased by the inclusion of the debt of KA Finanz AG (2013: € 7.2 billion). This increase is only partly compensated by debt-ratio-lowering effect of the upward revision of GDP as the denominator of the debt ratio. The overall impact of the ESA revision and the inclusion of the debt of KA Finanz AG on the debt level of the government sector is an increase by € 28.7 billion for 2013 and pushing the debt ratio up from 74.5 percent of GDP before the revision to 81.2 percent thereafter. In 2014, the debt ratio is likely to climb further, up to 87 percent of GDP.

Guarantees extended by the Länder (federal states) and municipalities totalled € 77.2 billion at the end of 2011 (*Government Debt Committee,* 2013), those of the federal government amounted to € 100.3 billion at the end of 2013. Thus, general government guarantees equalled 56.7 percent of GDP in 2013.

2.3 Pro-active measures

A number of measures to stimulate medium-term growth were already adopted with the consolidation "package" I; these measures have been prolonged or reinforced several times since, either in the context of the regular update of the medium-term fiscal plan or ad-hoc, e.g., with the stimulus "package" of mid-2013 (Tables 5 and 6).

The pro-active measures enacted so far, notably those in areas like research and development, education and childcare or universities, set important priorities in the federal budget; these priorities ought to be sustained, given the need for more resources in these areas over the medium term. Indeed, according to the budget drafts for 2014 and 2015 (*Federal Ministry of Finance,* 2014B), expenditure on education[7] will decline slightly in nominal terms between 2013 and 2015, despite the pledged "pro-active" resources. In the category of science and research (including higher education), expenditure according to the Medium-Term Expenditure Framework (MTEF) 2015-2018 is planned to increase by an overall 6.9 percent in nominal terms and thus above-average (total expenditure 2013-2018 +6.5 percent), but with inflation projected at a cumulated 9.5 percent, real spending would be declining. On the basis of current plans, the official targets (spending on higher education rising to 2 percent of GDP and the share of research and development to 3.76 percent of GDP by 2020) will hardly be reached. In the category of environmental pro-

[7] Schools and teaching personnel (global budget 30.02) plus control and services (global budget 30.01).

tection, nominal expenditure will even fall by 18.8 percent until 2018. The emphasis put since 2008 on extending care facilities for pre-school children (and particularly for those below 3 years of age) will be maintained in the next few years. The share of under-3-year olds looked after in a childcare facility (including private day-care) rose from 16.1 percent in 2008 to 25.1 percent in 2013; the extension of care facilities until 2017 by constitutional (Art. 15a) agreement between the federal government and the Länder shall allow this share to converge towards the "Barcelona" target of 33 percent of the respective age group. Also in this area, like in that of afternoon schooling, investment is needed to raise the quantity as well as the quality of child-care facilities in order to support not only educational goals, but also the reconciliation of work and family life.

Table 5: Growth-enhancing measures, as per 2013

Measures according to Austrian Stability Programme 2012 to 2017

	2013	2014	2015	2016	2017	Total
			Million €			
Additional funds, total	1,398	1,306	1,362	1,402	1,402	6,870
Universities: reinforcement of global budget	250	250	250	250	250	1,250
Universities and technical colleges	80	80	80	80	80	400
Schools: extension of full-time supervision	80	80	80	80	80	400
"Secondary education new" ("Neue Mittelschule")	34	66	102	132	132	466
Education: reinforcement from draft federal budget 2012	448	320	270	270	270	1,578
Research promotion	100	100	100	100	100	500
Applied research	25	25	30	30	30	140
"Young entrepreneurs" campaign	30	10	10	10	10	70
Subsidies for energy-saving renovation	100	100	100	100	100	500
Health care insurance fund (UG 24)	40	40	40			120
Nursing care fund	200	235	300	350	350	1,435
Development aid, external relations	11					11

Source: *Federal Ministry of Finance* (2013).

Table 6: Additional growth-enhancing measures since spring 2013

Growth-enhancing measures according to Stability Programme 2015 to 2018

	2014	2015	2016	2017	2018	Total
			Million €			
Additional expenditure, total	494	786	1,129	1,104	1,162	4,675
Extension of child care facilities	100	100	100	50		350
Increase in family benefits	65	129	191	191	253	828
Nursing care benefits and full day care	41	46	49	70	104	311
Increase in subsidies for rural development	45	85	110	110	120	470
Craftsmen bonus	10	20				30
Flood protection measures	107	96	86	86	86	462
Reinforcement of basic research			100	100	100	300
Cut in work accident insurance contribution	46	95	98	102	104	445
Cut in contribution to insolvency insurance fund		85	85	85	85	339
Abolition of company tax			100	100	100	300
Endowment dental care fund (orthodontics)		20	80	80	80	260
Extension of day care facilities for pupils	80	80	80	80	80	400
Residential building: increase in earmarked subsidies		30	50	50	50	180

Source: *Federal Ministry of Finance* (2014A).

3. Draft federal budget 2014 and 2015 – selected aspects of expenditure and revenue composition

3.1 Federal government transfer spending

Federal government transfer payments follow a long-term upward trend (Table 7): from 2008[8], when they amounted to € 19.35 billion and claimed a share of 35.6 percent of total federal government outlays, they will rise to € 33.92 billion or 45.4 percent of total spending. Between 2000 and 2015, transfers grew at an annual average of 3.8 percent, markedly above the rate of inflation of 2 percent p.a. The draft federal budget for 2014 foresees an increase by 3.8 percent from the previous year, the draft budget for 2015 by 3.4 percent.

Table 7: Major items of federal government spending on transfers

	2000	2009	2013	2014	2015	Ø 2000-2015
	Outturn		Preliminary outturn	Draft federal budget		Percentage changes from previous year
			Million €			
Retirement	11,901	17,165	19,425	20,178	21,009	+ 3.9
Federal employees pensions	2,499	3,321	3,874	4,047	4,219	+ 3.6
Reimbursement to Länder for pensions of teachers	697	1,069	1,406	1,552	1,660	+ 6.0
Postal employees pensions	872	1,190	1,212	1,254	1,279	+ 2.6
Austrian Federal Railways employees pensions	1,695	2,054	2,119	2,120	2,131	+ 1.5
Subsidies to social retirement insurance[1]	6,139	9,530	10,814	11,205	11,721	+ 4.4
Families	4,322	6,188	6,570	6,805	7,023	+ 3.3
Family benefits	2,787	3,444	3,166	3,106	3,295	+ 1.1
Maternity, child care benefits[2]	421	1,156	1,176	1,198	1,210	+ 7.3
Retirement contributions for child care periods	77	550	835	825	822	+ 17.1
Other	1,037	1,038	1,394	1,676	1,696	+ 3.3
Unemployment benefits	1,859	2,796	3,328	3,535	3,578	+ 4.5
Old-age care benefits	1,264	1,773	2,266	2,279	2,306	+ 4.1
Total	19,347	27,921	31,590	32,797	33,917	+ 3.8
As a percentage of total expenditure	35.6	40.2	41.8	43.3	45.4	
			Percentage shares			
Retirement	61.5	61.5	61.5	61.5	61.9	
Families	22.3	22.2	20.8	20.7	20.7	
Unemployment benefits	9.6	10.0	10.5	10.8	10.6	
Old-age care benefits	6.5	6.3	7.2	6.9	6.8	

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 support and mother-child-pass-bonus.

Since 2000, the composition of transfers has been broadly stable. Retirement payments claim by far the largest share of nearly 62 percent in 2015 (€ 21 billion). Over the period from 2000 to 2015, the annual increase has been 3.9 percent, in the budget drafts for 2014 and 2015 it is projected at 3.9 percent and 4.1 percent respectively. Within this category, the subsidy to the social pension scheme is the dominant item, with € 11.72 billion; growing by 4.4 percent p.a. since 2000, it exceeds all other retirement expenditure. The draft budgets anticipate growth rates of 3.6 percent for 2014 and of 4.6 percent for 2015. Thus, the latest measure to contain the upward drift, like moderate annual benefit adjustments or efforts to raise the effective retirement age, have so far been of limited effect. A further important item are the pensions of federal government civil servants, amounting to € 4.22 billion in 2015 (2000-2015 +3.6 percent p.a., budgeted for 2014 +4.4 percent, for 2015 +4.3 percent).

[8] Before the first stage of the Budget Reform entered into force on 1 January 2009; hence, data are not fully comparable with later ones. From 2009, the share of transfer payments has increased steadily from around 40 percent to over 45 percent.

The share of federal government expenditure on family subsidies (amounting to € 7 billion in the 2015 draft federal budget) has been slightly decreasing between 2000 and 2015. In 2014 and 2015, the share will be 20.7 percent of total transfer expenditure. Since 2000, the annual increase of family subsidies has averaged 3.3 percent. The higher rate of 3.6 percent budgeted for 2014 mirrors the discretionary increase of family allocations as from mid-year; in 2015, spending for families is planned to go up by 3.2 percent.

Persistent high unemployment makes for relatively high expenditure on unemployment subsidies in 2014 and 2015 (draft federal budget 2015: € 3.58 billion). The cuts of long-term care allowances included in the consolidation "package" I slowed the pace of spending in this category budgeted at € 2.31 billion for 2015, corresponding to 6.8 percent of total federal transfer expenditure. The planned increase of 0.6 percent and 1.2 percent respectively in 2014 and 2015 is clearly below the long-term average of 4.1 percent during the period 2000-2015.

The share of net retirement expenditure by the federal government (i.e., gross expenditure minus revenues, especially pension contributions) rises from 22.4 percent in 2009 to 25 percent in 2015 (with an annual increase of net pension expenditure of 3.1 percent); the share of gross retirement expenditure in total federal expenditure climbs from 24.7 percent to 28.1 percent (with an annual increase of 3.4 percent; Table 8).

Table 8: Federal government expenditure on retirement benefits

	2009	2010	2011	2012[1]	2013[2]	2014	2015	2013	2014	2015	Ø 2009-2015
	Outturn				Preliminary outturn	Draft federal budget		Percentage changes from previous year			
					Million €						
Total gross expenditure[1]	*17,165*	*18,135*	*18,083*	*19,534*	*19,425*	*20,178*	*21,009*	*– 0.6*	*+ 3.9*	*+ 4.1*	*+ 3.4*
Federal employees pensions	3,321	3,429	3,519	3,984	3,874	4,047	4,219	– 2.7	+ 4.4	+ 4.3	+ 4.1
Reimbursement to Länder for pensions of teachers	1,069	1,138	1,202	1,391	1,406	1,552	1,660	+ 1.0	+ 10.4	+ 6.9	+ 7.6
Postal employees pensions	1,190	1,199	1,198	1,305	1,212	1,254	1,279	– 7.1	+ 3.5	+ 2.0	+ 1.2
Austrian Federal Railways employees pensions	2,054	2,068	2,089	2,238	2,119	2,120	2,131	– 5.3	+ 0.0	+ 0.5	+ 0.6
Subsidies to social retirement insurance	7,655	8,206	8,072	8,747	8,743	9,130	9,612	– 0.0	+ 4.4	+ 5.3	+ 3.9
Minimum pension supplements	996	990	998	1,002	1,001	1,017	1,019	– 0.1	+ 1.5	+ 0.2	+ 0.4
Transfers to the balancing fund of the social retirement insurance agencies	880	1,105	1,006	867	1,069	1,058	1,090	+ 23.3	– 1.1	+ 3.0	+ 3.6
Gross retirement expenditure as percent of total expenditure	*24.7*	*27.0*	*26.7*	*25.5*	*25.9*	*26.6*	*28.1*	*+ 1.4*	*+ 2.9*	*+ 5.6*	*+ 2.2*
Total revenue[2]	*1,591*	*1,491*	*1,486*	*1,642*	*2,278*	*2,285*	*2,302*	*+ 38.7*	*+ 0.3*	*+ 0.8*	*+ 6.4*
Sovereign administration	766	691	659	759	1,132	1,138	1,175	+ 49.1	+ 0.5	+ 3.2	+ 7.4
Off-budget institutions	129	124	118	116	183	176	167	+ 57.6	– 4.1	– 5.0	+ 4.4
Postal administration	249	245	240	250	248	248	245	– 0.9	+ 0.2	– 1.4	– 0.2
Austrian Federal Railways	400	390	429	449	422	415	400	– 6.1	– 1.7	– 3.6	+ 0.0
Teachers employed by the Länder	47	41	39	67	293	307	315	+337.7	+ 4.9	+ 2.8	+ 37.2
Net retirement expenditure	*15,574*	*16,644*	*16,597*	*17,892*	*17,147*	*17,894*	*18,707*	*– 4.2*	*+ 4.4*	*+ 4.5*	*+ 3.1*
As a percentage of total expenditure	22.4	24.7	24.5	23.4	22.9	23.6	25.0	– 2.3	+ 3.3	+ 6.0	+ 1.9

Source: Federal Ministry of Finance, WIFO calculations. Basis: draft financing account. – [1] With the changeover to the new Budgeting Reform, data for 2012 include 13 instead of 12 monthly payments (one-time effect). – [2] Break in series due to the introduction of employer's contribution to federal employees' retirement insurance as of 2013 (totalling around € 853 million) according to § 22b Remuneration Act.

3.2 Bank support measures

Among the measures designed to smooth the impact of the financial market crisis and the Great Recession, the government adopted in autumn 2008 a bank stability "package" to an original amount of € 100 billion (*Schratzenstaller*, 2011). The Financial Market Stability Act ("Finanzmarktstabilisierungsgesetz") provided for up to € 15 billion to be earmarked for the reinforcement of equity capital (shareholder capital, acquisition of financial stakes in financial institutions by the federal government, assumption of guarantees for non-performing loans and investments). For securities issued by banks a guarantee ceiling of € 75 billion was fixed ("Interbankmarktstärkungsgesetz"), of which € 10 billion were converted in 2009 into guarantees for companies ("Unternehmensliquiditätsstärkungsgesetz") and a further € 15 billion into support for Greece and the Euro Stabilisation Facility ("Zahlungsbilanzstabilisierungsgesetz"). The saving deposit guarantee extended until end-2009 to private individuals and small and medium-sized enterprises ("Bankwesengesetz") had been endowed with up to € 10 billion, but was never actually called.

Table 9 gives an overview of the support for financial market stabilisation by receiving institution. Five institutions were granted refundable (in principle) shareholder capital to strengthen their equity capital base, against the payment of profit-related dividends. Of the original amount of € 5.874 billion (at end-2010), € 1.375 billion were still outstanding in the middle of 2014. To the extent that the amounts granted have been or will be repaid, the implicit increase in public debt is only transitory. With regard to the budget balance in the Maastricht definition, the shareholder capital is in principle neutral. However, with the nationalisation of the distressed Hypo Alpe-Adria-Bank International AG and of Österreichische Volksbanken-AG, part of the shareholder capital had to be written off as irrecoverable or as transfer of equity capital to the bank concerned: in 2012, shareholder capital of originally € 1.350 billion allocated to Hypo Alpe-Adria-Bank International AG was reduced by € 625 million, while € 450 million were converted into equity capital. Shareholder capital of € 1 billion placed at the disposal of Österreichische Volksbanken-AG was lowered to € 300 million. This reduction and conversion of shareholder capital into capital transfer to the tune of € 1.775 billion definitely raises both the budget balance in the Maastricht definition and the debt level. Equally deficit- and debt-raising were shareholder subsidies and recapitalisation moves of a total € 4.259 billion in favour of the (partly) nationalised institutions of Hypo Alpe-Adria-Bank International AG, Österreichische Volksbanken-AG, Kommunalkredit Austria AG and KA Finanz AG.

Outstanding guarantees and liabilities currently amount to € 4.306 billion. Of the original maximum amount of € 5.919 billion granted to the banks referred to[9], a total of € 1.312 billion has actually been claimed so far (Kommunalkredit Austria AG € 1.137 billion, KA Finanz AG € 175 million; *Fiscal Council,* 2014B), increasing Maastricht deficit and government debt accordingly.

Table 9: Scope of operations of financial market stabilisation

	Capital transfers[1]	Shareholder capital[2]		Financial guarantees		Guarantees for securities issued	
	Mid-2014	End-2010[3]	Mid-2014	Originally granted amount	Mid-2014	End-2010[3]	Mid-2014
				Million €			
Total	6,034.0	5,874.0	1,375.0	5,919.0	4,306.0	21,197.4	0.0
Hypo Alpe-Adria-Bank International AG	3,275.0	1,350.0	1,075.0	1,200.0	1,200.0	1,350.0	0.0
Erste Group Bank AG		1,224.0	0.0			4,050.2	0.0
Österreichische Volksbanken-AG	950.0	1,000.0	300.0	100.0	100.0	3,000.0	0.0
Raiffeisen Bank International AG		1,750.0	0.0			4,250.0	0.0
Kommunalkredit Austria AG including KA Finanz AG	1,809.0			4,219.0	3,006.0	8,547.2	0.0
BAWAG		550.0	0.0	400.0	0.0		

Source: *Fiscal Council* (2014B), media reports, WIFO compilation. – [1] Stakeholder subsidies, capital increases and reductions, transformation of shareholder in equity capital. – [2] Dividend 8 percent: Hypo Alpe-Adria-Bank International AG, Erste Group Bank AG, Raiffeisen Bank International AG; Dividend 9.3 percent: Österreichische Volksbanken-AG, BAWAG. – [3] Peak value.

Guarantees for securities issued by the banks, which were assumed by the federal government up to the end of 2010 against the payment of guarantee fees (unrelated to profits) had reached a peak of € 21.197 billion at the end of 2010; by mid-2014 all of these guarantees had expired, with none of them having actually been called.

[9] Including a guarantee of € 200 million extended in 2009 to *Constantia Privatbank AG*.

The impact of the Austrian bank rescue "package" on general government balance and debt has been consistently negative between 2009 and 2013, i.e., the implicit expenditure (capital transfers and financing cost for the federal government) exceeded related revenue (essentially guarantee fees for securities issued and dividends on shareholder capital), pushing up deficits and debt in the Maastricht definition (Table 10). The highest burden was recorded in 2012, with € 2.569 billion or 0.8 percent of GDP, but 2013 (0.6 percent of GDP) and 2010 (0.5 percent of GDP) also saw sizeable deficit-increasing effects. Until the end of 2013, the budgetary effects accumulated to € 6.241 billion. From today's perspective, a further gap of up to € 4 billion (1.2 percent of GDP) will arise in 2014, with the planned setup of a resolution fund ("bad bank") for Hypo Alpe-Adria-Bank International AG in autumn. The draft federal budget for 2014 foresees a total € 4.4 billion in deficit-increasing transfers to banks; apart from the cited € 4 billion for Hypo Alpe-Adria-Bank International AG, € 0.4 billion are thus provided for other distressed nationalised banks. The Medium-Term Expenditure Framework (MTEF) 2015-2018 also includes provisions for further bank recapitalisation that will weigh on the budget balance: € 1 billion in transfers for 2015, € 0.4 billion for 2016 and € 0.3 billion each for 2017 and 2018. These transactions will normally leave the structural deficit unaffected, as they are statistically classified as one-off measures.

Until the end of 2013, the subsidies to banks cumulated to an increase in government gross debt by € 9.250 billion or 3 percent of GDP. The debt level is affected not only by the effects on the current deficit, but also by (deficit-neutral) stock-flow adjustments (e.g., granting or repayment of shareholder capital). In the context of bank support action, the government debt level for 2014 will, on the one hand, be relieved by the repayment of shareholder capital (BAWAG and RBI), but raised, on the other, by up to € 17.8 billion due to the implementation of a "bad bank" for Hypo Alpe-Adria-Bank International AG.

Table 10: Impact of financial support to Austrian banks on the budget balance (Maastricht definition)

As of end-2013

	2009	2010	2011	2012	2013
			Million €		
Government revenues	217	566	625	497	463
Guarantee fees	217	301	332	204	170
Dividends shareholder capital	0	263	289	289	289
Fines[1]	0	2	4	4	4
Government expenditure	257	1,961	966	3,066	2,359
Financing cost	135	253	264	295	290
Capital transfers[2]	120	1,706	700	2,768	2,066
FIMBAG[3]	2	2	2	3	3
Impact on Maastricht balance	– 40	– 1,395	– 341	– 2,569	– 1,896
As a percentage of GDP	0.0	– 0.5	– 0.1	– 0.8	– 0.6
Stock-Flow-Adjustment[4]	4,744	.	– 625	– 585	– 1,424
Change in debt level	4,784	1,395	– 284	1,984	472
Maastricht debt cumulated	5,682	7,077	6,793	8,778	9,250
As a percentage of GDP	2.1	2.5	2.3	2.9	3.0
Stability fee for banks			510	583	588

Source: *Fiscal Council* (2014B). Figures do not add up due to rounding. – [1] Hypo Alpe-Adria-Bank International AG due to undershooting of equity capital threshold. – [2] Stakeholder subsidies, capital transfers, capital increases and reductions, guarantees granted and called, liability claims, depreciation of shareholder capital, asset sale. – [3] Finanzmarktbeteiligung Aktiengesellschaft des Bundes. – [4] Impact of transactions which affect only the debt level or only the deficit (e.g., debt incurred for offering shareholder capital, depreciation of shareholder capital financed by debt incurred in previous years).

3.3 Level and composition of public revenue

Total federal government revenues grow at an annual average of 1.5 percent between 2008 and 2015, and at a projected rate of 2.1 percent p.a. over the period 2008-2018. With rates of +2.6 percent p.a. (2008-2015) and +2.9 percent p.a. (2008-2018), federal gross tax revenues advance at a pace far above the average (gross tax revenues are shared with the Länder and the municipalities according to the Financial Equalisation Law ("Finanzausgleich"), and with the EU as stipulated by the

Council Decision on own resources). Gross tax revenues are projected to rise by 3.9 percent to a total € 79.38 billion in 2014, and by 3 percent to € 81.78 billion in 2015. Since 2008, revenue from wage tax has been the most dynamic component (2008-2015 +3.6 percent p.a., 2008-2018 +4.1 percent p. a.). The momentum is driven by strong employment gains – despite the crisis – and by the distinctly progressive slope of the income tax schedule, notably for small and medium-level incomes (the starting rate above the basic allowance of € 11,000 for a taxable annual income is 36.5 percent), which also generates sizeable revenue gains from fiscal drag. According to the draft federal budget for 2014, wage tax revenues of € 26 billion will exceed those from VAT (€ 25.6 billion) which has so far been the tax with the highest yield (except in 2003). In 2015, the share of the wage tax is projected to rise to a peak of over one-third of total gross tax revenues, driving up also the share of overall income taxation to over 51 percent. The share of consumption taxes has been heading down since 2009, to around 47 percent in 2015, while the contribution from wealth taxes remains at a minor 1.3 percent.

The tax revenue projection underlying the latest Medium-Term Expenditure Framework (EMTF) appears altogether plausible against the background of medium-term economic prospects. Highly uncertain is, however, the assumption on the yield of the financial transaction tax of € 500 million per year as from 2016: first, it is not yet clear whether a co-ordinated introduction sought by a group of EU countries can be achieved; second, the expected revenue would seem rather optimistic.

4. Austrian fiscal policy in the European context

According to the European Commission's spring 2014 economic forecast, the Austrian figures for the expenditure, the revenue and the tax ratio will markedly exceed the EU average in 2015 (Tables 11 and 12)[10]. Notably for the revenue and the tax ratio the gap has widened again since the pre-crisis year 2007.

The situation of public debt, however, is better in Austria than in the EU on average. The Austrian general government deficit (in the Maastricht definition) for 2015 is projected at 1.5 percent of GDP, compared with a ratio of 2.5 percent of GDP for the EU. Likewise, the structural deficit, expected at 1.1 percent of GDP, will undershoot the EU average. The government debt ratio, at 60 percent of GDP in 2007 on a par with the EU average, is projected by the European Commission to have increased by 2015 by 19 percentage points to 79.2 percent of GDP, against a rise by more than 30 percentage points, to 89.2 percent of GDP for the EU as a whole. The Scandinavian countries of Finland, Sweden and Denmark will achieve a budget close-to-balance in structural terms in 2015. In this group, Finland will exhibit the highest government debt ratio of 61 percent of GDP, whereas in Denmark it is expected at nearly 45 percent of GDP and in Sweden only at around 40 percent of GDP.

5. Outlook

The challenges facing Austria's fiscal policy during the next few years are considerable. Compliance with deficit targets on the one hand, and creating leeway for further growth-supporting spending while lowering the tax burden over the medium term on the other, requires profound structural reform in the public sector going far beyond the steps taken so far. A large potential for efficiency gains without losses in service quality can presumably be mobilised by an overhaul of the health care system, particularly the management of hospitals, and by streamlining fiscal relations between federal levels. More forceful implementation of the measures to raise the effective retirement age and of the long-envisaged reform of subsidy schemes is also urgent. In the area of public investment, several railway tunnel projects, some of

[10] All ratios discussed here follow the definitions of ESA 1995, before the revision to ESA 2010 in autumn 2014.

which have already been launched, ought to be thoroughly scrutinised with a view to their economic efficiency and ecological effectiveness.

Table 11: Government ratios in a European comparison

	Expenditure ratio					Revenue ratio					Tax burden				
	2007	2012	2013	2014	2015	2007	2012	2013	2014	2015	2007	2012	2013	2014	2015
	As a percentage of GDP														
EU 28	.	49.4	49.1	48.4	47.7	.	45.4	45.7	45.8	45.2	.	.	.	.	.
EU 27	45.5	49.4	49.1	48.4	47.7	44.6	45.4	45.7	45.8	45.2	39.6	39.6	40.0	40.0	39.8
EU 15	45.8	50.0	49.7	49.0	48.3	45.0	46.0	46.4	46.1	45.8	40.0	40.3	40.7	40.7	40.4
Belgium	48.2	55.1	54.7	54.0	54.3	48.1	51.0	52.0	51.4	51.4	43.8	45.2	46.1	45.9	46.0
Germany	43.5	44.7	44.7	44.6	44.5	43.7	44.8	44.7	44.6	44.3	39.0	39.4	39.4	39.3	39.2
Greece	47.5	53.4	58.5	47.6	45.7	40.7	44.4	45.8	45.8	44.5	32.5	33.8	33.7	35.1	34.9
Spain	39.2	47.8	44.8	43.8	43.0	41.1	37.2	37.8	38.1	36.9	37.1	32.6	33.1	33.5	32.3
France	52.6	56.7	57.1	56.8	56.2	49.9	51.8	52.8	52.9	52.7	43.4	44.9	45.8	45.7	45.4
Ireland	36.7	42.6	42.9	40.5	39.5	36.9	34.5	35.9	35.7	35.2	31.4	28.7	29.9	30.3	29.9
Italy	47.6	50.6	50.6	50.1	49.6	46.0	47.7	47.7	47.7	47.6	42.8	44.0	43.8	43.6	43.5
Luxembourg	36.3	43.9	43.5	43.1	44.0	39.9	44.0	43.6	42.9	42.6	35.7	39.4	39.3	38.9	38.6
Netherlands	45.3	50.4	49.8	49.8	49.6	45.4	46.4	47.3	47.0	47.7	38.7	39.0	39.7	40.2	41.1
Austria	48.6	51.6	51.2	52.4	50.9	47.6	49.1	49.7	49.6	49.4	41.8	43.0	43.8	43.6	43.5
Portugal	44.4	47.4	48.7	47.1	45.6	41.1	40.9	43.7	43.1	43.2	32.8	32.4	34.9	34.4	34.7
Finland	47.4	56.7	58.5	59.0	58.7	52.7	54.5	56.0	56.3	57.0	43.1	44.2	45.7	45.9	46.3
Denmark	50.8	59.4	57.1	56.9	55.9	55.6	55.5	56.2	55.6	53.2	48.9	48.2	49.4	49.0	46.8
Sweden	51.0	52.0	52.9	52.4	51.5	54.5	51.2	51.5	50.5	50.5	47.6	44.4	44.7	44.6	44.5
UK	43.3	48.1	47.1	45.6	44.2	40.5	42.0	41.3	40.5	40.2	36.7	36.7	36.8	36.3	35.9
Bulgaria	39.2	35.8	38.7	39.4	39.5	40.4	35.0	37.2	37.5	37.7	33.3	27.7	28.6	28.7	28.9
Czech Republic	41.0	44.5	42.3	42.5	42.6	40.3	40.3	40.9	40.6	40.2	35.9	35.0	35.6	35.2	34.5
Estonia	34.0	39.5	38.3	38.5	38.2	36.4	39.2	38.1	38.0	37.5	31.4	32.5	32.3	32.1	31.9
Croatia	.	45.7	45.9	46.8	46.6	.	40.8	41.0	43.0	43.5	.	.	.	.	.
Cyprus	41.3	45.8	45.8	47.1	46.1	44.8	39.4	40.3	41.3	40.0	39.9	34.7	34.7	35.0	34.8
Latvia	36.0	36.5	36.1	35.3	34.3	35.3	35.1	35.1	34.3	33.2	30.3	27.9	27.6	27.5	27.1
Lithuania	35.3	36.1	34.5	34.2	33.2	34.3	32.7	32.3	32.0	31.7	30.2	27.2	27.1	26.9	26.7
Hungary	50.7	48.7	50.0	50.4	49.5	45.6	46.6	47.6	47.3	46.5	40.5	39.2	39.3	39.1	38.5
Malta	41.8	43.1	43.9	44.1	43.8	39.5	39.9	41.1	41.6	41.3	33.9	33.5	34.6	34.9	34.8
Poland	42.2	42.2	41.9	41.3	41.2	40.3	38.3	37.5	47.0	38.3	34.8	32.5	32.0	32.3	32.7
Romania	38.2	36.7	35.0	34.8	34.7	35.3	33.7	32.7	32.6	32.8	29.1	28.5	27.7	27.6	27.7
Slovenia	42.3	48.4	59.4	49.5	47.4	42.2	44.4	44.7	45.2	44.4	37.7	37.5	37.7	38.1	37.9
Slovakia	34.2	38.2	38.7	38.0	37.5	32.4	33.7	35.9	35.0	34.7	29.3	28.3	29.9	29.6	29.6

Source: European Commission, Spring 2014 forecast.

As far as taxation is concerned, apart from lowering the overall tax burden – subject to sufficient budgetary leeway – the fiscal pressure specifically on small and medium-level labour incomes from wage tax, but even more from employers' and employees' social contributions as well as other payroll taxes (tax on sum of wages, the promotion residential buildings and to the employers' contribution of family burdens) needs to be addressed. Environmental taxes and certain property taxes (adjustment of the assessment base for the real estate tax, re-introduction of the inheritance and gift tax) offer the possibility of compensating cuts in labour taxes; finding such compensation on the revenue side is indeed necessary in the short run, given the tight budgetary situation. Greater reliance on these revenue sources would not only alleviate the tax burden on labour, but would also make the tax system more growth-, employment- and environmentally friendly. Furthermore, the numerous tax exemptions built into income tax and VAT as well as environmentally counter-productive tax exemptions need to be re-examined and scaled back as far as possible. Phasing out tax exemptions would not only generate extra revenue that may serve to lower existing high tax rates; it would also render the entire tax system less complex and more transparent.

The mentioned implementation of the major public sector reform projects cited above is all the more necessary, as the draft federal budgets for 2014 and 2015, and in particular the Medium-Term Financial Framework (EMTF) 2015-2018 are subject to certain risks and uncertainties. Among these are further subsidies for the (partly) nationalised banks, beyond the capital transfers included in the budgetary plans, and the possible deterioration of medium-term macroeconomic prospects. Compliance with the budgetary targets also rests on the assumption that the consolidation measures taken will work to full effect and that a financial transaction tax of sizeable revenue potential will actually be introduced at EU level in 2016. It should also be remembered that the EU Council has repeatedly recommended the Austrian government to achieve already in 2015 a general government budget close to structural balance, i.e., to reach the medium-term target of a structural deficit no higher than 0.5 percent of GDP.

Table 12: General government balance (Maastricht definition) and public debt of EU member countries

	Maastricht balance					Structural balance					Level of government debt				
	2007	2012	2013	2014	2015	2007	2012	2013	2014	2015	2007	2012	2013	2014	2015
	As a percentage of GDP														
EU 28	.	– 3.9	– 3.3	– 2.6	– 2.5	.	– 2.6	– 1.8	– 1.7	– 1.7	.	86.8	88.9	89.5	89.2
EU 27	– 0.9	– 3.9	– 3.3	– 2.6	– 2.5	– 2.4	– 2.6	– 1.8	– 1.7	– 1.7	58.9	86.9	89.0	89.6	89.2
EU 15	– 0.8	– 4.0	– 3.3	– 2.9	– 2.5	– 2.4	– 2.6	– 1.7	– 1.7	– 1.7	60.6	89.8	92.1	92.9	92.5
Belgium	– 0.1	– 4.1	– 2.6	– 2.6	– 2.8	– 1.4	– 3.0	– 2.3	– 2.3	– 2.5	84.0	101.1	101.5	101.7	101.5
Germany	+ 0.2	+ 0.1	+ 0.0	+ 0.0	– 0.1	– 0.8	0.3	0.6	0.5	0.0	65.2	81.0	78.4	76.0	73.6
Greece	– 6.5	– 8.9	–12.7	– 1.6	– 1.0	– 7.8	– 1.0	2.0	1.0	– 0.4	107.3	157.2	175.1	177.2	172.4
Spain	+ 2.0	–10.6	– 7.1	– 5.6	– 6.1	+ 0.6	– 4.1	– 2.8	– 2.4	– 3.4	36.3	86.0	93.9	100.2	103.8
France	– 2.7	– 4.9	– 4.3	– 3.9	– 3.4	– 4.7	– 3.8	– 3.0	– 2.3	– 2.0	64.2	90.6	93.5	95.6	96.6
Ireland	+ 0.2	– 8.2	– 7.2	– 4.8	– 4.2	– 2.1	– 7.9	– 6.2	– 4.5	– 4.2	24.9	117.4	123.7	121.0	120.4
Italy	– 1.6	– 3.0	– 3.0	– 2.6	– 2.2	– 3.6	– 1.5	– 0.9	– 0.8	– 0.7	103.3	127.0	132.6	135.2	133.9
Luxembourg	+ 3.7	+ 0.0	+ 0.1	– 0.2	– 1.4	+ 1.5	1.7	1.4	0.6	– 1.3	6.7	21.7	23.1	23.4	25.5
Netherlands	+ 0.2	– 4.1	– 2.5	– 2.8	– 1.8	– 1.0	– 2.7	– 1.3	– 1.3	– 0.8	45.3	71.3	73.5	73.8	73.4
Austria	– 0.9	– 2.6	– 1.5	– 2.8	– 1.5	– 1.9	– 1.6	– 1.1	– 1.2	– 1.1	60.2	74.4	74.5	80.3	79.2
Portugal	– 3.1	– 6.4	– 4.9	– 4.0	– 2.5	– 3.8	– 3.5	– 2.6	.	.	68.4	124.1	129.0	126.7	124.8
Finland	+ 5.3	– 1.8	– 2.1	– 2.3	– 1.3	+ 2.7	– 1.0	– 0.6	– 0.9	– 0.3	35.2	53.6	57.0	59.9	61.2
Denmark	+ 4.8	– 3.8	– 0.8	– 1.2	– 2.7	+ 2.5	0.6	0.6	– 0.2	– 0.5	27.1	45.4	44.5	43.5	44.9
Sweden	+ 3.6	– 0.6	– 1.1	– 1.8	– 0.8	+ 1.8	0.3	0.1	– 0.9	– 0.4	40.2	38.3	40.6	41.6	40.4
UK	– 2.8	– 6.1	– 5.8	– 5.1	– 4.1	– 4.1	– 6.2	– 4.8	– 4.6	– 4.1	43.7	89.1	90.6	91.8	92.7
Bulgaria	+ 1.2	– 0.8	– 1.5	– 1.9	– 1.8	– 0.3	– 0.6	– 1.1	– 1.5	– 1.2	17.2	18.4	18.9	23.1	22.7
Czech Republic	– 0.7	– 4.2	– 1.5	– 1.9	– 2.4	– 3.0	– 1.6	– 0.1	– 1.1	– 1.9	27.9	46.2	46.0	44.4	45.8
Estonia	+ 2.4	– 0.2	– 0.2	– 0.5	– 0.6	– 1.6	0.0	– 0.4	– 0.5	– 0.7	3.7	9.8	10.0	9.8	9.6
Croatia	.	– 5.0	– 4.9	– 3.8	– 3.1	.	– 4.1	– 3.5	– 3.1	– 2.3	.	55.9	67.1	69.0	69.2
Cyprus	+ 3.5	– 6.4	– 5.4	– 5.8	– 6.1	+ 2.2	– 6.5	– 3.5	– 4.0	– 4.3	58.8	86.6	111.7	122.2	126.4
Latvia	– 0.7	– 1.3	– 1.0	– 1.0	– 1.1	– 4.3	– 0.2	– 1.0	– 1.4	– 1.9	9.0	40.8	38.1	39.5	33.4
Lithuania	– 1.0	– 3.2	– 2.2	– 2.1	– 1.6	– 3.2	– 2.9	– 2.1	– 1.9	– 1.3	16.8	40.5	39.4	41.8	41.4
Hungary	– 5.1	– 2.1	– 2.2	– 2.9	– 2.8	– 5.7	– 0.8	– 0.8	– 2.2	– 2.3	67.0	79.8	79.2	80.3	79.5
Malta	– 2.3	– 3.3	– 2.8	– 2.5	– 2.5	– 3.5	– 3.9	– 2.9	– 2.8	– 2.9	60.7	70.8	73.0	72.5	71.1
Poland	– 1.9	– 3.9	– 4.3	+ 5.7	– 2.9	– 3.1	– 4.1	– 3.8	– 2.8	– 2.4	45.0	55.6	57.0	49.2	50.0
Romania	– 2.9	– 3.0	– 2.3	– 2.2	– 1.9	– 4.9	– 2.5	– 1.7	– 1.8	– 1.7	12.8	38.0	38.4	39.9	40.1
Slovenia	– 0.0	– 4.0	–14.7	– 4.3	– 3.1	– 2.6	– 2.7	– 2.9	– 2.5	– 2.4	23.1	54.4	71.7	80.4	81.3
Slovakia	– 1.8	– 4.5	– 2.8	– 2.9	– 2.8	– 4.3	– 3.9	– 2.0	– 2.2	– 1.8	29.6	52.7	55.4	56.3	57.8

Source: European Commission, Spring 2014 forecast.

Notwithstanding the primary focus on budgetary targets, government ratios, the composition of public expenditure and taxes as well as efficiency considerations, one should nevertheless not lose sight of further innovations in fiscal policy and the budgetary process. Shortly, an evaluation of the reform of budgetary legislation is due, announced by the government for 2014; based on the results of this evaluation efficiency and effectiveness of budgetary planning, execution and control should be raised. In the first instance this concerns the new regime of reserves, in force since 2009, which has led to the accumulation of important funds amounting to € 17.3 billion at the end of 2013. While these reserves currently improve the Maastricht balance, their liquidation in coming years will have the opposite effect (*Budgetdienst*, 2014). In the upcoming evaluation, special attention should also be paid to the performance budgeting including the principle of gender budgeting implemented on the federal level since 2013. In a number of Ministries, performance budgeting is still poorly used for pursuing given (economic) policy objectives. Also, an overall strategy of gender equality to serve as the base for gender budgeting is still missing. In this context, also the announced efforts at closer co-ordination of accounting practices and of the budgeting process across the different government levels need to be reinforced.

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