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Fiscal Policy Facing Major Challenges with Tax Reform, Need for Growth-Enhancing Investment and Consolidation Targets

Federal Fiscal Framework 2016-2019 and Draft Federal Budget 2016

Fiscal Policy Facing Major Challenges with Tax Reform, Need for Growth-Enhancing Investment and Consolidation Targets. Federal Fiscal Framework 2016-2019 and Draft Federal Budget 2016

Short- and medium-term fiscal planning is largely shaped by the tax reform 2015-16 which significantly lowers the burden of wage and assessed income tax as from 2016. Counter-financing the tax cuts via increases in other taxes and spending restraint on the part of the federal government and the Länder is one of the imminent challenges for fiscal policy. Uncertainty relates notably to the question whether the anticipated sizeable revenue gains from the fight against tax fraud and social security abuse will actually accrue in the short term. Further uncertainty surrounds the scope of further support for banks in distress and of current spending required for refugees and the unabated rise in unemployment. Efficiency-enhancing reform in public administration shall create the budgetary margin for a reinforcement of spending on forward-looking investment. Further reform steps are necessary to render the tax system more growth- and employment-friendly and socially equitable, and to foster its inherent environmental incentives.

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1. Introduction

On 14 October 2015, the federal government adopted the draft federal budget for 2016. It specifies the budgetary plans for the coming year whose key parameters were defined in April 2015 with the Federal Fiscal Framework for the period 2016 to 2019.

The Federal Fiscal Framework for 2016-2019 of April 2015 replaces the previous version for 2015 to 2019 of April 2014. It is based upon the WIFO medium-term forecast of end-March 2015 (*Baumgartner – Kaniovski, 2015*), which already includes the effects of the tax reform 2015-16¹ decided in mid-March. For the overlapping years from 2016 to 2018, the latest medium-term projections expect less favourable macroeconomic conditions, notably slower growth of nominal and real GDP and significantly higher unemployment.

Table 1 summarises the key economic assumptions underlying the Federal Fiscal Framework 2016-2019 and the draft federal budget for 2016. The latter is based upon

¹ For the tax reform 2015-16, see WIFO-Monatsberichte, 5/2015.

the WIFO short-term forecast of September 2015 (Scheiblecker, 2015). For 2016, the draft budget anticipates a somewhat higher unemployment rate than the Federal Fiscal Framework, while the assumptions for GDP growth are identical and those for employment growth slightly higher. The persistently weak economic environment in Europe and the slowdown in China hold a certain downward risk for medium-term growth prospects for Austria.

Table 1: Key economic data

| | Gross domestic product | | | Consumer prices | Gross wage bill, nominal | | Dependent active employment | Unemployment | | Unemployment rate | | |
|--|--|---|-------------------|---------------------------------------|---|--|---------------------------------------|---------------------------------------|----------|---|--|--|
| | Real Percentage changes from previous year | Nominal Percentage changes from previous year | Nominal Billion € | Percentage changes from previous year | Total Percentage changes from previous year | Per capita Percentage changes from previous year | Percentage changes from previous year | Percentage changes from previous year | In 1,000 | As a percentage of dependent labour force | As a percentage of total labour force (Eurostat) | |
| <i>Medium-term forecast February 2014 (basis for Strategy Report April 2014)</i> | | | | | | | | | | | | |
| 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 | |
| <i>Medium-term forecast March 2015 (basis for Strategy Report April 2015)</i> | | | | | | | | | | | | |
| 2014 | + 0.3 | + 2.0 | 329.0 | + 1.7 | + 2.6 | + 1.7 | + 0.8 | + 32.2 | 319.4 | 8.4 | 5.0 | |
| 2015 | + 0.5 | + 1.9 | 335.3 | + 1.3 | + 2.2 | + 1.5 | + 0.6 | + 31.0 | 350.4 | 9.1 | 5.3 | |
| 2016 | + 1.4 | + 3.1 | 345.8 | + 1.9 | + 2.8 | + 1.9 | + 0.8 | + 16.5 | 366.9 | 9.4 | 5.3 | |
| 2017 | + 1.5 | + 3.2 | 357.0 | + 1.8 | + 3.2 | + 2.1 | + 0.9 | + 5.0 | 371.9 | 9.4 | 5.3 | |
| 2018 | + 1.7 | + 3.3 | 368.8 | + 1.7 | + 3.4 | + 2.1 | + 1.1 | - 0.9 | 371.0 | 9.3 | 5.2 | |
| 2019 | + 1.9 | + 3.5 | 381.6 | + 1.8 | + 3.6 | + 2.2 | + 1.2 | - 4.6 | 366.4 | 9.1 | 5.1 | |
| <i>Medium-term forecast September 2015 (basis for draft federal budget 2016)</i> | | | | | | | | | | | | |
| 2014 | + 0.4 | + 2.0 | 329.3 | + 1.7 | + 2.5 | + 1.4 | + 0.7 | + 32.2 | 319.4 | 8.4 | 5.6 | |
| 2015 | + 0.7 | + 2.4 | 337.1 | + 1.1 | + 2.7 | + 1.6 | + 0.9 | + 38.0 | 357.4 | 9.2 | 5.8 | |
| 2016 | + 1.4 | + 3.1 | 347.6 | + 1.7 | + 2.8 | + 1.7 | + 1.0 | + 27.0 | 384.4 | 9.7 | 6.0 | |
| 2017 | + 1.5 | + 2.9 | 357.6 | + 1.7 | + 2.9 | + 1.8 | + 0.9 | + 10.1 | 394.5 | 9.9 | 6.1 | |
| 2018 | + 1.6 | + 3.1 | 368.6 | + 1.8 | + 3.2 | + 2.1 | + 0.9 | + 2.7 | 397.2 | 9.9 | 6.1 | |
| 2019 | + 1.6 | + 3.2 | 380.3 | + 1.8 | + 3.3 | + 2.1 | + 1.0 | - 5.1 | 392.1 | 9.7 | 6.0 | |
| 2020 | + 1.6 | + 3.4 | 393.3 | + 1.9 | + 3.4 | + 2.2 | + 1.0 | - 7.4 | 384.7 | 9.4 | 5.8 | |

Source: WIFO. Unemployment rate according to Eurostat: due to a new weighting scheme applied by Statistics Austria since April 2015, revision and level shift as from 2004 data.

Difficult starting conditions for budgetary policy further arise from a number of special factors: first and foremost, the ongoing resolution of (partly) nationalised banks in distress (in particular the HETA Asset Resolution AG) will continue to strain the federal budget over the next few years, even though less than during the period 2009-2014². Second, spending in areas crucial for future growth, such as education and child care, schools, universities as well as research and development puts additional claim on government resources. Third, the comprehensive tax reform will take its full effect on the budget for 2016, while all government levels (federal, Länder and municipalities) are faced with the cost of still-rising numbers of refugees, a cost that is difficult to project. Continued budgetary relief, on the other hand, will derive from benign conditions for debt refinancing and new borrowing, and from moderate inflation which holds down the increase in retirement benefits and public sector salaries.

² For details, see section 3.2 hereunder.

2. Key parameters of budgetary planning until 2019

2.1 Overview of medium-term federal expenditure and revenue

Federal government revenue (current receipts on a cash basis) rises from € 71.5 billion in 2014 to € 79.3 billion in 2019 (Table 2), at an average rate of 2.1 percent p.a., like between 2009 and 2016 (2009-2019 +2.4 percent). Federal government expenditure (current disbursements on a cash basis) increases from € 74.7 billion in 2014 to € 80.3 billion in 2019 (2014-2019, 2009-2016 and 2009-2019 +1.5 percent p.a. respectively). Federal gross tax revenues rise from € 78.5 billion in 2014 to € 90.5 billion in 2019 (2014-2019 +2.9 percent p.a., 2009-2016 +3.7 percent p.a., 2009-2019 +3.6 percent p.a.), net tax revenues (i.e., gross tax revenues minus the shares of Länder and municipalities and the share of the EU) from € 47.5 billion in 2014 to € 54.6 billion (2014-2019 +2.8 percent p.a., 2009-2016 +4 percent p.a., 2009-2019 +3.8 percent p.a.).

The federal administrative balance was € -3.2 billion (-1 percent of GDP) in 2014 and is set to narrow to € -1.0 billion or -0.3 percent of GDP by 2019. In the Maastricht definition, the federal government balance was € -9.3 billion or -2.8 percent of GDP in 2014, according to the Government Budget Report; for 2019, it is projected to decline to € -2.6 billion or -0.7 percent of GDP.

Table 2: Federal budget overview

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2009-2016 | 2014-2019 | 2009-2019 |
|---|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---|-----------|-----------|
| | Billion € | | | | | | | | | | | Average year-to-year percentage changes | | |
| Revenues and receipts ¹ | 62,376 | 59,434 | 63,452 | 65,931 | 71,364 | 71,463 | 71,525 | 71,903 | 73,969 | 76,467 | 79,268 | + 2.1 | + 2.1 | + 2.4 |
| Expenditures and disbursements ^{1,2} | 69,457 | 67,287 | 67,814 | 72,880 | 75,567 | 74,653 | 74,719 | 77,026 | 77,446 | 78,915 | 80,276 | + 1.5 | + 1.5 | + 1.5 |
| Administrative balance | -7,080 | -7,853 | -4,362 | -6,949 | -4,203 | -3,189 | -3,194 | -5,123 | -3,477 | -2,448 | -1,008 | | | |
| Maastricht balance ^{3,4} | -2,368 | -9,929 | -7,212 | -6,889 | -4,411 | -9,321 | -6,748 | -5,552 | -5,174 | -4,140 | -2,576 | | | |
| Gross tax revenues | 63,314 | 65,492 | 69,858 | 73,153 | 76,370 | 78,503 | 81,780 | 81,850 | 84,000 | 87,150 | 90,450 | + 3.7 | + 2.9 | + 3.6 |
| Net tax revenues | 37,638 | 39,816 | 41,931 | 43,807 | 45,801 | 47,473 | 49,197 | 49,378 | 50,800 | 52,646 | 54,603 | + 4.0 | + 2.8 | + 3.8 |
| | As a percentage of GDP | | | | | | | | | | | | | |
| Revenues and receipts ¹ | 21.8 | 20.2 | 20.6 | 20.8 | 22.1 | 21.7 | 21.2 | 20.7 | 20.7 | 20.7 | 20.8 | | | |
| Expenditures and disbursements ^{1,2} | 24.3 | 22.8 | 22.0 | 23.0 | 23.4 | 22.7 | 22.2 | 22.2 | 21.7 | 21.4 | 21.1 | | | |
| Administrative balance | - 2.5 | - 2.7 | - 1.4 | - 2.2 | - 1.3 | - 1.0 | - 0.9 | - 1.5 | - 1.0 | - 0.7 | - 0.3 | | | |
| Maastricht balance ³ | - 4.3 | - 3.4 | - 2.3 | - 2.2 | - 1.4 | - 2.8 | - 2.0 | - 1.6 | - 1.4 | - 1.1 | - 0.7 | | | |
| Gross tax revenues | 22.1 | 22.2 | 22.6 | 23.1 | 23.7 | 23.8 | 24.3 | 23.5 | 23.5 | 23.6 | 23.8 | | | |
| Net tax revenues | 13.2 | 13.5 | 13.6 | 13.8 | 14.2 | 14.4 | 14.6 | 14.2 | 14.2 | 14.3 | 14.4 | | | |

Source: Federal Ministry of Finance (2015A, 2015B), Statistics Austria, WIFO calculations. Up to 2014: outturn, 2015: draft federal budget, 2016: forecast by Ministry of Finance, as from 2017: Federal Medium-Term Expenditure Framework – ¹ As from 2013 (second stage of budgeting legislation 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. – ⁴ According to revision by Statistics Austria as per 21 October 2015; marginal deviations for 2013 and 2014.

As in the last few years, the consolidation measures introduced since 2010³ on the revenue as well as the expenditure side will be reflected in a subdued rise in expenditure and a stable revenue trend despite sluggish economic growth. Since the adoption of the third consolidation "package" in spring 2014, which mainly consists of tax increases (Schratzenstaller, 2014A) and shall cover the gap in the federal balance identified during the negotiations of autumn 2013 to form a government coalition, no further measures have been decided to comply with the budgetary targets⁴. It is advisable that the government proceed to an early evaluation of the

³ For details, see Schratzenstaller (2011, 2012, 2014A) and Fiscal Council (2014).

⁴ The tax hikes taking effect in 2016 and the envisaged restraint in administrative expenditure and subsidies at the federal and the Länder level serve to counter-finance the tax reform 2015-16; for details, see chapter 4 hereunder.

consolidation measures taken so far: in particular, the "retirement monitoring" announced for quite some time should be introduced without delay in order to ensure that the various incentives for a higher effective retirement age show the desired effect.

In addition, the degree of implementation of the health care reform decided in 2013 is due for review; the aim of the reform is to dampen the expenditure increase by a number of measures totalling € 3.4 billion (€ 2.1 billion of savings to be contributed by the Länder and € 1.4 billion by the social security bodies) and to align public expenditure on health (excluding long-term care) until 2016 to the projected growth of nominal GDP. With a view to achieving that aim, the Budget Report attached to the draft federal budget for 2016 (*Federal Ministry of Finance, 2015B*) cites the expansion of multi-disciplinary primary care and the expenditure savings agreed between the governing body of social security agencies and the regional health insurance funds; successful implementation of the saving measures will be supported once again in 2016 by the disbursement of € 10 million from the health insurance structural fund. Yet, further specific measures will be required if the expenditure benchmarks are to be met. With regard to the performance-oriented impact assessment in 2017, six measures have been defined, three of which are likely to take full effect by the time. The objective of creating outpatient facilities will probably be reached with some delay (*Hofmarcher, 2015A*). The sustainability of health care financing is subject to certain risks. Thus, the implementation of the EU Working Time Directive will lead to substantial pay rises for medical staff. Also the increasing availability of innovative, but costly pharmaceutical products makes for considerable upward pressure on expenditure (*Hofmarcher, 2015B*).

Last but not least, a review of priorities on the public agenda and accompanying changes in the budgetary composition remain urgent in order to create leeway for growth-enhancing investment and in the longer term also to further reduce the tax burden that remains comparatively high even after the current tax reform. This mainly concerns the overdue reform of Austria's federal fiscal relations⁵ which the authorities should push for in the current negotiations for a renewal of the present revenue sharing agreement expiring at the end of 2016. No less urgent is a comprehensive overhaul of public subsidies which suffer from systemic inconsistencies, inadequately specified goals and priorities and a lack of regular evaluation. Such an approach to structural reform which may free public resources without loss of quality in service provision is superior, from the perspective of a fiscally sound and sustainable policy, to politically more easily achievable spending cuts across-the-board without an underlying strategic design, as have been occasionally applied in the last few years.

2.2 Medium-term trend of key macroeconomic variables until 2019

The government expenditure ratio which in 2009, with the outbreak of the financial market crisis and the recession, reached a peak of 54.1 percent of GDP⁶, is set to abate to 51.1 percent of GDP in 2016, according to the draft federal budget (Table 3). The Federal Fiscal Framework foresees a further decline to slightly below 50 percent of GDP in 2019, for the first time since 2008. The government revenue ratio is around 50 percent of GDP for 2014 and 2015, close to its historical peak of 50.9 percent of GDP in 1996, and should hover around 49.5 percent of GDP as from 2016. The tax burden (historical peak of 43.9 percent of GDP in 2001) is climbing above 43 percent of GDP in 2014 and 2015, remaining stable thereafter until 2019 at slightly below 43 percent of GDP.

The general government deficit (Maastricht definition) which in 2008 had been down to 1.4 percent of GDP (according to ESA 2010) jumped with the crisis to 5.3 percent of GDP in 2010. Already since 2011, the general government deficit has

⁵ See the special focus on fiscal federalism in WIFO-Monatsberichte (*Pitlik – Schratzenstaller, 2012, Bröthaler et al., 2012, Strohner – Schuh, 2012, Bauer et al., 2012, Pitlik – Wirth, 2012*).

⁶ The all-time peak of the government expenditure ratio was recorded in 1995, at 55.5 percent of GDP.

been consistently below the Maastricht ceiling of 3 percent of GDP. In 2014, the deficit stood at 2.7 percent of GDP, in line with the federal budget draft⁷. The significant increase from 2013 (–1.3 percent of GDP) was due to the resolution cost of Hypo Alpe-Adria-Bank International AG via the HETA Asset Resolution AG; without this one-off effect, the Maastricht deficit would have been equivalent to 1 percent of GDP. The Federal Fiscal Framework foresees a stepwise decline of the deficit, starting from 2015, to 0.5 percent of GDP by 2019. The draft federal budget for 2016 includes a slight downward revision of the deficits for 2015 and 2016 from the Federal Fiscal Framework: the new projection is for a deficit of 1.9 percent of GDP in 2015 and of 1.4 percent of GDP in 2016.

Table 3: Key macroeconomic indicators until 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------------------------|-------|-------|-------|-------|-------|
| | As a percentage of GDP | | | | | |
| <i>Federal Medium-Term Expenditure Framework 2016 to 2019 of April 2015</i> | | | | | | |
| Expenditure ratio ¹ | 52.3 | 52.1 | 51.2 | 50.7 | 50.4 | 49.9 |
| Revenue ratio | 49.9 | 49.9 | 49.5 | 49.5 | 49.4 | 49.4 |
| Tax burden ² | 43.1 | 43.2 | 42.8 | 42.9 | 42.9 | 42.9 |
| Maastricht balance general government | – 2.4 | – 2.2 | – 1.6 | – 1.3 | – 0.9 | – 0.5 |
| Federal government | – 2.5 | – 2.3 | – 1.8 | – 1.4 | – 1.1 | – 0.7 |
| Länder, municipalities | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Social security agencies | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Primary balance | 0.0 | 0.1 | 0.5 | 0.7 | 1.0 | 1.4 |
| Structural budget balance | – 0.3 | – 0.5 | – 0.5 | – 0.5 | – 0.5 | – 0.4 |
| Public debt | 84.5 | 86.8 | 85.7 | 84.1 | 82.1 | 79.7 |
| <i>Draft federal budget for 2015 and federal budget outline for 2016 of October 2015</i> | | | | | | |
| Expenditure ratio ¹ | 52.7 | 52.0 | 51.1 | | | |
| Revenue ratio | 50.0 | 50.1 | 49.7 | | | |
| Tax burden ² | 43.1 | 43.3 | 42.9 | | | |
| Maastricht balance general government | – 2.7 | – 1.9 | – 1.4 | | | |
| Federal government | – 2.8 | – 2.0 | – 1.6 | | | |
| Länder, municipalities | + 0.1 | + 0.1 | + 0.1 | | | |
| Social security agencies | + 0.1 | + 0.1 | + 0.1 | | | |
| Primary balance | – 0.2 | + 0.5 | + 0.8 | | | |
| Structural budget balance | – 0.5 | – 0.5 | – 0.5 | | | |
| Public debt | 84.2 | 86.5 | 85.1 | | | |

Source: Statistics Austria, Federal Ministry of Finance (2015A, 2015B, 2015C). – ¹ Harmonised (excluding Swaps). – ² Indicator 2, hence without imputed social contributions. Figures do not add up due to rounding.

The structural deficit, adjusted for cyclical effects and one-off measures, was 0.5 percent of GDP in 2014, according to the draft federal budget for 2016 (against an anticipated –0.3 percent of GDP in the Federal Fiscal Framework), and is set to remain at that level over the entire planning period. On current budgetary plans, Austria would by and large follow the recommendation of the EU Council of May 2015, namely to avoid in 2015 and 2016 slippage from the Medium-Term Objective (MTO, which for Austria is a structural budget balance no higher than –0.45 percent of GDP; *Fiscal Council*, 2015A, 2015B). The latest budgetary projections by the Fiscal Council, the European Commission and WIFO are all for a higher nominal (Maastricht) and structural deficit than foreseen in the draft federal budget for 2016.

Altogether, in half of the years from 2007 to 2014, budgetary execution achieved nominal deficits that were lower than the respective projections in the draft budgets. In the period from 2010 to 2013, several factors were responsible for the more favourable outturn: restraint on expenditure and the accumulation of sizeable financial reserves (enabled by the new reserve regulations introduced in 2009 with the reform of federal budgeting legislation), extremely favourable (re)financing conditions, to some extent also higher-than-anticipated tax revenues as well as the changeover to ESA 2010. In 2008 and 2009, the ex-post deficits were higher than pro-

⁷ At the end of March 2015, in the context of the Maastricht notification, the deficit expected for 2014 was still 2.4 percent of GDP, like foreseen also by the Federal Fiscal Framework of April 2015.

jected. In 2007 and 2014, the actual deficits were in line with the projections; barring the statistical revision of spring 2015, the actual nominal deficit for 2014 would have been higher than the ex-ante deficit; in the absence of the ESA changeover, the deficit for 2007 would have been lower than anticipated.

The primary balance was negative in 2009 and 2010, but positive in the years from 2011 (0.2 percent of GDP) to 2013 (1.3 percent). After a slightly negative outturn in 2014 (-0.2 percent), the primary balance is set to gradually improve between 2015 and 2019 (to an eventual surplus of 1.4 percent of GDP).

Before the onset of the financial market crisis and the recession, the government debt ratio had abated to 64.8 percent of GDP in 2007. According to the Federal Financial Framework, the ratio will rise to an all-time high of 86.8 percent of GDP in 2015 and moderate thereafter to slightly below 80 percent of GDP by 2019. The draft federal budget for 2016 expects marginally lower debt ratios for 2015 and 2016. With the revision of the European System of National and Regional Accounts (ESA 2010) in autumn 2014, the debt ratio ratcheted up by several percentage points (2010 +10 percent of GDP, 2014 +7.3 percent of GDP), an effect that will extend over the next few years. Financial support for banks raises the government debt ratio by 8.7 percentage points for 2014, by 10.5 percentage points in 2015 and 9.8 percentage points in 2016. With a number of statistical revisions in the last years, several off-budget items have been included into government debt, notably debt incurred by the Austrian Federal Railway Infrastruktur AG (ÖBB), the Federal Real Estate Agency and the Hospital Management Agencies of the Länder, reducing accordingly the stock of off-budget debt. At the end of 2014, long-term liabilities of government enterprises amounted to € 9.5 billion (2.9 percent of GDP) at the federal level and € 2.8 billion (0.85 percent of GDP) at the municipal level (*Fiscal Council, 2015A*).

2.3 Growth-enhancing measures

Since 2011, accompanying the successive consolidation "packages", the government has reinforced spending in areas crucial for future economic growth; the new Federal Financial Framework provides for a continuation and expansion of growth-enhancing investment (Table 4)⁸. Apart from additional funds allocated already during the last few years to universities and technical colleges, pre-school education and pupil day-care facilities as well as to residential building, more resources are going to be devoted to public security, defence, higher education, broadband network expansion, employment opportunities for older workers and short-time work. The tax reform 2015-16 also includes incentives in this regard, notably an increase in the research premium and the appropriation of the revenue gains from the temporary increase in the top marginal tax rate for research and education.

The promotion of forward-looking investment is vital for stronger economic growth and job creation in the medium term. At the same time, fiscal policy must create the budgetary leeway for higher spending on such investment. Thus, expenditure on research will rise above 3 percent of GDP in 2015; however, on the basis of current expenditure trends and tax incentives, it is unlikely that the target ratio of 3.76 percent of GDP by 2020 will be attained. Likewise, the goal of spending 2 percent of GDP on tertiary education by 2020 will hardly be met on unchanged expenditure plans. The draft federal budgets for 2014 and 2015 foresee a decline (in nominal terms) of the funds for education. Lately, a supplementary budget has increased education spending (UG 30) by some € 350 million for 2015. Since no such reinforcement of similar scope is planned for 2016 (education expenditure is to rise by € 106 million from the draft budget for 2015), the public education sector remains structurally under-financed. An increase in financial resources should in any case – preferably in the context of the educational reform presented in mid-November 2015 – go along with the mobilisation of existing efficiency reserves in the system (such as the removal of duplication within the schooling administration). In addition, efforts undertaken by the federal government to expand child care facilities, notably for children under

⁸ An overview of the growth-enhancing policy measures taken so far is presented in *Schatzenstaller (2014A)*.

age three, and after-school care ought to be continued and strengthened. Although the share of children enrolled in institutional care (including day nannies) has risen from 16.1 percent in 2008 to nowadays 25.9 percent and is likely to meet the "Barcelona objective" of 33 percent by 2017, quantitative and qualitative shortcomings will nevertheless remain, such as for after-school care of pupils.

Table 4: Growth-enhancing measures since spring 2014

Measures according to Stability Programme 2016 to 2019

| | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|--|-----------|------|------|------|------|-------|
| | Million € | | | | | |
| Additional funds, total | 72 | 968 | 857 | 604 | 537 | 3,038 |
| Security "package" of Ministry of Interior | 72 | 72 | 72 | 72 | – | 288 |
| Investment in defence | – | 96 | 85 | 82 | 87 | 350 |
| Universities and technical colleges | – | 230 | 230 | 230 | 230 | 920 |
| Broadband network extension | – | 300 | 200 | 200 | 200 | 900 |
| Employment initiative "50+" | – | 250 | 250 | – | – | 500 |
| Short-time work | – | 20 | 20 | 20 | 20 | 80 |

Source: Federal Ministry of Finance (2015A).

Finally, from the angle of an environmentally and socially more sustainable fiscal policy, the cut in spending on environmental matters by € 23.8 million (–3.9 percent) between 2016 and 2019 would seem problematic. Still missing is also the roadmap announced in the government programme towards compliance with the internationally agreed benchmark for expenditure on development cooperation of 0.7 percent of gross national income (GNI). At currently 0.26 percent of GNI, Austria's share is falling heavily short of the target and, given the lasting stagnation of government spending, the draft federal budget for 2016 will add nothing to reduce this gap.

3. Draft federal budget 2016 – selected aspects of expenditure and revenue composition

3.1 Federal government transfers

In a long-term perspective, the major federal government transfer outlays⁹ rise not only in absolute terms, but also as a share of total expenditure (2000: 33.2 percent, 2016: 45.7 percent of total federal government spending; Table 5). At a rate of +3.8 percent p.a., transfers have risen at more than twice the pace since 2000 of total central government expenditure (+1.8 percent p.a.). In the last years, though, the momentum has slowed somewhat (2010-2016 +3 percent p.a.).

Federal government expenditure for retirement benefits (UG 22, essentially transfers to the social security pension system; UG 23 retirement benefits for civil servants) accounts for 61.8 percent of total federal transfers. The respective item is included in the draft federal budget for 2016 with a lower amount than in the Federal Fiscal Framework of April 2015. This suggests on the one hand a stabilisation of the expenditure trend due to the policy measures in favour of raising the effective retirement age. Receding inflation, on the other hand, dampens the regular adjustment of retirement benefits, while contribution revenues are boosted by solid employment growth, both elements reducing the federal government subsidy needed to cover the financial gap (*Federal Ministry of Finance, 2015B, 2015C*). During the period 2010-2016, federal outlays for retirement benefits increase by 3.1 percent p.a., less than on average for 2000-2016 (+3.8 percent p.a.). The pace is in line with the trend rate for transfer expenditure as a whole.

⁹ Apart from federal government expenditure for retirement benefits, families and old-age care, transfers for families also include those of the social security retirement insurance agencies, the Länder and municipalities.

Table 5: Major items of federal government spending on transfers

| | 2000 | 2010 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2000-2016 | 2010-2016 |
|---|-------------------|--------|--------|--------|--------|---------------------------------------|--------|--------|---|-----------|
| | Million € | | | | | Percentage changes from previous year | | | Average year-to-year percentage changes | |
| Expenditures and disbursements, total | 58,247 | 67,287 | 74,653 | 74,719 | 77,026 | - 1.2 | + 0.1 | + 3.1 | + 1.8 | + 2.3 |
| Federal transfer expenditure, total | 19,347 | 29,418 | 33,394 | 33,917 | 35,172 | + 5.7 | + 1.6 | + 3.7 | + 3.8 | + 3.0 |
| As a percentage of total expenditure | 33.2 | 43.7 | 44.7 | 45.4 | 45.7 | + 7.0 | + 1.5 | + 0.6 | | |
| Retirement | 11,901 | 18,135 | 20,680 | 21,009 | 21,741 | + 6.5 | + 1.6 | + 3.5 | + 3.8 | + 3.1 |
| Federal employees pensions | 2,499 | 3,429 | 4,009 | 4,215 | 4,254 | + 3.5 | + 5.1 | + 0.9 | + 3.4 | + 3.7 |
| Reimbursement to Länder for pensions of teachers | 697 | 1,138 | 1,635 | 1,662 | 1,724 | + 16.3 | + 1.7 | + 3.7 | + 5.8 | + 7.2 |
| Postal employees pensions | 872 | 1,199 | 1,242 | 1,279 | 1,274 | + 2.5 | + 3.0 | - 0.4 | + 2.4 | + 1.0 |
| Austrian Federal Railways employees pensions | 1,695 | 2,068 | 2,113 | 2,131 | 2,123 | - 0.3 | + 0.8 | - 0.4 | + 1.4 | + 0.4 |
| Subsidies to social retirement insurance ¹ | 6,139 | 10,075 | 9,333 | 9,612 | 9,979 | + 6.7 | + 3.0 | + 3.8 | + 3.1 | - 0.2 |
| Families | 4,322 | 6,528 | 6,834 | 7,023 | 7,088 | + 4.0 | + 2.8 | + 0.9 | + 3.1 | + 1.4 |
| Family benefits | 2,787 | 3,447 | 3,167 | 3,168 | 3,169 | + 0.0 | + 0.0 | + 0.0 | + 0.8 | - 1.4 |
| Maternity, child care benefits ² | 421 | 1,155 | 1,204 | 1,200 | 1,235 | + 2.4 | - 0.3 | + 2.9 | + 7.0 | + 1.1 |
| Retirement contributions for child care periods | 77 | 825 | 928 | 822 | 883 | + 11.2 | - 11.4 | + 7.4 | + 16.5 | + 1.1 |
| Other | 1,037 | 1,101 | 1,535 | 1,834 | 1,801 | + 10.2 | + 19.4 | - 1.8 | + 3.5 | + 8.5 |
| Unemployment benefits | 1,859 | 2,962 | 3,597 | 3,578 | 4,029 | + 8.1 | - 0.5 | + 12.6 | + 5.0 | + 5.3 |
| Old-age care benefits | 1,264 | 1,855 | 2,283 | 2,306 | 2,314 | + 0.8 | + 1.0 | + 0.3 | + 3.9 | + 3.8 |
| | Percentage shares | | | | | | | | | |
| Retirement | 61.5 | 61.6 | 61.9 | 61.9 | 61.8 | | | | | |
| Families | 22.3 | 22.2 | 20.5 | 20.7 | 20.2 | | | | | |
| Unemployment benefits | 9.6 | 10.1 | 10.8 | 10.6 | 11.5 | | | | | |
| Old-age care benefits | 6.5 | 6.3 | 6.8 | 6.8 | 6.6 | | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | | | | | |

Source: Federal Ministry of Finance, WIFO calculations. Until 2014: outturn, 2015: draft federal budget, 2016: draft federal budget outline. – ¹ Including minimum pension supplements and transfers to the balancing fund of the social retirement insurance agencies. – ² Including small-children support.

The repeated increases in family benefits since 2008 are in part reflected in federal government expenditure on family support¹⁰. Over the period from 2000 to 2016, such expenditure has risen by 3.1 percent per year, between 2010 and 2016 by 1.4 percent p.a. The share of family benefits in total federal transfer outlays declined from 22.3 percent in 2000 to 20.2 percent in 2016. Additional spending relates to the increase in the family allowance in three steps in 2014, 2016 and 2018, as well as to subsidies granted to the Länder since 2008 for the expansion of child care facilities. Revenue-dampening (rather than expenditure-raising) effects derive from the increase in the subsistence and the child tax credit, the introduction of a tax-free child care allowance paid by employers to their employees, and the introduction of a child tax allowance with the tax reform 2009-10, the amount now being doubled with the tax reform 2015-16. Total family benefits (at all government levels) corresponded to 2.9 percent of GDP in 2013. Going forward, family policy should streamline the still dominating cash transfers and shift its focus towards benefits in kind.

Due to rising unemployment, spending on unemployment benefits is the only transfer category reviewed here which increased above-average (2000-2016 +5 percent p.a., 2010-2016 +5.3 percent p.a.). Hence, its share of total transfer expenditure rose from 9.6 percent in 2000 to 11.5 percent in 2016.

The share of federal government spending on old-age care in total transfers is stable in the long term (6.5 percent in 2016, as in 2000, with an average increase of 3.9 percent p.a.), also due to the moderate benefit adjustments in the past and according to plans for the future.

With federal revenues in retirement contributions rising by 7 percent p.a. between 2010 and 2016, retirement expenditure has increased less in net than in gross terms

¹⁰ For details see Schratzenstaller (2014B).

(Table 6). The share of retirement in total expenditure is 28.2 percent in gross and 25.3 percent in net terms.

Table 6: Federal government expenditure on retirement benefits

| | 2000 | 2010 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2000-2016 | 2010-2016 |
|--|-----------|--------|--------|--------|--------|---------------------------------------|--------|--------|---|-----------|
| | Million € | | | | | Percentage changes from previous year | | | Average year-to-year percentage changes | |
| <i>Total gross expenditures</i> ^{1,2} | 11,901 | 18,135 | 20,680 | 21,009 | 21,741 | + 6.5 | + 1.6 | + 3.5 | + 3.8 | + 3.1 |
| Federal employees pensions | 2,499 | 3,429 | 4,009 | 4,215 | 4,254 | + 3.5 | + 5.1 | + 0.9 | + 3.4 | + 3.7 |
| Reimbursement to Länder for pensions of teachers | 697 | 1,138 | 1,635 | 1,662 | 1,724 | + 16.3 | + 1.7 | + 3.7 | + 5.8 | + 7.2 |
| Postal employees pensions | 872 | 1,199 | 1,242 | 1,279 | 1,274 | + 2.5 | + 3.0 | - 0.4 | + 2.4 | + 1.0 |
| Austrian Federal Railways employees pensions | 1,695 | 2,068 | 2,113 | 2,131 | 2,123 | - 0.3 | + 0.8 | - 0.4 | + 1.4 | + 0.4 |
| Subsidies to social retirement insurance | 4,152 | 8,206 | 9,333 | 9,612 | 9,979 | + 6.7 | + 3.0 | + 3.8 | + 5.6 | + 3.3 |
| Minimum pension supplements | 741 | 990 | 1,022 | 1,019 | 993 | + 2.0 | - 0.3 | - 2.6 | + 1.8 | + 0.1 |
| Transfers to the balancing fund of the social retirement insurance agencies | 1,246 | 1,105 | 1,326 | 1,090 | 1,394 | + 24.0 | - 17.8 | + 27.9 | + 0.7 | + 3.9 |
| Gross retirement expenditure as a percentage of total expenditure ³ | 20.4 | 27.0 | 27.7 | 28.1 | 28.2 | + 7.8 | + 1.5 | + 0.4 | + 2.0 | + 0.8 |
| <i>Total revenues</i> ² | 1,412 | 1,491 | 2,425 | 2,470 | 2,257 | + 15.7 | + 1.9 | - 8.6 | + 3.0 | + 7.2 |
| Sovereign administration including off-budget institutions | | 815 | 1,470 | 1,509 | 1,331 | + 29.8 | + 2.7 | - 11.8 | | + 8.5 |
| Postal administration | | 245 | 243 | 245 | 238 | - 2.0 | + 0.9 | - 2.9 | | - 0.5 |
| Austrian Federal Railways | | 390 | 422 | 400 | 382 | + 0.0 | - 5.2 | - 4.4 | | - 0.3 |
| Teachers employed by the Länder | | 41 | 289 | 315 | 306 | - 1.1 | + 8.9 | - 3.0 | | + 39.5 |
| <i>Net retirement expenditure</i> | 10,490 | 16,644 | 18,255 | 18,539 | 19,484 | + 5.3 | + 1.6 | + 5.1 | + 3.9 | + 2.7 |
| As a percentage of total expenditure ³ | 22.4 | 24.7 | 24.5 | 24.8 | 25.3 | + 6.6 | + 1.5 | + 1.9 | + 0.8 | + 0.4 |

Source: Federal Ministry of Finance, WIFO calculations. Basis: draft financing account. Until 2014: outturn, 2015: draft federal budget, 2016: draft federal budget outline. – ¹ Including old-age care expenditure. With the changeover to the new budgeting legislation, 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 Brake in series in 2009 due to the balance sheet extension corrected in the context of the introduction of the new budgeting legislation concerning the item personnel departments; limited comparability with earlier figures.

3.2 Bank support measures

In autumn 2008, following the outbreak of the financial market crisis and the economic recession, the government adopted a bank support "package" of an original total volume of € 100 billion¹¹. Against payment of earnings-dependent dividends, five institutions received in principle reimbursable shareholder capital for the strengthening of their equity base, to an original amount of € 5,874 million (as per end-2010; Table 7). By mid-2015, € 1,375 million of that amount were still outstanding. The part of shareholder capital actually being repaid implies a temporary increase in general government debt and is neutral with regard to the (Maastricht) budget balance.

Shareholder capital which in the course of the (partial) nationalisation of Hypo Alpe-Adria-Bank International AG and of Österreichische Volksbanken-AG had to be written off as irrecoverable debt or was converted for good into equity capital of the institution concerned (Hypo Alpe-Adria-Bank International AG € 1,075 million, Österreichische Volksbanken-AG € 700 million) increases nevertheless the Maastricht deficit and adds definitely to the stock of government debt. Further capital injections (shareholder subsidies, recapitalisation) to the amount of € 4,259 million to the (partially) nationalised institutions (Hypo Alpe-Adria-Bank International AG, Österreichische Volksbanken-AG, Kommunalkredit Austria AG and KA Finanz AG) also raise the Maastricht deficit and the debt level definitively. Up to mid-2015, the total amount of capital subsidies (including financial guarantees of € 1,268 million called by KA Finanz AG) rose to € 7,302 million.

The original maximum of financial guarantees extended of € 5,919 million had by mid-2015 declined to € 4,305 million, due i.a. to the above-cited guarantee called

¹¹ For details see Schratzenstaller (2011).

by KA Finanz AG (*Fiscal Council, 2015B*); Maastricht deficit and government debt are raised to that extent.

Table 7: Scope of operations of financial market stabilisation

| | Capital transfers ¹ | | Shareholder capital ² | | Financial guarantees | |
|---|--------------------------------|-----------------------|----------------------------------|---------------------------|----------------------|--|
| | Mid-2015 | End-2010 ³ | Mid-2015 | Originally granted amount | Mid-2015 | |
| | Million € | | | | | |
| <i>Total</i> | 7,302 | 5,874 | 1,375 | 5,919 | 4,305 | |
| Hypo Alpe-Adria-Bank International AG | 3,275 | 1,350 | 1,075 | 1,200 | 1,200 | |
| Erste Group Bank AG | – | 1,224 | 0 | – | – | |
| Österreichische Volksbanken-AG | 950 | 1,000 | 300 | 100 | 100 | |
| Raiffeisen Bank International AG | – | 1,750 | 0 | – | – | |
| Kommunalkredit Austria AG including KA Finanz AG ⁴ | 3,077 | – | – | 4,219 | 3,005 | |
| BAWAG | – | 550 | 0 | 400 | 0 | |

Source: *Fiscal Council (2014B)*, media reports, WIFO compilation. – ¹ Stakeholder subsidies, capital increases and reductions, transformation of shareholder in equity capital. The budget figures cited here are different from the budgetary effects pursuant to ESA 2010. – 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. – ⁴ Including guarantee of € 1,268 million called by KA Finanz AG.

In the context of financial market stabilisation, guarantees were also extended for securities issued by banks against payment of profit-unrelated fees. Such guarantees rose to a total € 21,197.4 million by the end of 2010 and expired entirely until mid-2014; none of these guarantees were ever called.

Table 8: Impact of financial support to Austrian banks on the budget balance (Maastricht definition)

As of end-2014

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2009-2014 cumulated |
|--|-----------|---------|---------|---------|---------|---------|---------------------|
| | Million € | | | | | | |
| Government revenues | 119 | 858 | 896 | 767 | 701 | 694 | 4,035 |
| Guarantee fees | 63 | 118 | 161 | 120 | 130 | 93 | 685 |
| Loan interest payments | 55 | 474 | 441 | 354 | 277 | 345 | 1,946 |
| Dividends shareholder capital | 0 | 263 | 289 | 289 | 290 | 252 | 1,383 |
| Fines ¹ | 0 | 2 | 4 | 4 | 4 | 4 | 18 |
| Government expenditure | 2,834 | 1,213 | 1,211 | 2,031 | 2,145 | 5,797 | 15,231 |
| Financing cost | 181 | 536 | 509 | 473 | 392 | 373 | 2,464 |
| Capital transfers ² | 2,650 | 675 | 700 | 1,555 | 1,750 | 5,422 | 12,752 |
| FIMBAG ³ | 2 | 2 | 2 | 3 | 3 | 2 | 14 |
| Impact on Maastricht balance | – 2,715 | – 355 | – 315 | – 1,263 | – 1,444 | – 5,103 | –11,195 |
| As a percentage of GDP | – 0.9 | – 0.1 | – 0.1 | – 0.4 | – 0.4 | – 1.5 | |
| Stock-Flow-Adjustment ³ | 19,364 | – 1,325 | – 2,200 | – 2,688 | – 3,690 | 7,114 | 16,575 |
| Change in debt level | 22,079 | – 970 | – 1,885 | – 1,425 | – 2,246 | 12,217 | 27,770 |
| Maastricht debt cumulated ⁴ | 22,977 | 22,006 | 20,121 | 18,696 | 16,450 | 28,667 | |
| As a percentage of GDP | 8.0 | 7.5 | 6.5 | 5.9 | 5.1 | 8.7 | |
| Stability levy for banks | – | – | 510 | 583 | 588 | 578 | |

Source: *Fiscal Council (2014, 2015A, 2015B)*. 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, depreciation from shareholder capital, asset sales. – ³ 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). Figures up to 2013 were considerably revised due to the re-classification of KA Finanz AG. – ⁴ Including net debt of € 898 million carried forward from 2008.

The general government balance (Maastricht definition) was burdened by the support for banks in each year, most of all in 2014 (by € 5,103 million or 1.5 percent of GDP; Table 8). The cumulated effect is an increase in the deficit by € 11,195 million. While the federal government also gained revenues in all these years (mainly guarantee fees for securities issues, dividends for shareholder capital and interest on loans), they were often substantially lower than the outlays (asset transfers and financing cost). Including the receipts from the bank levy, the results show a deficit-reducing net effect only for 2011. The draft federal budget for 2016 expects deficit-

increasing bank support of € 2,075 million for 2015¹² and of € 700 million for 2016; the Federal Financial Framework anticipates € 500 million each for 2017 and 2018 and € 300 million for 2019. The financial support for banks does not affect the structural budget deficit, since it is classified as one-off measure. The level of gross government debt was raised by an overall € 28,667 million (8.7 percent of GDP) by the end of 2014 on account of the transfers to ailing banks; the increase is driven not only by the current deficit effect, but also by the deficit-neutral stock-flow adjustment (e.g., raising of shareholder capital). The debt level as per end-2014 was also pushed up by some 2 percent of GDP by the assignment of liabilities incurred by KA Finanz AG to the government sector, retroactively since 2009, as stipulated by Eurostat (*Federal Ministry of Finance, 2015B*). With the implementation of HETA Asset Resolution AG for the resolution of Hypo Alpe-Adria-Bank International AG, debt of € 14.3 billion (4.3 percent of GDP) had to be included into the debt ratio as per end-2014¹³ (*Federal Ministry of Finance, 2015A*).

3.3 Level and composition of revenue

Over the period 2000-2016, federal government revenues rose by 1.6 percent p.a., from 2010 to 2016 by an annual 3.2 percent and from 2009 to 2019 by an expected 2.4 percent p.a. (Table 9). Gross tax revenues of the federal government increase markedly above the average (2000-2016 +3.1 percent p.a., 2010-2016 +3.8 percent, 2009-2019 +3.6 percent). In spite of crisis-related revenue shortfalls¹⁴ and two sizeable tax cuts (tax reform 2009-10 and tax reform 2015-16) they proved resilient, mainly because of the consolidation "packages" of the last few years which to a large part consisted of measures on the tax side¹⁵, but also on account of the counter-financing of the tax reform 2015-16 which predominantly relies on tax hikes.

The draft federal budget for 2016 expects overall gross tax revenues of € 81.85 billion for 2015, almost 2 percent above the projection of the Strategy Report for the Federal Financial Framework of April 2015. Revenues foregone in 2016 due to the reform of wage and assessed income tax are estimated at € 4.1 billion¹⁶ (wage tax revenue € -2.2 billion or -8.1 percent to € 24.8 billion, revenue from assessed income tax € -1.9 billion or -20.3 percent to € 4.15 billion). Although the tax reform moves of 2009-10 and 2015-16 have lowered primarily wage tax revenues, the latter nevertheless exhibit an above-average (projected) increase of 3.9 percent p.a. during the period from 2009 and 2019. The momentum is driven by rising employment, despite modest GDP growth and increasing unemployment, and by the distinct progressivity of the tax schedule which is still being reinforced altogether by the tax reform 2015-16 (*Schratzenstaller, 2015A*).

Part of the wage and income tax cuts is to be counter-financed by measures to curtail evasion of VAT. On this basis, projections are for a strong increase in VAT revenues (by 8.5 percent to a total € 28.2 billion in 2016), following their modest performance in recent periods. Hence, VAT will again become the highest-yielding single tax, which wage tax had been in 2014 and 2015.

The share of VAT in total federal gross tax revenues, which has steadily declined since 2010, will thus rebound to 34.5 percent in 2016 (Table 10), taking the share of all consumption tax revenues to around 50 percent. The share of wage tax revenues will edge down from 33 percent and above to 30 percent of total tax revenues; thus, the secularly rising importance of the wage tax will at least temporarily come to a halt. The share of environmental taxes reached a peak of 11.4 percent in 2003, but fell below 10 percent by 2012 and stays constant until 2016. Property taxes claim

¹² The draft federal budget for 2015 of April 2014 provided for € 1 billion in bank support in 2015, later revised to € 1.7 billion by the Federal Fiscal Framework of April 2015.

¹³ The respective debt was originally expected at € 17.8 billion.

¹⁴ Tax revenues actually fell only in 2009; already in 2011 they rose above the level recorded in 2008.

¹⁵ The cumulated share of tax increases in the consolidation measures introduced between 2013 and 2018 is found to be 44 percent (*Schratzenstaller, 2014A*).

¹⁶ For details of the tax reform 2015-16 see *Schratzenstaller (2015A)*.

only a very small share of gross tax revenues since the middle of the 1990s (2016: 1.3 percent, 1990 over 4 percent).

Table 9: Trends in federal government revenues

| | 2000 | 2010 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2014 | 2015 | 2016 | 2000-2016 | 2010-2016 | 2009-2019 |
|--|-----------|---------|---------|---------|---------|---------|---------|---------|---------------------------------------|-------|-------|---|-----------|-----------|
| | Million € | | | | | | | | Percentage changes from previous year | | | Average year-to-year percentage changes | | |
| Total revenues | 55,393 | 59,434 | 71,463 | 70,688 | 71,903 | 73,969 | 76,467 | 79,268 | + 0.1 | - 1.1 | + 1.7 | + 1.6 | + 3.2 | + 2.4 |
| Gross tax revenues | 50,387 | 65,492 | 78,503 | 80,270 | 81,850 | 84,000 | 87,150 | 90,450 | + 2.8 | + 2.3 | + 2.0 | + 3.1 | + 3.8 | + 3.6 |
| Wage tax | 14,468 | 20,433 | 25,942 | 27,000 | 24,800 | 25,700 | 27,400 | 29,200 | + 5.5 | + 4.1 | - 8.1 | + 3.4 | + 3.3 | + 3.9 |
| Assessed income tax | 2,818 | 2,668 | 3,384 | 3,450 | 4,150 | 3,850 | 3,950 | 4,000 | + 8.5 | + 2.0 | +20.3 | + 2.4 | + 7.6 | + 4.4 |
| Corporate tax | 3,865 | 4,633 | 5,906 | 6,100 | 6,300 | 6,800 | 7,000 | 7,300 | - 1.9 | + 3.3 | + 3.3 | + 3.1 | + 5.3 | + 6.7 |
| Capital gains taxes (including EU withholding tax) | 1,945 | 2,658 | 2,886 | 2,700 | 3,100 | 2,990 | 3,050 | 3,150 | + 6.2 | - 6.5 | +14.8 | + 3.0 | + 2.6 | + 0.1 |
| Stability levy and special contribution | . | . | 586 | 500 | 500 | 500 | 330 | 330 | - 0.2 | -14.7 | + 0.0 | | | |
| VAT | 17,056 | 22,467 | 25,472 | 26,000 | 28,200 | 29,100 | 30,100 | 30,900 | + 2.4 | + 2.1 | + 8.5 | + 3.2 | + 3.9 | + 3.6 |
| Consumption taxes | 4,239 | 5,684 | 6,221 | 6,335 | 6,530 | 6,580 | 6,630 | 6,680 | + 1.1 | + 1.8 | + 3.1 | + 2.7 | + 2.3 | + 1.8 |
| Transportation taxes | 3,593 | 4,763 | 6,183 | 6,432 | 6,568 | 6,754 | 6,900 | 7,057 | + 7.1 | + 4.0 | + 2.1 | + 3.8 | + 5.5 | + 4.4 |
| Other | 2,145 | 2,186 | 1,922 | 1,753 | 1,702 | 1,726 | 1,790 | 1,833 | -24.3 | - 8.8 | - 2.9 | - 1.4 | - 4.1 | - 1.2 |
| Transfers to Länder, municipalities etc. | -17,345 | -23,340 | -28,278 | -28,984 | -29,472 | -30,150 | -31,354 | -32,597 | + 2.5 | + 2.5 | + 1.7 | + 3.4 | + 4.0 | + 3.4 |
| Transfers to EU budget | | - 2,336 | - 2,752 | - 3,000 | - 3,000 | - 3,000 | - 3,100 | - 3,200 | - 7.4 | + 9.0 | + 0.0 | | + 4.3 | + 3.5 |
| Austria-Fund | | | | | | - 50 | - 50 | - 50 | | | | | | |
| Net tax revenues | 33,041 | 39,816 | 47,473 | 48,286 | 49,378 | 50,800 | 52,646 | 54,603 | + 3.7 | + 1.7 | + 2.3 | + 2.5 | + 3.7 | + 3.8 |
| Transfers of tax shares | . | 1,658 | 2,153 | . | 2,356 | . | . | . | - 0.6 | | | | + 6.0 | |
| Quasi-tax revenues | . | 9,608 | 12,513 | . | 13,161 | . | . | . | + 3.7 | | | | + 5.4 | |
| Unemployment insurance contributions | . | 4,771 | 5,843 | . | 6,217 | . | . | . | + 4.2 | | | | + 4.5 | |
| Employers' contributions to family benefit fund | . | 4,762 | 6,631 | . | 6,903 | . | . | . | + 3.2 | | | | + 6.4 | |
| Other revenues | . | 8,352 | 9,324 | . | 7,008 | 6,137 | 6,145 | 6,165 | -17.7 | | | | - 2.9 | - 7.8 |

Source: Federal Ministry of Finance (2015A, 2015B). Until 2014: outturn, 2015: projection according to draft federal budget, 2016: draft federal budget outline, as from 2017: Federal Fiscal Framework. As from 2013 cash and accrual basis; for the sake of comparison: cash basis. Figures do not add up due to rounding.

The tax reform 2015-16 has taken an important step towards lowering the tax burden of wage earners. Nevertheless, the overall burden of wage tax (Rocha-Akis, 2015) and even more of social security contributions on low and middle incomes remains high, as do wage-related employers' charges¹⁷. In order for the tax system to become more conducive to growth and job creation, more environmentally sustainable and socially fair, further steps should be taken to shift the tax burden from labour towards environmental and property-related tax bases (notably inheritance and gift tax as well as real estate tax). Additional revenues to be gained by further phasing out income tax and VAT exemptions, including environmentally counterproductive tax privileges (Kletzan-Slamanig – Köppl, 2015), may serve to lower nominal tax rates, to simplify the tax code and to make the system more transparent¹⁸. Along with efforts to improve the tax revenue structure, fiscal policy ought to create the necessary budgetary room for manoeuvre that would allow the comparatively high overall tax burden in Austria to ease in the medium term.

¹⁷ At the end of October 2015, on the occasion of a labour market summit, the government announced an initiative for a stepwise reduction of non-wage labour cost, which is to be welcomed as a further step towards lowering the tax burden on labour: in 2016, the contribution to the insolvency wage protection fund shall be cut by 0.1 percentage point; the contribution to the family benefit fund shall be taken down by 0.4 percentage points in 2017 and by a further 0.2 percentage points in 2018.

¹⁸ For an analysis of the need for reform and reform options for the Austrian tax system see Köppl – Schratzenstaller (2015A, 2015B).

Table 10: Composition of tax revenues

| | Total | Income taxes | | | Consumption taxes | | | Property taxes |
|--|-------|---------------------|---------------|----------|-------------------|------|---------------------|----------------|
| | | Assessed income tax | Corporate tax | Wage tax | Total | VAT | Environmental taxes | |
| Percentage shares in gross tax revenue | | | | | | | | |
| 1960 | 37.6 | 11.1 | 6.4 | 10.0 | 49.1 | 33.8 | 6.2 | 3.5 |
| 1970 | 39.9 | 11.2 | 4.4 | 16.3 | 49.2 | 30.9 | 8.9 | 3.7 |
| 1980 | 44.6 | 8.8 | 4.1 | 25.8 | 49.8 | 35.1 | 7.7 | 3.2 |
| 1990 | 42.9 | 7.9 | 3.2 | 24.8 | 50.6 | 36.3 | 7.0 | 4.1 |
| 1995 | 46.7 | 5.8 | 5.4 | 28.8 | 50.8 | 34.5 | 9.3 | 1.7 |
| 2000 | 47.1 | 5.6 | 7.7 | 28.7 | 50.5 | 33.9 | 9.9 | 1.4 |
| 2001 | 50.8 | 7.1 | 11.1 | 27.9 | 47.1 | 30.9 | 9.9 | 1.3 |
| 2002 | 48.5 | 5.7 | 8.3 | 29.5 | 49.3 | 32.1 | 10.6 | 1.2 |
| 2003 | 49.5 | 5.0 | 8.1 | 31.7 | 49.2 | 30.8 | 11.4 | 1.3 |
| 2004 | 48.0 | 5.0 | 8.0 | 30.5 | 50.3 | 32.3 | 11.2 | 1.3 |
| 2005 | 46.6 | 4.4 | 7.7 | 29.6 | 51.7 | 34.0 | 11.2 | 1.4 |
| 2006 | 47.1 | 4.2 | 8.0 | 30.0 | 50.4 | 33.4 | 10.5 | 1.5 |
| 2007 | 49.5 | 4.1 | 8.9 | 30.4 | 48.5 | 32.2 | 10.2 | 1.5 |
| 2008 | 50.5 | 4.0 | 8.7 | 31.1 | 47.6 | 31.9 | 9.9 | 1.3 |
| 2009 | 47.8 | 4.1 | 6.1 | 31.4 | 51.0 | 34.2 | 10.4 | 1.4 |
| 2010 | 47.6 | 4.1 | 7.1 | 31.2 | 50.8 | 34.3 | 10.3 | 1.4 |
| 2011 | 48.5 | 3.8 | 7.6 | 31.2 | 49.8 | 33.5 | 10.5 | 1.3 |
| 2012 | 48.7 | 3.6 | 7.3 | 32.0 | 49.4 | 33.6 | 10.2 | 1.5 |
| 2013 | 50.6 | 4.1 | 7.9 | 32.2 | 47.8 | 32.6 | 9.8 | 1.2 |
| 2014 | 50.8 | 4.3 | 7.5 | 33.0 | 47.8 | 32.4 | 9.9 | 1.3 |
| 2015 ¹ | 51.2 | 4.3 | 8.1 | 33.4 | 47.4 | 32.2 | 9.8 | 1.3 |
| 2016 ¹ | 48.7 | 5.1 | 7.7 | 30.3 | 49.9 | 34.5 | 9.9 | 1.3 |

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

4. Budgetary risks

Due to a number of uncertainties, the draft federal budget for 2016 includes certain upward risks¹⁹. The expected nominal deficit of 1.4 percent of GDP offers a sizeable "safety margin" towards the Maastricht ceiling of 3 percent of GDP. Even if the required financial support for banks were to exceed the expected € 700 million (which cannot be ruled out) and the – in view of strongly rising unemployment – rather tightly budgeted outlays for labour market policy²⁰ turn out higher than planned, there still remains comfortable scope for compliance with the deficit rule.

The fiscal scope is smaller for the structural deficit which, according to the EU Council recommendation of May 2015, shall reach the medium-term objective (MTO) of 0.45 percent of GDP in 2016 and is projected at 0.54 percent of GDP in the draft federal budget. The MTO may be exceeded by 0.25 percentage points ("margin of tolerance") and still be deemed achieved (*Fiscal Council, 2015A, 2015B*)²¹. The structural deficit (like the nominal deficit) would turn out higher if the measures to counter-finance the revenue losses from the tax reform 2015-16 would not yield the envisaged amount in the short term. In particular the expected revenue of € 1,965 million (Table 11) from the fight against tax fraud and social security abuse would appear ambitious: whereas the anti-tax-fraud measures to be introduced in 2016 are meaningful from a structural perspective – particularly if, in the vein of the tax reform 2015-16, the additional revenue serves to reduce the high tax burden on labour – and promise substantial revenue gains over the medium term, their actual realisation already in 2016 cannot be taken for granted. Precisely how the envisaged saving of € 1.1 billion (federal government € 0.7 billion, of which € 0.5 billion in

¹⁹ In this respect, see also *Budgetdienst* (2015).

²⁰ Although the draft federal budget for 2016 projects the unemployment rate at 9.7 percent, up from the 9.4 percent included in the Federal Financial Framework of April 2015, the draft federal budget 2016 left the expenditure on labour market policy unchanged.

²¹ For the EU fiscal rules and the specific requirements for Austria, not only with regard to the budget balance, but also the debt ratio and the expenditure trend, see in detail *Fiscal Council* (2015A, 2015B).

public administration and € 0.2 billion in subsidies; at Länder level € 0.4 billion) will be achieved, is still an open question.

Table 11: Main features and impact of the tax reform 2015-16

| | 2016 | 2017 | 2018 | 2019 |
|--|-----------|---------|---------|---------|
| | Billion € | | | |
| <i>Tax revenues foregone</i> | - 4.050 | - 5.400 | - 5.400 | - 5.400 |
| Wage and assessed income tax cut ¹ | - 3.985 | - 5.190 | - 5.190 | - 5.190 |
| Reform of tax schedule (including temporary increase in top marginal tax rate; around € 50 million per year) | - 3.700 | - 4.350 | - 4.350 | - 4.350 |
| Raise in negative tax for dependent employees from € 110 to € 400 p.a. ^{1,3} and introduction of negative tax for retirees of € 110 p.a., may partially be claimed as from 2015 | - 0.155 | - 0.370 | - 0.370 | - 0.370 |
| Automatic negative tax refund of employees without application | + 0.000 | - 0.200 | - 0.200 | - 0.200 |
| Merger of the transport and the employee tax credit and raise of commuter allowance and supplement | - 0.120 | - 0.160 | - 0.160 | - 0.160 |
| Doubling of child tax allowance to € 440 p.a. | + 0.000 | - 0.100 | - 0.100 | - 0.100 |
| Increase in tax-exempt rebates for employees | - 0.010 | - 0.010 | - 0.10 | - 0.010 |
| Company package | - 0.065 | - 0.210 | - 0.210 | - 0.210 |
| Reimbursement of social security contributions for farmers and self-employed (equivalent to negative tax for employees) ² | - 0.040 | - 0.055 | - 0.055 | - 0.055 |
| Tax break for financing agencies of medium-sized companies ³ | + 0.000 | - 0.050 | - 0.050 | - 0.050 |
| Increase in research premium from 10 percent to 12 percent of total research spending per financial year ¹ | + 0.000 | - 0.080 | - 0.080 | - 0.080 |
| Increase in tax-free participation of employees in business capital from € 1,460 to € 3,000 p.a. ¹ | - 0.025 | - 0.025 | - 0.025 | - 0.025 |
| <i>Counter-financing</i> | + 3.644 | + 4.408 | + 4.582 | + 4.562 |
| <i>Tax increases</i> | + 2.544 | + 3.308 | + 3.482 | + 3.462 |
| Fight against tax fraud | + 1.965 | + 2.140 | + 2.252 | + 2.190 |
| Measures against tax fraud and social security fraud ¹ | + 1.000 | + 1.270 | + 1.477 | + 1.504 |
| Fight against social fraud according to Anti-Social-Fraud Act ⁴ | + 0.265 | + 0.270 | + 0.275 | + 0.286 |
| Relaxation of bank secrecy for financial authorities ⁵ | + 0.700 | + 0.600 | + 0.500 | + 0.400 |
| Various tax increases | + 0.364 | + 0.439 | + 0.444 | + 0.449 |
| Reform of real estate acquisition tax (base) ¹ | + 0.020 | + 0.032 | + 0.034 | + 0.036 |
| Increase in dividend tax rate from 25 percent to 27.5 percent ¹ | + 0.115 | + 0.150 | + 0.150 | + 0.150 |
| Increase in real estate capital gains tax rate from 25 percent to 30 percent ¹ | + 0.090 | + 0.115 | + 0.115 | + 0.115 |
| Extraordinary increase in social security contribution ceiling ² | + 0.139 | + 0.142 | + 0.145 | + 0.148 |
| Restriction of tax exemptions | + 0.215 | + 0.730 | + 0.786 | + 0.822 |
| Income tax | + 0.040 | + 0.510 | + 0.566 | + 0.602 |
| Step-wise abolition of wholesale deduction of special expenses ¹ | + 0.000 | + 0.040 | + 0.080 | + 0.120 |
| Adjustment of real estate depreciation (flat-rate depreciation of 2.5 percent, extension of deduction period for renovation expenses from 10 to 15 years and increase in share of land for separation of built-up plot from 20 percent to 40 percent) ¹ | + 0.000 | + 0.380 | + 0.376 | + 0.372 |
| Restriction of loss carry-forward and new regulation of deposit reimbursement ¹ | + 0.010 | + 0.035 | + 0.055 | + 0.055 |
| Abolition of education premium and tax allowance ¹ | + 0.000 | + 0.025 | + 0.025 | + 0.025 |
| Restriction of company car taxation (increase in taxable benefit value from 1.5 percent to 2 percent of new purchase price) ¹ | + 0.030 | + 0.030 | + 0.030 | + 0.030 |
| VAT: increase in reduced rate from 10 percent to 13 percent for accommodation, culture, animal food, wood etc. ¹ | + 0.175 | + 0.220 | + 0.220 | + 0.220 |
| Expenditure cuts: subsidies and administrative spending ³ | + 1.100 | + 1.100 | + 1.100 | + 1.100 |
| Tax reduction net (tax cuts minus tax increases) ⁶ | - 1.506 | - 2.092 | - 1.918 | - 1.938 |
| Tax reduction as a percentage of GDP | - 1.2 | - 1.5 | - 1.5 | - 1.4 |
| Counter-financing as a percentage of GDP | 1.1 | 1.2 | 1.2 | 1.2 |
| Tax reduction net as a percentage of GDP ⁶ | - 0.4 | - 0.6 | - 0.5 | - 0.5 |

Source: Federal Ministry of Finance (2015), WIFO compilation. – ¹ Government tax reform bill by Ministry of Finance of 3 July 2015. – ² Government bill of social security regulations (parts 1 to 3), 16 June 2015. – ³ Ministerial Council draft of 17 March 2015. – ⁴ Government bill of Anti-Social-Fraud-Act of 16 June 2015. – ⁵ Government bill concerning relaxation of bank secrecy in favour of the tax authority of 16 June 2015. – ⁶ Excluding self-financing.

The achievement of a structural budget balance close to zero further presupposes full implementation of all consolidation measures decided in previous years (notably spending restraint in the health care system, increase in the effective retirement age).

Difficult to predict is the additional expenditure for aid for refugees. The draft federal budget for 2016 foresees some € 500 million at the federal level (primary care of € 420 million, integration measures € 75 million)²². For additional cost of primary care, subsistence payments and refugee accommodation, the Länder and municipalities are granted a budget deficit increase of 0.1 percent of GDP (€ 365 million) which will not be charged against the consolidation obligation to comply with the internal

²² For details of expenditure in support of refugees see Federal Ministry of Finance (2015C).

Austrian stability pact. Underlying these projections is an expected number of 61,000 asylum seekers (full-year equivalents; *Federal Ministry of Finance, 2015C*); higher refugee numbers would lead to accordingly higher expenditure. Over the medium term, the budgetary burden will also depend on how successfully the immigrants will be integrated into the education and training system and into the labour market. From this perspective, the need for higher spending on development co-operation that has de facto stagnated during the last years has become more pressing.

For the calculation of the structural deficit 2016, the cited additional federal expenditure of € 500 million (over 1 percent of GDP) has been excluded as deficit-reducing one-off measure, an approach that is unlikely to be accepted by the European Commission. However, the Commission has announced that in its assessment of Austria's budget plans it will acknowledge the excess spending for the persistently high and potentially rising number of immigrants in 2016 as exceptional event that will not be counted against the deficit. In this context, Austria is seeking to have a total of € 1 billion recognised as exceptional cost.

A margin of uncertainty also surrounds the further evolution of interest rates with regard to the (re)financing of government debt. Over the medium term, the degree of uncertainty should nevertheless be limited since the proportion of long-term government bonds is high, the time to maturity of the entire debt portfolio has been rising steadily for the last years (standing at 8.7 years at the end of 2014; *Fiscal Council, 2015B*), the share of fixed-interest securities is high and the issue of new debt declining.

Table 12: Government ratios in a European comparison

| | Expenditure | | Revenue | | Tax burden | | Maastricht balance | | Structural budget balance | | Maastricht government debt | |
|----------------|------------------------|------|---------|------|------------|------|--------------------|-------|---------------------------|-------|----------------------------|-------|
| | 2007 | 2016 | 2007 | 2016 | 2007 | 2016 | 2007 | 2016 | 2010 | 2016 | 2007 | 2016 |
| | As a percentage of GDP | | | | | | | | | | | |
| EU 28 | 42.4 | 44.6 | 42.1 | 42.6 | 36.0 | 36.1 | - 0.3 | - 2.0 | - 4.3 | - 1.6 | 43.0 | 73.6 |
| EU 15 | 44.9 | 48.1 | 45.1 | 46.0 | 38.6 | 39.4 | 0.1 | - 2.1 | - 4.3 | - 1.4 | 53.5 | 89.3 |
| Belgium | 48.2 | 53.9 | 48.3 | 51.3 | 42.9 | 44.7 | 0.1 | - 2.6 | - 3.9 | - 2.1 | 86.9 | 107.1 |
| Germany | 42.8 | 43.8 | 43.0 | 44.3 | 37.7 | 38.1 | 0.2 | 0.5 | - 2.2 | 0.7 | 63.6 | 68.5 |
| Greece | 47.1 | 51.0 | 40.4 | 47.4 | 31.8 | 37.2 | - 6.7 | - 3.6 | -10.2 | - 0.3 | 103.1 | 199.7 |
| Spain | 38.9 | 42.3 | 40.9 | 38.7 | 36.4 | 33.8 | 2.0 | - 3.6 | - 7.0 | - 2.6 | 35.5 | 101.3 |
| France | 52.2 | 56.8 | 49.7 | 53.3 | 42.6 | 45.7 | - 2.5 | - 3.4 | - 5.9 | - 2.4 | 64.4 | 97.1 |
| Ireland | 35.9 | 34.3 | 36.2 | 32.8 | 30.8 | 28.9 | 0.3 | - 1.5 | - 8.8 | - 2.1 | 23.9 | 95.4 |
| Italy | 46.8 | 49.6 | 45.2 | 47.3 | 41.4 | 42.5 | - 1.5 | - 2.3 | - 3.3 | - 1.5 | 99.7 | 132.2 |
| Luxembourg | 37.3 | 43.4 | 41.4 | 43.9 | 36.6 | 38.2 | 4.1 | 0.5 | 0.5 | 0.9 | 7.0 | 23.9 |
| Netherlands | 42.5 | 43.3 | 42.7 | 41.8 | 36.0 | 36.1 | 0.2 | - 1.5 | - 3.5 | - 1.4 | 42.4 | 67.9 |
| Austria | 49.1 | 51.2 | 47.8 | 49.7 | 40.8 | 43.0 | - 1.3 | - 1.6 | - 3.2 | - 1.0 | 64.8 | 85.7 |
| Portugal | 44.5 | 47.1 | 41.5 | 44.2 | 31.8 | 34.3 | - 3.0 | - 2.9 | - 8.1 | - 2.3 | 68.4 | 124.7 |
| Finland | 46.8 | 58.1 | 51.9 | 55.4 | 41.6 | 44.5 | 5.1 | - 2.7 | - 1.1 | - 1.5 | 34.0 | 64.5 |
| Denmark | 49.6 | 54.1 | 54.6 | 51.7 | 47.4 | 45.5 | 5.0 | - 2.5 | - 0.7 | - 1.4 | 27.3 | 39.3 |
| Sweden | 49.7 | 51.3 | 53.0 | 50.1 | 45.7 | 43.9 | 3.3 | - 1.3 | 0.8 | - 1.0 | 38.3 | 44.0 |
| UK | 42.8 | 41.4 | 39.8 | 38.6 | 35.6 | 34.3 | - 3.0 | - 3.0 | - 7.2 | - 3.3 | 43.5 | 88.0 |
| Bulgaria | 37.4 | 38.9 | 38.5 | 36.2 | 31.4 | 28.5 | 1.1 | - 2.7 | - 2.5 | - 2.4 | 16.2 | 32.8 |
| Czech Republic | 40.0 | 41.8 | 39.3 | 40.4 | 34.4 | 34.5 | - 0.7 | - 1.3 | - 4.1 | - 1.4 | 27.8 | 41.0 |
| Estonia | 34.1 | 39.7 | 36.8 | 40.0 | 31.3 | 33.0 | 2.7 | 0.2 | 0.2 | 0.2 | 3.7 | 9.6 |
| Croatia | 44.9 | 47.9 | 42.5 | 43.2 | 37.1 | 36.5 | - 2.4 | - 4.7 | - 5.3 | - 3.8 | 37.1 | 91.7 |
| Cyprus | 37.7 | 39.0 | 40.9 | 39.1 | 36.1 | 33.3 | 3.2 | 0.1 | - 5.1 | 0.2 | 53.9 | 98.7 |
| Latvia | 33.9 | 35.7 | 33.3 | 34.6 | 28.2 | 28.7 | - 0.7 | - 1.2 | - 2.2 | - 1.9 | 8.4 | 41.1 |
| Lithuania | 35.3 | 35.6 | 34.4 | 34.5 | 30.0 | 29.8 | - 0.8 | - 1.3 | - 3.3 | - 1.4 | 15.9 | 40.8 |
| Hungary | 50.1 | 46.3 | 45.0 | 44.2 | 39.6 | 37.3 | - 5.1 | - 2.1 | - 3.6 | - 2.6 | 65.6 | 74.5 |
| Malta | 41.2 | 41.6 | 38.9 | 40.4 | 32.8 | 34.3 | - 2.3 | - 1.2 | - 4.0 | - 1.7 | 62.4 | 63.2 |
| Poland | 43.1 | 41.6 | 41.2 | 38.8 | 34.6 | 32.4 | - 1.9 | - 2.8 | - 8.3 | - 2.6 | 44.2 | 52.4 |
| Romania | 38.2 | 34.1 | 35.4 | 31.4 | 29.0 | 25.8 | - 2.9 | - 2.8 | - 5.6 | - 2.7 | 12.7 | 40.9 |
| Slovenia | 42.2 | 45.8 | 42.1 | 43.4 | 37.1 | 36.6 | - 0.1 | - 2.4 | - 4.6 | - 2.5 | 22.7 | 80.9 |
| Slovakia | 36.1 | 39.8 | 34.2 | 37.4 | 28.7 | 30.4 | - 1.9 | - 2.4 | - 7.1 | - 2.0 | 29.9 | 52.6 |

Source: European Commission, Autumn 2015 forecast. Structural budget balance data only available since 2010.

5. Austria's fiscal policy in the European context

Once again in 2016, Austria's government expenditure-to-GDP ratio as well as the revenue ratio and the overall tax burden (i.e., total tax revenues as percent of GDP)

will exceed the EU average, according to the European Commission's Autumn 2015 Forecast. All government ratios, with the exception of the structural budget balances, will be higher than in the pre-crisis year 2007, both in Austria and in the EU 28 and the EU 15. In Austria, however, the revenue ratio and the tax burden exhibit above-average increases, with the gap vis-à-vis 2007 widening.

In 2007, Austria's government debt ratio of 64.8 percent of GDP distinctly exceeded both the EU 15 (53.5 percent) and the EU 28 (43 percent) average. By 2016, the debt ratio of 85.7 percent will have fallen slightly below the EU-15 average (89.3 percent) and significantly narrowed the gap vis-à-vis the EU 28 (73.6 percent). Both the nominal (Maastricht) and the structural general government balance for 2016 will be negative in Austria, like in almost all EU member countries. Yet, the debt increase (i.e. the deficit) will be lower than the EU average, both in nominal and structural terms. According to the projections by the European Commission, 21 Member States will show a higher structural deficit than Austria (2016: 1 percent of GDP).

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. Benchmark for the commitment under the European Fiscal Compact.

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.

6. Outlook

The Federal Financial Framework 2016-2019 and the draft federal budget 2016 reflect the measures taken in the last few years for reform of the expenditure and the tax composition. At the same time, medium-term budgetary plans rest on a number of imponderables and lack impetus for achieving greater efficiency in the public sector and for further improving the tax revenue composition. All the more urgent

are further changes in the structure of expenditure, not least for the creation of fiscal leeway in favour of forward-looking expenditure. In particular the current negotiations for a new federal fiscal equalisation agreement as from 2017 ought to produce not just incremental adjustments, but fundamental changes to the allocation of responsibilities and transfers between government levels, a strengthening of tax autonomy of the Länder and municipalities and a channelling of resources better aligned with government tasks and priorities. Such fundamental changes in the entire architecture of federal fiscal relations are a precondition for greater efficiency in a number of shared government responsibilities, such as health and hospital care, old-age care, education and schooling and the array of public subsidies. Likewise, moves for innovation in budgeting legislation need to be pursued with greater determination. This concerns in particular performance-oriented budgeting including impact assessment and gender budgeting, introduced into the federal budget process in 2013, which should be used not only for budgetary planning, but also as a steering device. This calls for stronger inter-departmental co-ordination, link-up with quantitative budgetary planning and execution and alignment with the relevant goals and strategies at national and international level (e.g., National Reform Programme or National Action Plans).

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