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The Draft Federal Budget 2013: Consolidation Path Subject to Uncertainties

The year 2013 is to mark the beginning of a gradual, but sustained reduction of Austria's public debt. At a projected ratio of 75.4 percent of GDP, debt is likely to reach a peak, from where it is supposed to decline in subsequent years. In parallel, the deficit according to the Maastricht definition should by 2013 be brought below the ceiling set by the Stability and Growth Pact, as stipulated by the Excessive Deficit Procedure for Austria. The draft federal budget is subject to certain downside risks: apart from the uncertainties surrounding the euro area debt crisis and the cyclical outlook for Europe, they relate to possible further financial needs for bank stabilisation and to the actual mobilisation of the entire amount of budgetary savings and revenues expected from the consolidation programme.

The author is thankful to Karl Aiginger and Hans Pitlik for useful and constructive comments. The data were processed and analysed with the assistance of Andrea Sutrich • E-mail addresses: Margit.Schratzenstaller@wifo.ac.at, Andrea.Sutrich@wifo.ac.at

Like in the last years since the trough of the deep recession has been passed, the federal budget draft sets out also for 2013 to strike a balance between the need for fiscal consolidation on the one hand, and additional spending requirements in areas crucial for long-term growth of income and jobs, on the other. At the same time, the federal budget for 2013 is faced with a weakening of macroeconomic conditions against earlier projections. While the Strategy Report of March 2012 (the key document prepared by the Federal Ministry of Finance for the Medium-Term Financial Framework 2013-2016) had anticipated GDP growth of 3.2 percent in nominal and 1.6 percent in real terms for 2013, the WIFO forecast of September 2012 on which the draft budget is based, projected nominal GDP growth at 2.6 percent and real growth at only 1 percent (Table 1). According to the latest WIFO forecast of December 2012, GDP is set to increase by 2.9 percent and 1 percent respectively in 2013.

The weaker cyclical outlook and the existing downside risks make the achievement of the consolidation targets more difficult, while at the same time underlining the need for strengthening the longer-term potential for economic growth and job creation.

The federal budget 2013 against the background of the medium-term fiscal trend

Federal disbursements for 2013 as defined by the financing account are budgeted at € 75 billion (including the newly recorded item of imputed employers' contributions for civil servants of nearly € 0.9 billion; the item is neutral to the budget balance); receipts are budgeted at € 68.7 billion (Table 2). This yields an administrative federal deficit of € 6.33 billion and a gap of € 6.2 billion in the Maastricht definition (each corresponding to 2 percent of GDP). Since 2009, federal government disbursements have increased by an annual average of 1.9 percent. Compared with the draft budget for 2012, they are set to drop by 1.9 percent in 2013; exluding the deficit-neutral imputed employers' contribution referred to above, the fall would be even stronger. This outcome is, however, not entirely due to consolidation efforts, as disbursements for 2012 are biased upwards by advance payments ("Vorlaufzahlungen") to the tune of around € 1.3 billion; moreover, early information on budget execution in 2012 suggests that actual disbursements fell short of the ex-ante budget figure. In reality, disbursements will remain broadly flat year-on-year in 2013, largely due to the two consolidation "packages" adopted since 2010, but also to the government enjoying extremely favourable financing conditions. Disbursement ceilings are lower by some € 90 million than laid down in the Federal Financial Framework of last spring. While disbursements for bank support and ESM (€ 1.15 billion), for the European Investment Bank (€ 222 million) and in the area of "Justice" (€ 90 million) are higher than expected, interest payments (€ 1,368 billion) and subsidies to the social retirement scheme (€ 215 million) are likely to undershoot the targets of the Financial Framework.

Table 1: Key economic data

			WIFO forecast				
	December 2011		September 2012		December 2012		
	2012	2013	2012	2013	2012	2013	2014
Gross domestic product							
Percentage changes from previous year, volume	+ 0.4	+ 1.6	+ 0.6	+ 1.0	+ 0.6	+ 1.0	+ 1.8
Nominal	+ 2.7	+ 3.2	+ 2.5	+ 2.6	+ 2.7	+ 2.9	+ 3.6
Billion €, nominal	309.9	320.0	308.2	316.2	309.0	317.9	329.3
Consumer prices							
Percentage changes from previous year	+ 2.1	+ 1.9	+ 2.3	+ 2.1	+ 2.4	+ 2.1	+ 2.0
Gross wage bill, nominal							
Percentage changes from previous year	+ 3.7	+ 2.4	+ 4.8	+ 2.8	+ 4.2	+ 2.7	+ 3.6
Per capita	+ 2.9	+ 1.8	+ 3.2	+ 2.2	+ 2.7	+ 2.0	+ 2.5
Dependent employment							
Percentage changes from previous year	+ 0.6	+ 0.4	+ 1.5	+ 0.5	+ 1.4	+ 0.6	+ 0.9
Unemployment							
Changes from previous year in 1,000	+15.2	+11.5	+14.0	+17.0	+14.0	+19.0	+ 3.0
Absolute, in 1,000	263.0	274.5	260.7	277.7	260.7	279.7	282.7
Unemployment rate							
As a percentage of dependent labour force	7.1	7.4	7.0	7.4	7.0	7.4	7.4
As a percentage of total labour force (Eurostat)	4.5	4.7	4.4	4.8	4.3	4.6	4.6

Source: WIFO.

Table 2: Federal budget overview

	2008	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	Ø 2009-2013
		Outturn			Draft budget							
		Million €			Million €		Percentage changes from previous year					
Revenues/receipts[1]	64,435	62,376	59,434	63,452	65,340	68,678	– 3.2	– 4.7	+ 6.8	+ 3.0	+ 5.1	+ 2.4
Expenditure/disbursements[1,2]	73,999	69,457	67,287	67,814	76,480	75,013	– 6.1	– 3.1	+ 0.8	+ 12.8	– 1.9	+ 1.9
Administrative balance	– 9,564	– 7,080	– 7,853	– 4,362	– 11,140	– 6,334	– 26.0	+ 10.9	– 44.5	+ 155.4	– 43.1	– 2.7
Maastricht balance[3]	– 3,025	– 8,767	– 9,921	– 7,205	– 8,691	– 6,195	+ 189.8	+ 13.2	– 27.4	+ 20.6	– 28.7	– 8.3
Gross tax revenues	68,528	63,314	65,492	69,858	73,723	76,902	– 7.6	+ 3.4	+ 6.7	+ 5.5	+ 4.3	+ 5.0
Net tax revenues	44,961	37,638	39,816	41,931	44,879	46,426	– 16.3	+ 5.8	+ 5.3	+ 7.0	+ 3.4	+ 5.4
			As a percentage of GDP									
Revenues/receipts	22.8	22.6	20.8	21.1	21.2	21.7						
Expenditure/disbursements	26.2	25.2	23.5	22.6	24.8	23.7						
Administrative balance	– 3.4	– 2.6	– 2.7	– 1.5	– 3.6	– 2.0						
Maastricht balance	– 1.1	– 3.2	– 3.5	– 2.4	– 2.8	– 2.0						
Gross tax revenues	24.2	22.9	22.9	23.2	23.9	24.3						
Net tax revenues	15.9	13.6	13.9	13.9	14.6	14.7						

Source: *Federal Ministry of Finance* (2012A), WIFO calculations. – [1] As from 2013 (second stage of budget 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.

Government receipts are planned to increase by 5.1 percent in 2013, which again is inflated by balance-neutral employers' contributions. Even abstracting from one-off effects, receipts are rebounding strongly since 2011 from the recession-induced slump in 2009 and 2010. Since 2009, the annual average increase has been recorded at 2.4 percent. The substantial rise since 2011 is explained primarily by the tax increases that account for an important part of the two consolidation "packages" (*Schratzenstaller*, 2011, 2012). Thus, federal gross tax revenues have advanced by 5 percent p.a. since 2009, for 2013 the budget provides for a 4.3 percent increase. Revenues from wage tax post substantial gains, driven by robust job growth, latest wage settlements and the progressive tax schedule. Likewise, the federal government enjoys higher receipts from other taxes based on the wage bill, like unemployment insurance contributions and contributions to the Family Benefit Fund ("Familienlastenausgleichsfonds").

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 95 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 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 of fixed assets.

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

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

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

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

Table 3 summarises the major macroeconomic indicators for Austria for the period from 2007 to 2016. The government expenditure ratio increased from 48.5 percent of GDP in the pre-crisis year 2007 to 52.6 percent in 2009-10. Going forward, the ratio is expected to head down gradually from 51.4 percent in 2013 to 48.7 percent by 2016. The government revenue ratio edged up from 47.6 percent in 2007 to 48.5 percent in 2009, moderated slightly thereafter and is expected at 49 percent of GDP in 2013. As from 2014, it is set to hold constant at 48.7 percent. The tax burden rose to 42.7 percent in 2008 and abated slightly thereafter; as from 2011 it is picking up steadily to an estimated 43 percent of GDP.

Table 3: Macroeconomic indicators

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					As a percentage of GDP					
Expenditure ratio[1,2]	48.5	49.3	52.6	52.6	50.5	51.7	51.4	50.3	49.3	48.7
Revenue ratio[2]	47.6	48.3	48.5	48.1	48.0	48.6	49.0	48.7	48.7	48.7
Tax burden[3]	41.7	42.7	42.4	41.9	42.0	42.6	43.1	43.0	43.0	43.1
Maastricht balance	− 0.9	− 0.9	− 4.1	− 4.5	− 2.5	− 3.1	− 2.3	− 1.5	− 0.6	± 0.0
Primary balance	+ 1.9	+ 1.7	− 1.3	− 1.8	+ 0.1	− 0.5	+ 0.3	+ 1.2	+ 2.0	+ 2.6
Structural budget balance[2]	.	.	− 2.7	− 3.2	− 2.0	− 1.8	− 1.2	− 1.1	− 0.5	− 0.2
Public debt	60.2	63.8	69.2	72.0	72.4	74.7	75.4	74.7	72.9	70.8

Source: *Federal Ministry of Finance* (2012A, 2012B, 2012C), Statistics Austria. – [1] Harmonised (excluding Swaps). – [2] Values up to 2013 according to Budget Report of October 2012, as from 2014 according to Stability Programme of April 2012, therefore break in series. – [3] Without imputed social contributions.

Consolidation targets and government debt

Binding consolidation targets imposed both by the EU and at the national level, that carry sanctions in the case of non-compliance, form the legal basis for the current Austrian consolidation path.

Prerequisite for the abrogation of the ongoing EU Excessive Deficit Procedure for Austria is the reduction by 2013 of the general government deficit (in the Maastricht definition) below the ceiling of 3 percent of GDP stipulated by the Stability and Growth Pact. In parallel, the structural deficit is to be cut between 2010 and 2013 by 0.75 percent of GDP per annum.

The amended version of the internal Austrian stability pact adopted in May 2012 provides for a set of "multiple fiscal rules" that is to ensure the implementation of the newly formulated EU economic governance framework (*Bundesministerium für Finanzen,* 2012A) in the Austrian federal context (see "The new Austrian stability pact of May 2012"). Unlike its predecessor agreements, the new Austrian stability pact is in principle concluded for an indefinite period[1] and defines targets not only for the Maastricht balance, but also for the structural balance, the public debt level and the growth of government expenditure. Table 4 shows the agreed Maastricht balance targets by government level for the period from 2012 to 2016 according to the new Austrian stability pact (*Bundesministerium für Finanzen,* 2012A).

Table 4: Maastricht deficit by government level according to the internal Austrian Stability Pact 2012

	2012	2013	2014	2015	2016
			As a percentage of GDP		
General government	− 2.99	− 2.14	− 1.50	− 0.61	− 0.03
Federal government	− 2.47	− 1.75	− 1.29	− 0.58	− 0.19
Länder	− 0.54	− 0.44	− 0.29	− 0.14	+ 0.01
Municipalities	± 0.00	± 0.00	± 0.00	± 0.00	± 0.00
Social security agencies[1]	+ 0.02	+ 0.05	+ 0.08	+ 0.11	+ 0.15

Source: *Federal Ministry of Finance* (2012C). – [1] No contracting party; federal government responsibility.

The general government Maastricht deficit widened from 0.9 percent of GDP in 2007 and 2008 to over 4 percent of GDP in 2009 and 2010 (Tables 3 and 5). Thanks to unexpectedly buoyant tax revenues and the undershooting of expenditure plans (notably relating to interest on government debt), the deficit for 2011 already turned out at 2.5 percent of GDP, thereby falling clearly below the 3-percent-ceiling of the European Stability and Growth Pact[2]. In 2012, according to the semi-annual deficit and debt notification of end-September, the projected deficit of 3.1 percent of GDP again exceeded the reference value, contrary to expectations six months earlier, largely on account of large financial support to banks which was only partly offset by lower public debt service cost[3]. For 2013, the general government deficit is projected at 2.3 percent of GDP, subject however to several downside risks (see below). By 2016, the general government account is to be brought to balance. The primary balance which was negative during the years from 2009 to 2012 (with the exception of 2011 when it was close to zero), is supposed to turn positive again as from 2013, rising to 2.6 percent of GDP by 2016. The structural deficit, i.e., the Maastricht deficit adjusted for cyclical variations and one-off effects, which has significantly gained importance as reference target for consolidation efforts both at EU and national level, rose to a peak of 3.2 percent of GDP in 2010; it is planned to be cut to 0.2 percent of GDP by 2016. With the planned reduction of the structural deficit from 3.2 percent of GDP in 2010 to 1.2 percent in 2013, the EU recommendation of a decline by 0.75 percent of GDP p.a. until the fall below the ceiling should just be met. The government debt ratio reaches a peak of about 75.4 percent of GDP in 2013, to abate to nearly 71 percent by 2016. It will nevertheless still be far above the reference ceiling of 60 percent of GDP.

[1] Hitherto the stability pact and the federal fiscal agreement ("Finanzausgleich") covered the same period; the new stability pact is open-ended, whereas the current federal fiscal agreement (Finanzausgleichsgesetz 2008) includes the years from 2008 to 2014.

[2] At the time of adoption of the draft federal budget for 2011, the deficit was expected at 3.2 percent of GDP.

[3] At the time of drafting the budget for 2012, an interest rate of 3 percent was assumed, as compared with an actual rate of around 2.4 percent, allowing interest payments to fall short by some € 1.5 billion of the budgeted amount.

The new internal Austrian stability pact of May 2012

The new internal Austrian stability pact has, unlike its predecessors, been concluded for an indefinite period, with a fourfold aim: first, to reduce the general government deficit (Maastricht definition) from 3 percent of GDP in 2012 to zero by 2016; second, to ensure early convergence of the structural deficit towards the ceiling of 0.45 percent of GDP stipulated by the "debt brake" as from 2017[1]. From that year onwards, the structural deficit of the federal government must not exceed 0.35 percent of GDP, that of the Länder no more than 0.10 percent of GDP, and the overall deficit of the municipalities must not be higher than 20 percent of the aggregate deficit of the Länder. Third, the government debt ratio is to be reduced: as long as it exceeds 60 percent of GDP (i.e., the ceiling of the Stability and Growth Pact), it ought to decline stepwise according to the "one-twentieth" rule, whereby the debt above 60 percent of GDP must be cut by one-twentieth per year on a three-year-average basis. This rule is subject to a transition period, with the first assessment being made three years after the abrogation of the Excessive Deficit Procedure (for Austria foreseen for 2013). Fourth, the pact provides for an expenditure rule, whereby the growth of public expenditure should keep below the reference rate of medium-term potential output growth. In addition, the array of sanctions for non-compliance has been reinforced.

[1] Since the mid-1970s, the Austrian general government household has never been in balance either in nominal or in structural terms. Only in a small number of years in the early 2000s has the structural and the nominal deficit been lower than 1 percent of GDP.

Table 5: General government deficit and debt indicators

As of October 2012

	2007	2008	2009	2010	2011	2012	2013
				As a percentage of GDP			
Maastricht balance by government level							
General government	− 0.9	− 0.9	− 4.1	− 4.5	− 2.5	− 3.1	− 2.3
Federal government	− 0.9	− 1.1	− 3.2	− 3.5	− 2.4	− 2.8	− 2.0
Länder, municipalities, social security agencies	± 0.0	+ 0.2	− 0.9	− 1.0	− 0.1	− 0.3	− 0.4
Public debt							
General government	60.2	63.8	69.2	72.0	72.4	74.7	75.4
Federal government	54.5	57.6	61.2	62.6	62.9	.	.
Länder, municipalities, social security agencies	5.7	6.3	8.0	9.4	9.5	.	.

Source: *Federal Ministry of Finance* (2012A), Statistics Austria. Rounding differences.

A comprehensive assessment of the long-term sustainability of public finances requires also the consideration of off-budget liabilities that are not directly attributed to the public sector, but for which the government would have to assume responsibility, if necessary. In addition, financial guarantees extended by the territorial authorities ought to be included into a full recording of public contingent liabilities. Federal government guarantees amounted to around € 115 billion at the end of 2011, those of the Länder stood at € 73 billion at end-2010, and those of the municipalities at € 6 billion at the end of 2011 (Table 6). For the entire government, this adds up to guarantees of € 194 billion or 63 percent of GDP for 2012[4].

Off-budget debt incurred by the federal government (essentially ÖBB, ASFINAG and BIG) rose to € 22.2 billion by the end of 2011, those of the municipalities to € 10.7 billion, in total € 32.9 billion or 10.7 percent of GDP for 2012. It would be desirable if a compilation of all extra-budget debt underwritten by the territorial authorities were

[4] Proper interpretation of this ratio requires an analysis of the composition and notably the risk profile of these guarantees. Thus, the guarantee portfolio of the central government at end-2011 included such heterogeneous items as export guarantees (with 60 percent of the total accounting for the largest share), guarantees for borrowing by off-budget special purpose vehicles for infrastructure investment (by ASFINAG and ÖBB for road and railroad networks, respectively – together accounting for almost 20 percent of the total) or for securities issued by financial institutions in the context of the "bank support package" (almost 13 percent of federal government guarantees).

to be found in the budget background documentation (at present, such a compilation is only provided by the Federal Debt Committee in its Annual Report; *Staatsschuldenausschuss*, 2012)[5], as well as, and even more importantly, a comprehensive account of all financial guarantees assumed: while the guarantees extended by the federal government (Bund) are regularly presented in the annual Budget Report ("Budgetbericht"), those assumed by the Länder are not recorded systematically and on a regular basis6, and those of the municipalities only occasionally in the context of the annual Municipal Financial Reports ("Gemeindefinanzberichte"). In the last years, a number of moves have been made to limit liability risks and enhance transparency. Thus, in the context of the internal Austrian stability pact currently in force it has been agreed that both the federal government and the Länder (the latter also on behalf of the municipalities) set legally binding liability ceilings ex ante for a medium-term period. This commitment has meanwhile been honoured by the federal government by means of an ad-hoc Act ("Bundeshaftungsobergrenzengesetz") and by the Länder via State parliamentary resolutions or State Acts (regulations for the municipalities). Moreover, for guarantees that are likely to be called, risk provisions have to be made. In their account statements, the territorial authorities have to specify both the ceiling of the guarantee and the amount already called. However, a comprehensive assessment and recording of all guarantees extended by each territorial authority, as desirable as it would be, is apparently not foreseen.

Table 6: Financial guarantees and off-budget liabilities by level of government

	Federal government	Länder	Municipalities	General government	General government
		Billion €			As a percentage of GDP
Guarantees	115	73	6	194	63
Off-budget liabilities	22.2	0.0	10.7	32.9	10.7

Source: Off-budget liabilities: Federal Debt Agency (2012); guarantees accepted by the federal government: *Federal Ministry of Finance* (2012A); guarantees accepted by the Länder: *Federal Ministry of Finance* (2012B); guarantees accepted by the municipalities: *Kommunalkredit Austria AG* (2011); WIFO calculations.

Trends of major expenditure items

Federal government transfers

With 42.5 percent of total spending, transfer payments are the most important expenditure category, according to the draft federal budget for 2013 (Table 7). Their relative weight has increased markedly since 2000 (35.6 percent), reaching a peak of 43.8 percent in 2010. The share edged down in 2011 and has stabilised thereafter.

For the first time, the draft federal budget for 2013 provides for an absolute decline of transfer expenditure, by 0.5 percent from the previous year. The composition of transfer spending has barely changed since 2000. Old-age income maintenance is planned to claim 61.6 percent of total transfer expenditure in 2013, less also for the first time than in 2012 (–2 percent). Likewise, outlays for old-age care benefits will be cut by 5.8 percent in 2013, reducing their share of total transfers to 7.1 percent. Transfers to families, for their part, are heading up since 2012, after having declined year-on-year in 2011 under the impact of the "first consolidation package"; their share is set to increase to 20.6 percent of total transfers in 2013. Spending on unemployment benefits follows a similar trend, rising by 6.5 percent in 2013 to a share of 10.6 percent of all transfer expenditure. Overall, the pattern and composition of transfers is shaped by the two consolidation "packages" which implied cuts to family and old-age care benefits, an only minor adjustment of retirement benefits and

[5] While the Government Debt Report ("Staatsschuldenbericht") presents the long-term liabilities of companies affiliated to the territorial authorities, the Budget Report ("Budgetbericht") only cites the financial liabilities of the three major federal government agencies (ÖBB-Infrastruktur, ASFINAG, BIG; for the limitations related to the collection of these data and their explanatory power, see *Schratzenstaller*, 2012).

[6] The figures quoted here are taken from the response by the Federal Ministry of Finance to a parliamentary question.

measures to raise the effective retirement age in order to trim the federal government subsidy to the pension scheme.

Table 7: Major items of federal government spending on transfers

	2000	2009	2010	2011	2012	2013	2013	Ø 2009-2013
		Outturn Million €			Draft budget Million €		Percentage changes from previous year	
Retirement	11,901	17,165	18,135	18,083	20,030	19,630	– 2.0	+ 3.4
Federal employees pensions	2,499	3,321	3,429	3,623	4,111	4,008	– 2.5	+ 4.8
Reimbursement to Länder for pensions of teachers	697	1,069	1,138	1,181	1,339	1,389	+ 3.7	+ 6.8
Postal employees pensions	872	1,190	1,199	1,164	1,278	1,220	– 4.5	+ 0.6
Austrian Federal Railways employees pensions	1,695	2,054	2,068	2,040	2,290	2,077	– 9.3	+ 0.3
Subsidies to social retirement insurance[1]	6,139	9,530	10,300	10,075	11,012	10,936	– 0.7	+ 3.5
Families	4,322	6,188	6,528	6,294	6,406	6,566	+ 2.5	+ 1.5
Family benefits	2,787	3,444	3,447	3,124	3,168	3,213	+ 1.4	– 1.7
Maternity, child care benefits[2]	421	1,156	1,155	1,183	1,158	1,179	+ 1.8	+ 0.5
Retirement contributions for child care periods	77	550	825	849	811	821	+ 1.2	+ 10.5
Other	1,037	1,038	1,101	1,138	2,003	1,354	– 32.4	+ 6.9
Unemployment benefits	1,859	2,796	2,962	2,877	3,186	3,392	+ 6.5	+ 5.0
Old-age care benefits	1,264	1,773	1,855	1,900	2,406	2,267	– 5.8	+ 6.3
Total	19,347	27,921	29,481	29,153	32,027	31,855	– 0.5	+ 3.3
As a percentage of total expenditure	35.6	40.2	43.8	43.0	41.9	42.5		
				Percentage shares				
Retirement	61.5	61.5	61.4	62.0	62.5	61.6		
Families	22.3	22.2	22.2	21.6	20.0	20.6		
Unemployment benefits	9.6	10.0	10.1	9.9	9.9	10.6		
Old-age care benefits	6.5	6.3	6.3	6.5	7.5	7.1		

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.

Table 8: Federal government expenditure on retirement benefits

	2000	2009	2010	2011	2012	2013	2013	Ø 2009-2013
		Outturn Million €			Draft budget[1] Million €		Percentage changes from previous year	
Total gross expenditure	*11,901*	*17,165*	*18,135*	*18,083*	*20,030*	*19,630*	– 2.0	+ 3.4
Federal employees pensions	2,499	3,321	3,429	3,623	4,111	4,008	– 2.5	+ 4.8
Reimbursement to Länder for pensions of teachers	697	1,069	1,138	1,181	1,339	1,389	+ 3.7	+ 6.8
Postal employees pensions	872	1,190	1,199	1,164	1,278	1,220	– 4.5	+ 0.6
Austrian Federal Railways employees pensions	1,695	2,054	2,068	2,040	2,290	2,077	– 9.3	+ 0.3
Subsidies to social retirement insurance	4,152	7,655	8,206	8,072	8,978	8,916	– 0.7	+ 3.9
Minimum pension supplements	741	996	990	998	1,000	1,001	+ 0.2	+ 0.1
Transfers to the balancing fund of the social retirement insurance agencies	1,246	880	1,105	1,006	1,035	1,018	– 1.6	+ 3.7
Total revenue	*1,412*	*1,591*	*1,491*	*1,486*	*1,589*	*2,350*[1]	+ *47.9*	+ *10.2*
Federal employees pension contributions	561	588	586	574	614	554	– 9.9	– 1.5
Contributions according to § 13 Pension Act	47	130	133	134	138	136	– 1.2	+ 1.1
Contributions from teachers employed by the Länder	14	40	41	39	45	342[1]	+ 662.3	+ 71.5
Pension contributions postal employees	273	211	211	208	223	201	– 9.8	– 1.2
Pension contributions and supplements Austrian Federal Railways employees	435	400	390	381	388	385	– 0.8	– 1.0
Other pension revenue	82	223	130	150	181	732	+ 304.6	+ 34.7
Net pension expenditure	*10,490*	*15,574*	*16,644*	*16,597*	*18,441*	*17,280*	– 6.3	+ 2.6
As a percentage of total expenditure	19.3	22.4	24.7	24.5	24.1	23.0		

Source: Federal Ministry of Finance, WIFO calculations. – [1] Break in series due to the balance-neutral introduction of employer's contribution to federal employees' retirement insurance (totalling around € 853 million) according to § 22b Gehaltsgesetz/Remuneration Act.

Government net expenditure on retirement benefits (i.e., gross expenditure minus related revenues, in particular from insurance contributions; Table 8) will account for 23 percent of total expenditure in 2013. The decrease by 6.3 percent from the previous year is partly explained by the new way of recording of employers' contributions as referred to above. The share of retirement benefits in total federal expenditure also reached an all-time high of 24.7 percent in 2010 and is heading down since. Federal subsidies to the social retirement scheme, at € 8.9 billion the largest single item, will go down for the first time in 2013, by 0.7 percent.

Growth-enhancing measures

Together with the "first consolidation package" of autumn 2010, a number of forward-looking measures were adopted, i.e., additional financial resources for areas deemed crucial for stronger growth and job creation in the future. Reinforced spending on university and tertiary college education, all-day school facilities, research promotion, investment in energy-conservation of buildings and on old-age nursing care, originally due to expire after 2014, has meanwhile been extended until 2016 (Table 9) and, with the budget for 2013, been supplemented by additional resources for applied research and a "campaign for young entrepreneurs". Importantly, these forward-looking measures are embedded into the consolidation programme, since in their absence a policy of one-sided fiscal restraint would prove poorly successful. A further positive element is the financing commitment until 2016 as it facilitates the planning of expenditure in the areas concerned. Yet, given prevailing political goals and priorities and existing shortcomings in strategic forward-looking domains, further steps need to be taken – all the more so, as in certain areas (like schooling and education) the extra spending just serves to (partially) compensate parallel cuts under the consolidation programme (*Schratzenstaller*, 2011). Thus, the allocation of € 6 million for development aid in 2013 is only offsetting the cuts decided for the same year in the context of the "consolidation package I". In this, like in other areas, additional financial resources are needed, if international and European agreements (increase in development aid expenditure to 0.7 percent of Gross National Income by 2015, in the ratio of research spending to 3.76 percent of GDP by 2020, reduction of CO_2-emissions until 2020) are to be honoured and existing financial bottlenecks for universities and all-day schooling care are to be removed. Deficits exist also in the area of child care: even if, as currently foreseen, the "Barcelona" target of a coverage ratio of one-third for children under the age of 3 years would be met, two-thirds of that age group would be left without child care provision; at the same time, greater efforts need to be made in order to improve the quality of child care facilities. In addition, institutional and management reforms are indispensable to enhance the efficiency of resources spent on schooling and higher education as well as on research promotion.

Table 9: Growth-enhancing measures

	2012	2013	2014	2015	2016	2012-2016
			Million €			
Additional funds, total	*870*	*1,377*	*1,316*	*1,367*	*1,407*	*6,338*
Universities; reinforcement of global budget		250	250	250	250	1,000
Universities and technical colleges	80	80	80	80	80	400
Schools: extension of full-time supervision	80	80	80	80	80	400
Subsidies for energy-saving renovation	100	100	100	100	100	500
Research subsidies	100	100	100	100	100	500
Health care insurance fund	40	40	40	40		160
Long-term care fund, including share of Länder	150	200	235	300	350	1,235
"Secondary education new" ("Neue Mittelschule")	12	34	66	102	132	346
Education: reinforcement from draft budget 2012	308	448	320	270	270	1,616
Applied research[1]		.	.	.	.	110
"Young entrepreneurs" campaign		30	10	10	10	60
Development aid, external relations		11				11

Source: *Federal Ministry of Finance* (2012A, 2012E). – [1] No information on annual distribution available.

Level and composition of revenues

Between 2008 and 2013, federal government revenues rose at an only moderate pace of 1.3 percent per year (Table 10). Main reasons were the slump of gross and net tax revenues during the severe recession of 2009, substantial tax cuts with the tax reform of 2009-10 and further tax relief measures as part of the "cyclical stimulus package II" to cushion the recession; moreover, the conversion of major transfers from the federal government to the Länder and municipalities in the context of fiscal federal relations ("Finanzausgleich") into revenue shares (*Schratzenstaller,* 2008) has a dampening impact on net tax revenues of the federal government. Since 2011, the cyclical recovery in conjunction with tax hikes as part of the consolidation strategy have led to a marked increase in gross and net tax revenues. The altogether strong gains in quasi-tax revenues by 5.1 percent p.a. (mainly driven by unemployment insurance contributions and contributions to the Family Benefit Fund) have countered these dampening effects. Only in 2012 did revenues as projected by the draft federal budget exceed the level of 2008.

Table 10: Development of federal government revenues

	2008	2009	2010	2011	2012	2013	Ø 2008-2013
		Outturn Million €			Draft budget Million €		Year-to-year percentage changes
Government taxes, gross	*68,528*	*63,314*	*65,492*	*69,858*	*73,723*	*76,902*	+ 2.3
Wage tax	21,308	19,897	20,433	21,784	23,000	23,916	+ 2.3
Assessed income tax	2,742	2,605	2,668	2,678	2,860	3,349	+ 4.1
Corporate tax	5,934	3,834	4,633	5,277	5,500	5,790	– 0.5
Capital gains taxes	3,750	3,015	2,556	2,712	2,980	3,180	– 3.2
Value added tax	21,853	21,628	22,467	23,391	24,230	25,100	+ 2.8
Excise taxes	5,633	5,582	5,684	6,103	6,270	6,421	+ 2.7
Transport taxes	5,027	4,953	5,116	5,627	5,672	5,922	+ 3.3
Other	2,280	1,798	1,934	2,285	3,211	3,224	+ 7.2
Minus							
Transfers to Länder, municipalities etc.	– 21,517	– 23,397	– 23,340	– 25,414	– 26,344	– 27,875	+ 5.3
Transfers to EU budget	– 2,050	– 2,279	– 2,336	– 2,512	– 2,500	– 2,600	+ 4.9
Government taxes, net	*44,961*	*37,638*	*39,816*	*41,931*	*44,879*	*46,426*	+ 0.6
Transfer of revenue shares	1,759	1,609	1,658	1,812	1,886	1,954	+ 2.1
Tax-like revenues	9,165	9,278	9,608	10,032	10,307	11,756	+ 5.1
Unemployment insurance contributions	4,710	4,615	4,771	5,021	5,000	5,346	+ 2.6
Employers' contribution to Family Benefit Fund	4,399	4,624	4,762	4,977	5,111	6,399	+ 7.8
Other revenues[1]	8,550	13,851	8,352	9,676	8,269	8,542	± 0.0
Total revenues	*64,435*	*62,376*	*59,434*	*63,452*	*65,340*	*68,678*	+ *1.3*

Source: Federal Ministry of Finance. – [1] 2008 adjusted, value according to new budget legislation framework. 2009 including one-off withdrawal from balancing reserve.

Table 11: Composition of gross tax revenues by broad categories

	Taxes on income Total	Assessed income tax	Corporate tax	Wage tax	Taxes on consumption Total	Energy-based	VAT	Taxes on wealth
	Percent							
1970	39.9	11.2	4.4	16.3	49.2	7.2	30.9	3.7
1980	44.6	8.8	4.1	25.8	49.8	5.9	35.1	3.2
1990	42.9	7.9	3.2	24.8	50.6	4.6	36.3	4.1
2000	47.1	5.6	7.7	28.7	50.5	6.5	33.9	1.4
2001	50.8	7.1	11.1	27.9	47.1	6.5	30.9	1.3
2002	48.5	5.7	8.3	29.5	49.3	6.9	32.1	1.2
2003	49.5	5.0	8.1	31.7	49.2	7.5	30.8	1.3
2004	48.0	5.0	8.0	30.5	50.3	7.7	32.3	1.3
2005	46.6	4.4	7.7	29.6	51.7	7.6	34.0	1.4
2006	47.1	4.2	8.0	30.0	50.4	7.0	33.4	1.5
2007	49.5	4.1	8.9	30.4	48.5	6.9	32.2	1.5
2008	50.5	4.0	8.7	31.1	47.6	6.7	31.9	1.3
2009	47.8	4.1	6.1	31.4	51.0	7.0	34.2	1.4
2010	47.6	4.1	7.1	31.2	50.8	7.0	34.3	1.4
2011	47.8	3.8	7.6	31.2	49.8	7.3	33.5	2.0
2012[1]	49.2	3.9	7.5	31.2	48.6	7.2	32.9	2.1
2013[1]	49.6	4.4	7.5	31.1	48.2	7.1	32.6	2.1

Source: Federal Ministry of Finance, WIFO calculations. – [1] According to draft federal budget, including the one-off ex-ante taxation of occupational pension funds in 2012 (€ 900 million).

The share of wage tax in joint federal tax revenues rose from 16 percent in 1970 to around 30 percent in the early 2000s, and has remained broadly stable since, mainly owing to two substantial tax cuts during the past decade (Table 11). With a share of 32.6 percent in total gross tax receipts, value added tax remains the single most revenue-generating tax. While consumption taxes accounted for more than half of total gross tax revenues in the crisis years of 2009 and 2010, due to the slump in the cyclically more sensitive taxes on income, their relative weight has somewhat diminished since. Several tax hikes as part of the consolidation measures (mineral oil tax, car registration tax based on fuel consumption, air travel ticket charge) raised the share of energy-based taxes to 7.3 percent in 2011, followed by a slight decline thereafter. The share of taxes on wealth picked up with the introduction of the bank charge in 2011 and its temporary increase to around 2 percent[7].

Cost of operations of financial market stabilisation ("bank support package")

Table 12 gives an overview of the operations undertaken up to end-September 2012 for financial market stabilisation, broken down by the banks concerned. Out of the reimbursable equity capital that the federal government put at the temporary disposal of banks for the strengthening of their capital base against the payment of dividends, € 4.1 billion are currently outstanding. The banks are expected to reimburse the capital offered over the medium term, whereby it would not permanently burden the budget balance. In the context of its partial nationalisation, the share capital of € 1,000 million transferred to Österreichische Volksbanken AG was reduced by € 700 million in spring 2012; this amount, converted into a capital transfer, weighs on the budget on a permanent basis. Already in 2011, the share capital of € 1,350 million offered to Hypo Alpe-Adria-Bank International AG was reduced by € 625 million, a further € 450 million were converted into equity capital. In this way, the bulk of the share capital for Hypo Alpe-Adria-Bank International AG, namely € 1,075 million, has as a capital subsidy turned into a loss for the federal government. First reimbursements of share capital, to a total amount of € 900 million, by Erste Group Bank AG and Österreichische Volksbanken AG were foreseen already for 2011; both banks, however, were unable to honour their commitments. For 2013, the draft federal budget includes the reimbursement of € 624 million in share capital by Erste Bank; yet, the latter announced at the end of last October that reimbursement is unlikely to start before 2015.

At the end of September 2012, the federal government firmly reckoned with capital subsidies to banks (equity capital increases; shareholder subsidies) totalling € 3,984 million; in addition, the Land of Carinthia had to inject € 181 million in capital to Hypo Alpe-Adria-Bank International AG. Thus, capital subsidies amounted to € 4,165 million overall at the end of September 2012. € 1,756 million of the total amount were claimed by Hypo Alpe-Adria-Bank International AG (€ 1,575 million from the federal government, € 181 million from Land Carinthia: the above-mentioned reduction of share capital 2011 by € 1,075 million, equity capital increase 2012 by € 500 million, equity capital injection by Land Carinthia € 181 million). € 1,459 million went to KA (including its "bad bank" KA Finanz AG; to KA: € 250 million as capital increase or shareholder subsidy; to KA Finanz AG: € 210 million in shareholder subsidies until end-2011, a further € 610 million in shareholder subsidies in 2012 and equity capital increase of € 389 million). In addition, in early 2012 capital subsidies for ÖVAG of a total € 950 million were decided, of which € 700 million as the already-cited reduction of the larger part of shareholder capital, and € 250 million as capital increase. These capital subsidies were to be counter-financed by the ex-ante taxation of contributions to occupational pension funds and a supplement to the bank charge; however, from today's perspective only a small part of the € 900 million in revenues expected from the ex-ante taxation will actually accrue in additional income tax revenues, such that the federal budget will in the end bear the brunt of the partial

[7] The increase in the taxation of earnings from sales of securities and real estate is not reflected in revenues from wealth taxes, but is included in capital gains tax and thereby raises the revenues from taxes based on income.

nationalisation of ÖVAG. By mid-2013, the federal government will redeem a guarantee for KA Finanz AG to an amount of € 1,000 million which will again be converted into a capital subsidy (€ 1,137 million including interest). Following a Eurostat decision, this guarantee has since 2010 been included to an amount of € 1,000 million in the government deficit as well as in public debt. From today's perspective, public capital transfers to Austrian banks will thereby rise to € 5,302 million (capital transfers already fixed: € 4,165 million; redemption of guarantee for KA Finanz AG: € 1,137 million). Not included here is a capital injection to Hypo Tirol Bank AG of € 230 million, decided by the regional parliament of Tyrol; in this regard, a decision whether part of the transaction is to be recorded as deficit-increasing asset transfer is still pending. Unless these capital transfers can be covered by the proceeds from re-privatisation of the (partly) emergency-nationalised banks, they represent final costs for the government. For 2013, the budget includes € 250 million in revenues from its stake in KA[8].

Table 12: Scope of operations of financial market stabilisation

As of end-September 2012

	Shareholder capitall[1]	Capital subsidies	Financial guarantees	Guarantees for securities issued
	Million €			
Hypo Alpe-Adria-Bank International AG	275[2]	1,756[3]	1,200[4]	584
Erste Group Bank AG	1,224			1,000
Österreichische Volksbanken AG	300[5]	950[6])	100	1,000
Raiffeisen Bank International AG	1,750			1,500
Kommunalkredit Austria AG einschließlich KA Finanz AG		1,459[7]	3,905[8]	4,601
BAWAG	550			
Total	4,099	4,165	5,205	8,685

Source: Federal Ministry of Finance, *Staatsschuldenausschuss* (2012), media investigations, WIFO calculations. – [1] Dividend 8 percent: Hypo Alpe-Adria-Bank International AG, Erste Group Bank AG, Raiffeisenbank International; Dividend 9.3 percent: Österreichische Volksbanken AG, BAWAG. – [2] Originally € 1,350 million – [3] Reduction of shareholder capital: € 625 million, transformation shareholder capital: € 450 million, equity capital increase € 500 million, capital injection by Land Carinthia: € 181 million. – [4] Including guarantee of € 1,000 million accepted in autumn 2012 for subordinated capital raised to cover equity capital gap. – [5] Originally € 1,000 million. – [6] Reduction of shareholder capital: € 700 million, capital increase: € 250 million. – [7] Until end of 2011: capital increase or stakeholder subsidy KA Finanz AG: € 250 million, stakeholder subsidies KA Finanz AG: € 210 million; 2012: stakeholder subsidy: € 610 million, increase equity capital KA Finanz AG: € 389 million; 2013 additional redemption of guarantee of € 1,000 million for KA Finanz AG: € 1,137 million. – [8] Guarantee for Commercial-Paper-Programme € 2,500 million; guarantee in the context of the debtor warrant arrangement of end-2009 for the capitalisation of KA Finanz AGthat was called at the end of 2011: € 1,000 million; the federal government will liquidate this open claim by paying € 1,137 million in mid-2012, thereby replacing the guarantee by a capital subsidy of the corresponding amount:guarantee for liabilities: € 268 million.

In addition, the federal government assumed guarantees for assets and liabilities of (partly) nationalised banks in distress, to the tune of € 5.2 billion. Among these are a guarantees of € 200 million for Hypo Alpe-Adria-Bank International AG from previous years and a further guarantee of € 1,000 million granted in autumn 2012 for the junior bond issued to cover the gap in equity capital. A further guarantee for € 100 million was assumed on behalf of ÖVAG. The federal government is also liable for a commercial paper programme of KA Finanz AG to the amount of € 2.5 billion. Apart from the above-mentioned guarantee of € 1 billion for KA Finanz AG, there is a further guarantee amounting to € 268 million. As a rule, guarantees are contingent liabilities and as such not included in the budget. However, the guarantee over € 1,000 million for KA Finanz AG will definitely burden the federal budget for 2013 since the federal government will be called to redeem the underlying debt. Also for the other guarantees assumed for non-performing loans of the (partly) nationalised banks

[8] Already in 2012, € 250 million were budgeted as revenues from sales of government stakes, which however could not be realised.

there is a certain risk for them being called, implying final budgetary costs for the federal government.

Federal government guarantees for securities issued by banks which are subject to a guarantee fee declined to a total € 8.68 billion until end-September 2012. The guarantee facility for such issues was limited until the end of 2010, such that no new guarantees are assumed since and the existing ones gradually expire.

Table 13 summarises the impact (revenue and expenditure) of the measures to stabilise financial markets on the general government deficit (Maastricht definition) for the period from 2008 to end-September 2012, and the expected revenue and expenditure as laid down in the draft federal budget for 2013. Disbursements and reimbursements of shareholder capital are disregarded here, as they are deficit-neutral. Expenditures consist of capital increases or shareholder subsidies as well as re-financing cost for the federal government which has to raise the funds required for bank support on the capital market. Receipts include banks' dividend payments for shareholder capital, to the extent that the banks are profitable, and – whether or not they are profitable – fees for guarantees assumed by the federal government and possibly other revenues. From 2008 until the end of September 2012, cumulated expenditure (Maastricht definition) of € 5.89 billion by far exceeded cumulated revenues (€ 1.86 billion); on balance, the general government budget was burdened to the amount of € 4 billion over the period. The draft federal budget for 2013 also anticipates an excess of expenditure (excluding refinancing cost) over revenue by € 789 million.

Table 13: Impact of financial support to Austrian banks on the budget balance (Maastricht definition)

	2008	2009	2010	2011	2012	2008-2012	2013 Draft federal budget
				Million €			
Expenditure	–	254	1,888	921	2,822	5,885	1,150
Asset transfers[1]	–	120[2]	1,675[3]	700[4]	2,639[5]	5,134	950
Financial guarantees	–	–	–	–	–	–	200
Refinancing cost	–	134	213	221	183[6]	751[6]	–
Revenues	3	217	564	621	451	1,856	361
Dividends shareholder capital[2,7]		0	263	289	289[6]	841[6]	289
Guarantee fees	3	217	301	332	162[6]	1,015[6]	72
Balance	3	– 37	– 1,324	– 300	– 2,371	– 4,029	– 789

Source: Federal Ministry of Finance, *Staatsschuldenausschuss* (2012), WIFO calculations. Without refundable shareholder capital, without (negligible) revenues from penalties and payments for FIMBAG (Federal Financial Market Participation Agency). – [1] Unless otherwise stated: asset transfers by the federal government. – [2] Stakeholder subsidies Kommunalkredit Austria AG and KA Finanz AG: € 90 million, capital injection by Land Kärnten/Carinthia: € 30 million . – [3] Debtor warrant Kommunalkredit Austria AG: € 1 billion; stakeholder subsidy KA Finanz AG: € 75 million; capital transfer to Hypo Alpe-Adria-Bank International AG (conversion shareholder capital): € 450 million; capital injection by Land Kärnten € 150 million. – [4] Stakeholder subsidy KA Finanz AG: € 75 million: capital reduction Hypo Alpe-Adria-Bank International AG: € 625 million. – [5] Equity capital increase Hypo Alpe-Adria-Bank International AG: € 500 million; guarantees: € 190 million, stakeholder subsidy: € 610 million; capital transfer KA Finanz AG: € 389 million: reduction shareholder capital: € 700 million; capital increase ÖVAG: € 250 million. – [6] Until end-September 2012. – [7] 2009 dividend shortfall Hypo Alpe-Adria-Bank International AG: € 36 million, 2010 and 2011 dividend shortfall Hypo Alpe-Adria-Bank International AG € 72 million each, ÖVAG € 93 million each.

Overall, final expenditure on capital transfers to banks plus re-financing cost for debt raised for the purpose of financial market stabilisation are likely to significantly exceed the receipts from dividend payments and guarantee fees. From today's perspective, the expenditure on bank support (capital transfers and re-financing cost) over the entire period covered by the bank support "package" is likely to be higher than revenue from dividends and guarantee fees, implying a drag on the general government balance.

Imponderables of the medium-term consolidation path

The draft federal budget for 2013, like the medium-term consolidation path, is subject to a number of imponderables:

- The envisaged consolidation targets will only be met if all measures taken to that end yield the expected expenditure savings or additional revenues. For some measures, this expectation appears rather optimistic, e.g. revenues of € 1 billion in 2013 from the tax agreement with Switzerland, or of € 350 million from the taxation of profits from real estate sales.

- A budgetary risk derives from the EU rescue measures, notably from the aid to Greece – if, say, interest rate rebates on bilateral loans lead to revenue losses, or if part of these loans (€ 1.56 billion so far) needs to be written off as part of a debt cancellation agreement. Also the guarantees assumed by Austria in the context of the EFSF for the adjustment programmes for Ireland, Portugal and Greece (€ 7.4 billion as of mid-2012, of which over € 5 billion for Greece) are subject to a certain risk.
- If the business cycle profile turns out less favourable than the assumption underlying the budget draft, the budget balance will be burdened by the operation of automatic stabilisers. Further developments in Europe will be crucial in this regard, and in particular whether the authorities will succeed in surmounting the government debt crisis in the southern periphery countries and in making the economic adjustment programmes less detrimental to growth and job creation.
- Further needs of financial support by the out-of-distress nationalised banks (Hypo Alpe-Adria-Bank International AG, Kommunalkredit Austria AG), as currently cannot be excluded, or a denial by Eurostat of the deficit-neutral statistical recording of the financial guarantees assumed for Hypo Alpe-Adria-Bank International AG would complicate the adherence to the consolidation path.

The new federal budgeting legislation

As from 2013, the second stage of the reform of federal budget legislation is being implemented (the first stage with the core element of a four-year Medium-term Financial Framework with binding expenditure ceilings and the possibility of accumulating reserves entered into force in 2009). The centrepiece of the second stage is the introduction of budgetary impact considerations, including the principle of Gender Budgeting as anchored in the Constitution since 2009. For each sub-section, a general principle and up to five action targets need to be formulated, one of which has to be a gender target. For these targets, appropriate measures are to be defined (including a gender equality measure) at the level of the 70 global budgets as well as the detailed allocations, along with intermediate steps and achievement indicators. A key feature of the impact-oriented approach is the assessment of implications, both desirable and undesirable, for all major federal regulations and projects: financial implications, macroeconomic effects, impact on companies, children and youth, consumers, social and environmental conditions and gender equality.

In addition, the so far single financing account, which presents federal revenue and expenditure on a cash basis, is supplemented by an operational account. The latter shows a fiscal year's expenses and proceeds on an accrual basis, largely in accordance with the recording standards of the European System of Accounts (ESA). The operational account, which intends to present the consumption of resources in a comprehensive way, also allows for depreciation. While the financing account reflects the liquidity situation, the operational account presents the budget under the aspect of economic performance. The major differences between the two accounts can be found in the sub-sections with a high share of investment spending, shareholdings, loans or adjustments on an accrual basis (mainly sub-sections 13: Justice, 41: Transport, Innovation and Technology, 45: Federal assets, 46: Financial market stability, and 58: Financing operations, currency swaps). Likewise, the new capital account, first established per 1 January 2013 (opening balance sheet) and henceforth published in the annual closing statement, presents the assets of the federal government and thereby adds to a more comprehensive and meaningful assessment of the federal economic and financial situation. Fiscal transparency and flexibility of operational decision-making will be enhanced as more than 1,000 budget items are replaced by three to five global budgets per sub-section.

The accounting systems of the Länder (and municipalities) do not at present convey an equally comprehensive and consistent picture of their actual financial situation, including linkages with (off-budget) shareholdings and funds, risks from accepted financial guarantees and debt management operations. It would be desirable if the Länder would follow the federal government in migrating towards a largely commercially-oriented accounting system; so far, the Länder have declined to adopt the new federal legislative framework.

Austria's fiscal policy in the European context

The trend in public sector ratios (Tables 14 and 15) in the EU has in recent years been largely determined by the budgetary repercussions of the financial market crisis and the subsequent severe recession. The cost of the crisis pushed up the government expenditure-to-GDP ratio for the EU-average significantly, from 45.6 percent in the pre-crisis year of 2007 to over 51 percent in 2009. Under the impact of the consolidation programmes, the ratio edged down to 49.1 percent in 2011. The European

Commission's short-term forecast of autumn 2012 expects a further gradual moderation to 48.2 percent by 2014, whereby the EU-average expenditure ratio would still exceed its pre-crisis level by 2.6 percentage points. For Austria, the government expenditure-to-GDP ratio was 3 percentage points above the EU-average in 2007. In the aftermath of the crisis, the ratio climbed to 51.6 percent in 2012 (according to the European Commission forecast), before abating to a projected 50.4 percent in 2014. By that time, the ratio would still be above the EU-average, albeit by a smaller margin since the increase over the period 2007-2014 by 1.8 percentage points would have been smaller than the +2.6 percentage points projected for the EU-average.

Table 14: Government ratios in a European comparison

	Expenditure ratio					Revenue ratio					Tax ratio				
	2007	2011	2012	2013	2014	2007	2011	2012	2013	2014	2007	2011	2012	2013	2014
	As a percentage of GDP														
EU 27	45.6	49.1	49.1	48.8	48.2	44.7	44.7	45.5	45.5	45.3	39.6	39.0	39.8	40.2	40.0
EU 15	45.9	49.7	49.7	49.4	48.9	45.1	45.2	46.1	46.1	45.9	40.1	39.6	40.3	40.7	40.5
Belgium	48.2	53.3	54.3	54.4	54.5	48.1	49.4	51.2	50.8	50.8	43.8	43.9	45.4	45.2	45.3
Germany	43.5	45.3	45.2	45.5	45.3	43.7	44.5	45.0	45.3	45.3	39.0	38.9	39.4	39.5	39.4
Geece	47.5	51.8	50.7	49.6	48.1	40.7	42.3	43.9	44.1	43.5	32.5	32.4	34.0	34.3	34.2
Spain	39.2	45.2	44.3	42.8	42.3	41.1	35.7	36.3	36.7	35.8	37.1	31.4	32.1	32.4	31.6
France	52.6	56.0	56.4	56.8	56.8	49.9	50.8	51.8	53.2	53.2	43.4	43.9	44.9	46.2	46.2
Ireland	36.8	48.1	42.6	41.5	39.1	36.9	34.9	34.3	34.0	34.2	31.6	28.9	28.9	29.3	29.8
Italy	47.6	49.9	50.9	50.3	49.8	46.0	46.1	48.1	48.4	47.9	42.8	42.5	44.4	44.6	44.1
Luxembourg	36.3	42.0	44.3	44.2	44.7	39.9	41.6	42.4	42.5	42.9	35.7	37.3	38.0	38.1	38.5
Netherlands	45.3	49.8	49.9	49.8	49.7	45.4	45.4	46.2	47.1	46.6	38.7	38.4	38.9	39.8	39.4
Austria	48.6	50.5	51.6	51.3	50.4	47.6	48.0	48.5	48.6	48.5	41.8	42.1	42.6	42.8	42.7
Portugal	44.4	49.4	46.7	47.5	45.3	41.1	45.0	41.7	43.0	42.8	32.8	33.2	32.4	34.1	33.9
Finland	47.4	54.8	55.5	55.1	55.2	52.7	53.9	53.6	53.7	54.2	43.1	43.6	43.4	43.6	44.0
Denmark	50.8	58.0	59.7	57.1	56.1	55.6	56.1	55.7	55.0	54.3	48.9	48.1	48.1	47.8	47.4
Sweden	51.0	51.1	51.6	51.6	51.0	54.5	51.3	51.4	51.1	51.2	47.6	44.6	44.7	44.3	44.4
UK	43.7	48.5	48.4	47.2	45.7	40.9	40.7	42.2	40.1	39.8	37.1	37.2	37.0	37.1	37.0
Bulgaria	39.2	35.6	36.4	37.0	36.9	40.4	33.6	34.9	35.5	35.9	33.3	27.4	28.5	28.9	29.1
Czech Republic	41.0	43.0	43.6	43.2	42.9	40.3	39.8	40.1	39.8	39.7	35.9	34.5	35.0	34.8	34.7
Estonia	34.0	38.3	41.2	39.5	37.8	36.4	39.4	40.1	39.0	38.1	31.4	32.8	33.5	33.1	32.5
Cyprus	41.3	46.1	46.9	47.1	47.4	44.8	39.8	41.6	41.3	41.4	39.2	34.7	36.1	36.0	36.1
Latvia	36.0	38.4	36.8	35.6	34.8	35.6	35.0	35.1	34.0	33.4	30.6	27.6	28.3	27.4	26.9
Lithuania	34.6	37.4	36.8	36.0	35.2	33.6	31.9	33.7	33.4	33.1	29.5	26.1	27.0	27.0	26.8
Hungary	50.7	49.6	49.0	49.1	49.7	45.6	53.9	46.4	46.1	46.1	40.5	37.0	38.8	38.7	38.4
Malta	42.6	42.3	42.6	43.2	42.8	40.2	39.6	40.0	40.2	40.2	34.6	33.7	33.6	34.0	34.1
Poland	42.2	43.6	42.8	42.2	41.8	40.3	38.5	39.4	39.1	38.9	34.8	32.4	33.1	33.1	33.2
Romania	38.2	37.9	36.1	36.0	35.7	35.3	32.3	33.3	33.6	33.7	29.1	27.5	27.8	28.0	28.1
Slovenia	42.4	50.7	48.8	49.7	49.2	42.4	44.3	44.4	45.8	45.1	37.7	37.2	37.2	37.9	37.8
Slovakia	34.2	38.2	37.6	36.7	36.1	32.4	33.2	32.7	33.4	32.9	29.3	28.6	27.9	28.8	28.3

Source: European Commission, Autumn 2012 forecast.

Both for the EU on average and for Austria, the revenue as well as the expenditure ratios are heading up in 2011 and/or 2012, with the implementation of fiscal consolidation programmes. In 2014, they will be slightly higher than the corresponding ratios for 2007. Unlike for the expenditure ratio, the gap between the high Austrian tax burden (as percent of GDP) and the EU-average is set to widen further. According to the projection by the European Commission, the Austrian revenue-to-GDP ratio of 48.5 percent for 2014 will be 0.9 percentage points higher than in 2007, implying a widening of the gap vis-à-vis the EU-average from 2.9 to 3.3 percentage point. Over the same period, the Austrian tax burden is expected to increase by 0.9 percentage point to 42.7 percent of GDP, while the (positive) margin vis-à-vis the EU-average (projected at 40 percent of GDP for 2014) rises to 2.7 percentage points.

Given that the revenue ratios will rise markedly less than the expenditure ratios, both for the EU as a whole and for Austria, the expected budget deficits for 2014 will still be significantly higher than those for 2007. On average for the EU, the European Commission projects for 2014 a deficit ratio of 2.9 percent of GDP, and for Austria a ratio of 1.9 percent. For the EU as a whole, the government debt-to-GDP ratio rises from 59 percent in 2007 to 88.6 percent in 2014; for Austria, starting from a similar level of 60.2 percent, the increase by nearly 15 percentage points is nevertheless much smaller. In the EU 15, only four member countries (Luxembourg, Denmark, Finland and Sweden) are likely to respect in 2014 the debt ceiling of 60 percent of GDP, as required by the European Stability and Growth Pact, whereas out of the new EU member countries only Cyprus, Malta, Hungary and Slovenia are set to violate this criterion.

Table 15: General government balance (Maastricht definition) and public debt of EU member countries

	Maastricht balance					Level of government debt				
	2007	2011	2012	2013	2014	2007	2011	2012	2013	2014
	As a percentage of GDP									
EU 27	– 0.9	– 4.4	– 3.6	– 3.2	– 2.9	59.0	83.0	86.8	88.5	88.6
EU 15	– 0.8	– 4.5	– 3.7	– 3.3	– 2.9	60.7	86.2	89.9	91.7	91.8
Belgium	– 0.1	– 3.7	– 3.0	– 3.4	– 3.5	84.0	97.8	99.9	100.5	101.0
Germany	+ 0.2	– 0.8	– 0.2	– 0.2	– 0.0	65.2	80.5	81.7	80.8	78.4
Geece	– 6.5	– 9.4	– 6.8	– 5.5	– 4.6	107.2	170.6	176.7	188.4	188.9
Spain	+ 1.9	– 9.4	– 8.0	– 6.0	– 6.4	36.3	69.3	86.1	92.7	97.1
France	– 2.7	– 5.2	– 4.5	– 3.5	– 3.5	64.2	86.0	90.0	92.7	93.8
Ireland	+ 0.1	– 13.4	– 8.4	– 7.5	– 5.0	25.0	106.4	117.6	122.5	119.2
Italy	– 1.6	– 3.9	– 2.9	– 2.1	– 2.1	103.3	120.7	126.5	127.6	126.5
Luxembourg	+ 3.7	– 0.3	– 1.9	– 1.7	– 1.8	6.7	18.3	21.3	23.6	26.9
Netherlands	+ 0.2	– 4.5	– 3.7	– 2.9	– 3.2	45.3	65.5	68.8	69.3	70.3
Austria	– 0.9	– 2.5	– 3.2	– 2.7	– 1.9	60.2	72.4	74.6	75.9	75.1
Portugal	– 3.1	– 4.4	– 5.0	– 4.5	– 2.5	68.4	108.1	119.1	123.5	123.5
Finland	+ 5.3	– 0.6	– 1.8	– 1.2	– 1.0	35.2	49.0	53.1	54.7	55.0
Denmark	+ 4.8	– 1.8	– 3.9	– 2.0	– 1.7	27.1	46.6	45.4	44.7	45.3
Sweden	+ 3.6	+ 0.4	+ 0.0	– 0.3	+ 0.4	40.2	38.4	37.4	36.2	34.1
UK	– 2.8	– 7.8	– 6.2	– 7.2	– 5.9	44.2	85.0	88.7	93.2	95.1
Bulgaria	+ 1.2	– 2.0	– 1.5	– 1.5	– 1.1	17.2	16.3	19.5	18.1	18.3
Czech Republic	– 0.7	– 3.3	– 3.5	– 3.4	– 3.2	27.9	40.8	45.1	46.9	48.1
Estonia	+ 2.4	+ 1.1	– 1.1	– 0.5	+ 0.3	3.7	6.1	10.5	11.9	11.2
Cyprus	+ 3.5	– 6.3	– 5.3	– 5.7	– 6.0	58.8	71.1	89.7	96.7	102.7
Latvia	– 0.4	– 3.4	– 1.7	– 1.5	– 1.4	9.0	42.2	41.9	44.3	44.9
Lithuania	– 1.0	– 5.5	– 3.2	– 2.8	– 2.3	16.8	38.5	41.6	40.8	40.5
Hungary	– 5.1	+ 4.3	– 2.5	– 2.9	– 3.5	67.0	81.4	78.4	77.1	76.8
Malta	– 2.3	– 2.7	– 2.6	– 2.9	– 2.6	61.9	70.9	72.3	73.0	72.7
Poland	– 1.9	– 5.0	– 3.4	– 3.1	– 3.0	45.0	56.4	55.5	55.8	56.1
Romania	– 2.9	– 5.5	– 2.8	– 2.4	– 2.0	12.8	33.4	34.6	34.8	34.8
Slovenia	– 0.0	– 6.4	– 4.4	– 3.9	– 4.1	23.1	46.9	54.0	59.0	62.3
Slovakia	– 1.8	– 4.9	– 4.9	– 3.2	– 3.1	29.6	43.3	51.7	54.3	55.9

Source: European Commission, Autumn 2012 forecast.

Concluding remarks

With a view to the fiscal imponderables and the need for government spending in areas crucial for longer-term growth, fiscal policy must press ahead with structural reforms within the public sector as initiated with the "consolidation package II". The targets for expenditure restraint ought to be achieved through a review of subsidy schemes, reform of health care services and convergence of the actual towards the statutory retirement age; measures in these areas already planned are to be forcefully implemented, and further steps still to be taken need to be made operational and put into effect without delay. Furthermore, in all these areas further-reaching efforts will prove unavoidable in order to restore over the medium term the fiscal room for manoeuvre necessary to cope with the challenges of the future (population ageing, reform of energy supply and climate change). Such efforts ought to be underpinned by a reform of federal fiscal relations and the identification of spending areas with unsatisfactory cost-benefit-relations, such as for large infrastructure projects. Policy should also try and identify areas where emphasis on preventive action may allow savings on long-term running costs (like in health care or environmental policy). In any case, there is no scope in the election year 2013 for expenditures that are not counter-financed by cuts elsewhere or for a relief in the overall tax burden, should the reduction of the general government deficit below the ceiling of 3 percent of GDP in the current year, as required by EU rule, not be jeopardised. On the other hand, an indispensable ingredient of a medium-term strategy for more dynamic growth and job creation is a revenue-neutral tax reform that would reduce the tax burden notably on small and medium-size incomes, counter-financed by higher taxes on consumption of energy and natural resources as well as on real estate and inheritances.

The Draft Federal Budget 2013: Consolidation Path Subject to Uncertainties – Summary

The year 2013 is to mark the beginning of a gradual, but sustained reduction of Austria's public debt. At a projected ratio of 75.4 percent of GDP, debt is likely to reach a peak, from where it is supposed to decline in subsequent years. In parallel, the deficit according to the Maastricht definition should by 2013 be brought below the ceiling set by the Stability and Growth Pact, as stipulated by the Excessive Deficit Procedure for Austria. Public support for Austrian banks has burdened the general government balance by a cumulated € 4 billion up to September 2012; a further nearly € 800 million are provided for in the budget for 2013.

The draft federal budget is subject to certain downside risks: apart from the uncertainties surrounding the euro area debt crisis and the cyclical outlook for Europe, they relate to possible further financial needs for bank stabilisation, potential write-offs on part of the EU rescue funds and the actual mobilisation of the entire amount of budgetary savings and revenues expected from the consolidation programme. The second stage of the federal budget reform will be implemented in 2013, giving greater consideration to the impact of fiscal policy (performance-oriented budgeting including gender budgeting) and introducing double-entry accounting; from these key elements of reform, higher transparency, efficiency and effectiveness of federal budget policy can be expected. Further emphasis should be given to the adoption of the same principles of modern budgeting by the administrations of the Länder and municipalities.

Beyond the debt included in the official public debt ratio, also off-budget debt and financial guarantees need to be taken into account for a comprehensive assessment of government liabilities including contingent liabilities with a view to the long-term sustainability of public finances. For the general government, guarantees amount to € 194 billion, equivalent to 63 percent of GDP of 2012. Debt incurred off-budget adds up to € 32.9 billion or 10.7 percent of GDP. It would be desirable if all off-budget debt and guarantees of the different government levels were presented in a comprehensive account and on a regular basis.

In view of the existing fiscal imponderables and the continuing need for resources in areas crucial for long-term growth, fiscal policy needs to give priority and stronger momentum to the structural reform of the public sector that has been initiated with the "consolidation package II". The achievement of the consolidation targets via reform of subsidy schemes and of the health system as well as the convergence of the actual towards the statutory retirement age ought to be ensured by decisive action to implement the measures already adopted and to define and put into effect those that still need to be taken. In all these areas even further steps will be inevitable in order to restore over the medium term the budgetary leeway that is necessary to cope with future challenges like demographic ageing, the transformation of energy supply and climate change. What is further required is a reform of federal fiscal relations and the identification of other areas of public spending where cost-benefit ratios are unsatisfactory, such as for major infrastructure projects. Policy would be well advised to review in which areas greater emphasis on preventive measures would allow a reduction of perennial follow-up costs (like in health or environmental policy). There is definitely no scope for new spending commitments during the upcoming election campaigns (unless they are counter-financed by cuts in other areas) or for pledges of overall tax relief, should compliance with EU fiscal rules of a deficit reduction below 3 percent of GDP in 2013 not be jeopardised. Nonetheless, a revenue-neutral reform of the tax structure is an indispensable ingredient of a medium-term strategy for more dynamic growth and job creation: such reform should be guided by the idea of alleviating the tax burden, notably for small and medium-size incomes, while offsetting the implicit revenue losses through higher taxation of energy and environmental resource consumption as well as of real estate and inherited wealth.

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