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COVER NOTE

from:	Mr Gerhard LERCHBAUMER, Minister Counsellor (Finance), Permanent Representation of Austria to the European Union
date of receipt:	18 April 2013
to:	Carsten PILLATH, Director-General, Council of the European Union
Subject.:	Update of the Austrian stability programme for the period 2012 to 2017.

Please find attached the update of the Austrian stability programme for the period 2012 to 2017, pursuant to Regulation (EC) 1466/97.

(Complimentary close)

(s.) Gerhard LERCHBAUMER

Encl:

BMF
FEDERAL MINISTRY
OF FINANCE

Austrian Stability Programme

Update for the period 2012 to 2017

Federal Ministry of Finance

Vienna, 16 April 2013

This document is an unofficial translation of the German original version and can be accessed at the web page of the Federal Ministry of Finance: http://www.bmf.gv.at

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1. Introduction

In accordance with Regulation (EC) No 1466/97, amended by Regulation (EU) No 1175/2011, Euro area Member States are required to submit a Stability Programme and the other EU Member States a Convergence Programme each year. The format and content of the present update of the Austrian Stability Programme for the period 2012 to 2017 are in line with the requirements of the Code of Conduct as endorsed by the ECOFIN Council on September 3rd, 2012.

The Federal Government's strategy for the period 2013 to 2017 was launched under the motto "Sound public finances by pursuing reforms. Economic growth by implementing proactive measures." and is based on three targets:

- Achieving a balanced budget by 2016 as well as ensuring long-term sustainability and reducing the debt-to-GDP ratio to 60% of GDP,
- Strengthening investments in the areas of education, universities, R&D and infrastructure to support growth and employment and
- Accelerating structural reforms in the field of pensions, health policy, public administration, subsidies and labour markets

With the adoption of a debt brake based on the German model and by implementing a stability package for the period 2012-2016, Austria will reach the above outlined national objectives and comply with the provisions of the new EU budgetary surveillance framework ("Sixpack", "Twopack") as well as the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). Austria, thereby, contributes significantly towards strengthening confidence in the domestic economy, in Europe and in the common currency.

The new rules for EU budgetary surveillance entered into force on December 13th, 2011. The so-called "Sixpack" consists of five regulations and one directive. Besides two regulations amending the preventive and corrective arms of the Stability and Growth Pact (SGP), based on Art. 121 and 126 of the Treaty on the Functioning of the European Union (TFEU), it includes a regulation on new financial sanctions for Member States of the Euro area (based on Art. 136 TFEU), a directive on minimal requirements for national budgetary frameworks (based on Art. 126 TFEU), as well as two regulations on a new procedure to prevent and correct macroeconomic imbalances (based on Art. 121 and 136 TFEU) (for the latter see the National Reform Programme 2012).

The preventive arm of the SGP was complemented with a benchmark for public primary expenditure growth[1] to allow for more efficient measurement and evaluation of convergence towards the medium-term budgetary objective (MTO). Deviations from the adjustment path towards the MTO and the expenditure rule may lead to interest bearing deposits of 0.2% of GDP, if not corrected accordingly.

The provisions of the "Sixpack" are complemented by the TSCG, which entered into force on January 1st, 2013 and sets a lower limit of -0.5% of GDP for the MTO (defined as a structural balance) and provides for the implementation of debt brakes in national legal systems.

The reform of the corrective arm of the SGP also operationalizes the hitherto largely disregarded debt criterion. Excessive debt has to be reduced according to a numerical rule ("1/20 rule"), otherwise an excessive deficit procedure may be launched. Furthermore, upon the decision that an excessive deficit exists, Euro area Member States may become subject to non-interest bearing deposits of 0.2% of GDP, which may be converted into a fine, if the Council recommendations are not respected. Council decisions on financial sanctions are, moreover, taken by "reversed qualified majority" vote, i.e., recommendations by the European Commission can only be averted by a qualified majority.

The present programme is based on the national accounts data from Statistics Austria (STAT) until 2012, the economic forecast by the Austrian Institute of Economic Research (WIFO) until 2017 and own calculations and assessments by the Federal Ministry of Finance (BMF). It is submitted together with the National Reform Programme (NRP), which sets out the measures for more "smart, green and inclusive growth" and for the surveillance of macroeconomic imbalances within the framework of the European Semester and the Europe 2020 targets.

The update of the Stability Programme can be accessed at the web page of the Federal Ministry of Finance: http://www.bmf.gv.at

[1] Excluding expenditure on unemployment benefits (cyclically-dependent), expenditure on EU programmes and expenditure increases fully compensated by discretionary revenue increases.

2. Development of the Austrian Economy

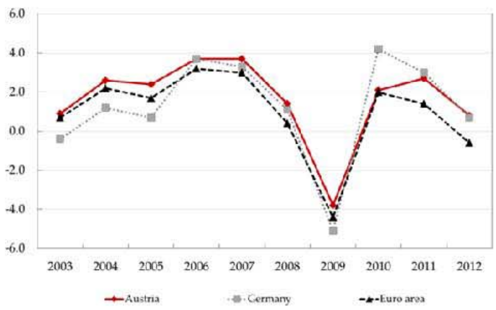
2.1. Subdued growth in 2012

The Austrian economy has successfully weathered the economic crisis. Real GDP grew by 2.1% in 2010 and 2.7% in 2011 respectively. In comparison, average growth (2003 to 2012) was only 1.6%.

With 0.8% (preliminary), real GDP growth was much weaker than in the previous year. This was mainly due to international slowdown at the end of the year (real GDP declined by 0.1% in the fourth quarter 2012, after +0.1% in the third quarter; qoq). Beyond that the unfavourable economic development in the Euro area (sovereign debt crisis) burdened the Austrian economy and weighed on export performance. There was also hardly any impetus for growth from private consumption and the willingness to invest (gross fixed capital formation) was significantly weaker than in the previous year.

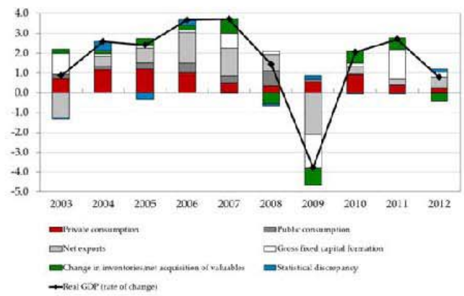
Nevertheless, the growth differential vis-à-vis the the Euro area was maintained in 2012; as in the past (see Figure 1).

Figure 1: Real GDP growth



Left axis: Rate of change over previous year in %
Source: EUROSTAT

Figure 2: Contribution to growth



Left axis: Contribution to real GDP growth in percentage points
Source: STAT

The Austrian labour market performed differently in 2012. The number of registered unemployed increased for the first time since 2009. With approximately +14,000 (+5.7%) the number of unemployed increased to 260,643 persons, the same level as in 2009, when unemployment rose by around 48,100 in the course of the global financial and economic crisis.

With 4.4% (+0.2 percentage points; yoy) Austria recorded the lowest unemployment rate (Eurostat definition) among the EU Member States. With regard to the youth unemployment rate (under 25), Austria at 8.7% (+0.4 percentage points; yoy) showed the second lowest rate behind Germany. The registered rate of unemployment (Austrian definition) was 7% (+0.3 percentage points; yoy).

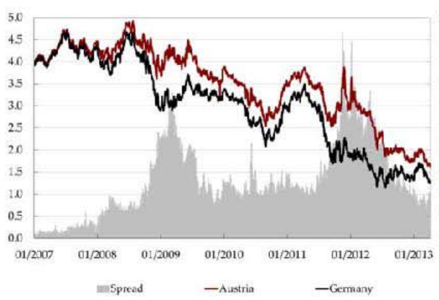
Despite weak international economic activity employment continued to develop favourable in 2012. The number of actively employed increased by 52,100 or 1.4% to 3.81 million persons.

Inflation (HICP) was 2.6% in 2012, which represented the average of the Euro area and was significantly lower than in the previous year (3.6%). The main price drivers were the expenditure groups "housing, water and energy", "food and non-alcoholic beverages" as well as "transport".

2.2. Financial sector developments

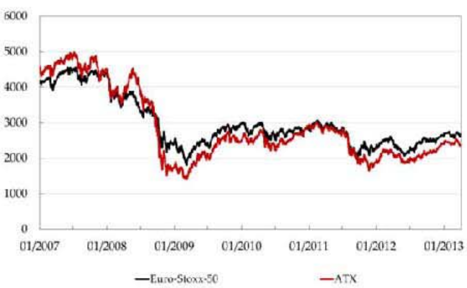
The announcement of a possible government bonds purchase programme by the European Central Bank ("Outright Monetary Transactions") and progress in the case of a Single Supervisory Mechanism for the Euro area resulted in a significant decrease in interest spreads vis-à-vis Germany in some Euro area member states. As of January 2013 risk premiums increased temporarily in some member states due to political uncertainty.

Figure 3: Long-term interest rates



Right axis: Spread in basis points
Left axis: Long-term interest rates in %
Source: Macrobond

Figure 4: Financial market performance



Left axis: Index
Source: Macrobond

On January 29th, 2013 the rating agency "Standard and Poor's" has changed the outlook for Austria from "negative" to "stable" (the long-term credit rating remained unchanged at "AA+"), which is based on the expectation that the budget targets will be met until 2016 ("Moody's": Aaa with negative outlook; "Fitch": AAA with stable outlook).

Banking sector

The year 2012 was dominated by a lower interest rate environment and an economic downturn, having a negative effect on risk provisioning requirements especially in CESEE (Central, East and South-eastern Europe).

The unconsolidated operating profit of Austrian banks declined by 8.8% to 6.9 bn € compared to the prior-year figure. The cost/income ratio deteriorated from 60.9% in 2011 to 63.8% at the end of 2012. Net interest income dropped by 8 % compared to last year. Altogether domestic credit institutes generated an unconsolidated net profit of 3.2 bn € in 2012. The consolidated return on total capital after taxes of the Austrian banking sector is estimated at 0.3% in 2012.

The quality of loans in Austria remained widely unchanged last year at an impairment ratio for consumer loans of 3.3%. By contrast, the quality of loans in CESEE continued to deteriorate. The consolidated impairment ratio amounted to 4.6% in the third quarter of 2012. Non-performing loans show a similar development with an unconsolidated ratio of 4.5% and an consolidated ratio of 9.3% respectively in the third quarter of 2012.

The domestic lending volume of Austrian banks increased by a comparatively modest rate of 0.4% to 330.4 bn € in 2012. Particularly the last months of the year were characterised by a significant decrease in credit growth. Foreign currency loans accounted for 14.4% of all consumer credits in 2012.

As at the end of September 2012, Austrian banks had a consolidated equity ratio of 13.5% and a core capital ratio of 10.6%. Compared to 2011 these figures slightly declined.

An exit from public support measures for the banking sector will be implemented with regard to the provisions of the Interbank Market Support Act (IBSG). As of February 28th, 2013 government guaranteed bonds issued by financial institutions amounted to 7.4 bn €.

On the legal basis of the Financial Market Stability Act (FinStaG) 13.6 bn € were made available for capital and liquidity support, whereof 4.1 bn € have been dedicated to participation capital subscribed by five systemically important banks and 3 bn € to a guarantee program for short term securities issues for KA Finanz respectively. The entire privatisation of Kommunalkredit Austria, already authorised at the end of 2011, has to be completed by mid-2013 in accordance with an agreement with the European Commission. Negotiations with the European Commission about a possible extension of the deadline are currently under way.

Support measures implemented in 2012 concerned Hypo Alpe Adria, KA Finanz and Österreichische Volksbanken AG (ÖVAG). Concerning Hypo Alpe Adria, 1.5 bn € were used for a capital increase and for the assumption of liability for a subordinated debt emission. KA Finanz was provided with 389 m € to carry out a capital increase. The Austrian government assumed liabilities for (Greek) credits and bonds held by KA Finanz in 2011. This guarantee was finally called in 2012 leading to governmental payments of 134 m €. In the course of the partial nationalisation of ÖVAG in February 2012, a reduction in governmental participation capital by 700 m €, a subscription of new share capital amounting to 250 m € and an asset guarantee of 100 m € were agreed.

In 2012 the Federal Government received 289 m € in dividends for the subscribed participation capital and 205 m € in fees for public guarantees. In 2013 dividends and fees are likely to reach the same level. Where the public sector acquired ownership (Kommunalkredit, Hypo Alpe Adria and ÖVAG), sustainable restructuring or changes in the business model are taking place in compliance with EU state aid rules. In addition, a privatisation strategy for the acquired shares is being developed.

With regard to the activities of Austrian banks and credit institutes in Central and Eastern Europe, a crisis simulation exercise was executed together with Bulgaria, Slovenia, Slovakia, the Czech Republic and Hungary within the framework of the Cross Border Stability Group.

2.3. Short and medium-term perspectives 2012-2017

At the beginning of 2013 the global economy picked up again slightly, which was mainly due to the performance of the emerging markets. In Austria the downturn appears to have bottomed out at the beginning of the year. In the medium term however the Austrian economy may be less dynamic and the business cycle less volatile than in the past.

On average (2012 to 2017) real GDP is expected to grow by 1½%, with a modest upturn in 2013 (1%) and a peak in 2015 (2%).

This subdued development is mainly due to exogenous factors. In particular the cushioned outlook for the Euro area as well as the comprehensive consolidation measures may dampen economic activity in the short to medium term. Nevertheless, the growth differential vis-à-vis the Euro area will be maintained because of a robust domestic economic structure, the strong exposure in Eastern Central Europe as well as the relatively limited consolidation requirement in comparison with other EU Member States.

The recovery will mainly be driven by exports but also investment will gradually pick up due to favourable financing conditions. The development of private consumption however will be rather subdued because of public consolidation measures and the increasing propensity to save.

Table 1: Macroeconomic prospects

	ESA Code	2012 in bn €	2012	2013	2014	2015	2016	2017
			Rate of change in %					
1. Real GDP	B1*g	271.8	0.8	1.0	1.8	2.0	1.8	1.9
2. Nominal GDP	B1*g	309.9	3.1	3.0	3.6	3.8	3.5	3.5
	Components of real GDP							
3. Private consumption expenditure	P.3	144.9	0.4	0.6	0.9	1.1	1.0	1.2
4. Government consumption expenditure	P.3	49.6	-0.2	0.7	1.0	0.4	0.7	0.7
5. Gross fixed capital formation	P.51	56.9	1.3	1.5	2.0	3.3	2.5	2.8
6. Changes in inventories and net acquisition of valuables (in % of GDP)	P.52 + P.53		1.3	1.7	2.0	2.1	2.1	2.1
7. Exports of goods and services	P.6	157.2	1.7	3.3	5.8	5.8	5.6	5.8
8. Imports of goods and services	P.7	140.4	0.8	3.6	5.4	5.4	5.2	5.4
	Contributions to real GDP growth							
9. Final domestic demand			0.5	0.8	1.1	1.4	1.2	1.4
10. Changes in inventories[1)]	P.52 + P.53		-0.2	0.2	0.3	0.1	0.1	0.0
11. External balance of goods and services	B.11		0.6	0.0	0.4	0.5	0.5	0.5

1) incl. net acquisition of valuables and statistical discrepancy

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 2: Price developments

	2012	2013	2014	2015	2016	2017
	Rate of change in %					
1. GDP deflator	2.2	2.0	1.8	1.8	1.7	1.6
2. Private consumption deflator	2.9	2.2	2.0	2.3	2.0	1.9
3. HICP	2.6	2.3	2.0	2.3	2.0	1.9
4. Public consumption deflator	2.7	1.0	1.2	2.3	2.0	1.9
5. Investment deflator	1.8	1.5	1.8	2.3	2.0	1.9
6. Export price deflator (goods and services)	1.4	0.9	1.3	2.3	1.5	1.4
7. Import price deflator (goods and services)	1.4	0.6	1.3	3.3	1.9	1.9

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

A particular positive effect may be the declining price pressure, which should remain low over the forecast horizon. Inflation is expected to stay below 2% in 2017, after 2.6% in 2012.

Labour market will react with a time-lag to the cycle. Employment is expected to grow by 1% per year on average (2012 to 2017). Under the assumption of rising labour supply combined with a sluggish recovery, unemployment will not decline. In 2013 the unemployment rate will increase to 4.8% but a decline to 4.4% is predicted by 2017.

Table 3: Labour market developments

	ESA Code	2012 Level	2012	2013	2014	2015	2016	2017
						Rate of change in %		
1. Employment, persons		3,809,947	1.4	0.7	1.0	1.0	1.0	1.0
2. Employment, hours worked (in m)		6,971	-1.9	-1.7	-0.1	0.4	0.4	0.5
3. Unemployment rate, EUROSTAT definition (level, in %)		189,000	4.4	4.8	4.8	4.7	4.5	4.4
4. Labour productivity, persons		71,347.4	-0.6	0.3	0.8	1.0	0.8	0.9
5. Labour productivity, hours worked		39.0	2.7	2.7	1.9	1.5	1.3	1.3
6. Compensation of employees (in bn €)	D.1	154.5	4.3	3.2	3.6	4.1	3.8	3.7
7. Compensation per employee		40,561.2	2.9	2.5	2.7	3.1	2.8	2.7

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

The macro-economic scenario underlying the Austrian Stability Programme is based on cautious forecasts. Nevertheless, a number of uncertainties still remain (see 4.3. "Forecasting quality"). These risks to the economic outlook are mainly exogenous and relate inter alia to the further development in the Euro area (sovereign debt crisis), the budgetary situation in the USA ("fiscal cliff"), as well as the persistent fragility of the global banking and financial system.

Table 4: Sectoral balances

	ESA Code	2012	2013	2014	2015	2016	2017
						in % of GDP	
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	1.8	2.3	2.6	2.4	2.6	2.7
2. Net lending/borrowing of the private sector	B.9	4.3	4.6	4.1	3.0	2.6	2.5
3. Net lending/borrowing of the general government	EDP B.9	-2.5	-2.3	-1.5	-0.6	0.0	0.2
4. Statistical discrepancy		0.1	0.0	0.0	0.0	0.0	0.0

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

3. Economic and budgetary policy strategy

The major aim of responsible budgetary policies is to achieve a sustainable consolidation of public finances. There is clearly more to it than just complying with national or European requirements. Future challenges of addressing frictions within the euro area, weak international growth prospects and demographic shifts can only be tackled, if public households find themselves in a sustainable situation. Stability oriented growth and employment policies are therefore indispensable.

The Stability and Growth Package 2012, adopted in early 2012, is a multiannual budgetary programme, which was set up to create room for manoeuvre necessary to handle future challenges. To this end, three main areas of actions were defined:

- Strict budgetary discipline by maintaining consolidation of public finances
- Identification and Implementation of structural reforms
- Initiation and continuation of "offensive programmes"

The Federal Government targets a broadly balanced budget by 2016, a structural deficit of 0.45% of GDP in line with the new provisions of the "Sixpack" and the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)" by 2017 as well as a reduction of the debt-to-GDP ratio to 67%.

Several reforms contribute to a sustainable improvement of public finances:

- A set of measures, both targeting the revenue and expenditure side, was included in the budget plan in 2011, catering for 13.6 bn € (2011 to 2014) and consequently implemented.[2]
- In early 2012 the Stabilization Package 2012, focusing mostly on public expenditure, was agreed, containing consolidation measures worth 27.8 bn € and covering areas such as pensions, health care, subsidies and administration as well as a socially responsible increase in revenues and the closing of exemptions from taxation. The majority of these measures were already legislated in Parliament in 2012.[3] In 2013 a tax agreement was reached with Liechtenstein, following the one with Switzerland. Furthermore, Austria is part of the group of 11 EU-members introducing a financial transaction tax.
- The national fiscal framework has been further improved by introducing a debt brake[4] and the new Austrian Stability Pact. In addition, these legal acts formalise both national medium term budgetary goals and European obligations.

[2] BGBl I Nr. 111/2010

[3] BGBl I Nr. 22/2012 and BGBl I Nr. 35/2012

[4] BGBl I Nr. 150/2011

- The Austrian Stability Pact anchors all elements of the reformed EU budgetary surveillance at the State Government's level, thereby ensuring a more efficient consolidation process within the General Government.
- Efficiency and effectiveness of public funds is subject to continuous improvement, driven by the implementation of Performance Budgeting as part of the second step of the Federal Budget Law Reform. These principles were applied for the first time in full for the current 2013 budget.

The Federal Government follows a growth, employment and socially friendly oriented consolidation approach. Additional means are provided for investments in education, universities, research and development, business location and infrastructure.

Swift implementation of the two steps of the Federal Budget Law Reform (2009 and 2013) with its focus on a binding multiannual expenditure ceiling, a new provisioning regime and Performance Budgeting is the basis for sound and sustainable public finances. The draft budget covers both cash and accrual accounts for the first time for 2013, both with a view to non-financing-relevant expenditure (provisions, write-offs and depreciations) as well as to actual cash-flows.

Several State Governments attempt to implement the Federal Budget Law Reform. The target of the Federal Government is to have all subsectors of General Government operate on a comparable Budget Law.

Sustainability of public finances will also be ensured by swiftly implementing a debt brake on General Government level. Following this concept, the budget balance in structural terms becomes the main benchmark for economic policies. The structural balance is calculated by filtering for cyclical fluctuations in the budget and for one-off effects. In case of deviations, a set of immediate correction mechanisms is in place. Deviations are accumulated in a "control account" and have to be reduced subsequently, taking into account the business cycle. Thus the government's capacity to act in economic downturns will be ensured and the working of automatic stabilisers and an active and counter-cyclical fiscal policy in economically challenging situations will remain feasible. The Austrian Federal Debt Brake foresees a maximum balance of -0.35% of GDP in structural terms by 2017 which is absolutely ambitious with regards to the obligations of the Fiscal Compact. From 2017 onwards State Governments and municipalities have to achieve a structural balance of -0.1% at most. These targets were codified in the Austrian Stability Pact, which restraints the General Governments balance in structural terms at -0.45% of GDP.

The new Austrian Stability Pact was signed by the Financial Equalisation Partners on May 9^{th}, 2012 and came into force retroactively as of January 1^{st}, 2012.[5] The Pact ensures that the consolidation path will be implemented and a structurally balanced household will already be achieved in 2017. The Austrian Stability Pact anchors the debt brake for the central state, the State Governments and municipalities.

Structural reforms in the areas of pensions, health care, public administration and subsidies are continuously being implemented. Expenditure dynamics have to be constrained, especially for pensions, health and elderly care, which will be driven by an ageing population. Therefore the Federal Government aims to achieve high employment rates for older cohorts as well as the convergence of the legal and the factual retirement age and hence, a lower number of persons in early or invalidity retirement schemes. Amongst other measures in previous years, the Austrian Stability Package 2012 had a special focus on these aspects. This includes stricter eligibility criteria and higher deductions for the corridor pension scheme and the early old-age pension for long-term contributors or the stepwise increase of required age at which employees can switch into the invalidity pension scheme. All these measures shall counter budgetary dynamics both via the expenditure side and higher growth potential. A moderate increase of pension payments in 2013 and 2014 by 0.8 percentage points lowers pressure on the budget.

A cost cushioning path for the health care sector will be implemented, under which annual cost increases are capped. Until 2016 the annual growth rate of health related public expenditure will be pegged to average nominal GDP growth. Following 2016, the growth rate of health related public expenditure shall not exceed the nominal GDP growth. A partnership will be created to better coordinate medical services financed by the social security system and hospitals that are mostly funded by the State Governments. The major aim here is to provide equally accessible health care at sustainable costs in the future.

Given its relative share within overall public expenditure, restrictive personnel policy is a key element for budgetary policies. The payroll will be reduced for the Central Government by more than 4,000 persons between 2012 and 2017. There is a full hiring stop until 2014, during 2015 and 2016 only one in two retiring civil servants will be replaced. Exemptions will only be granted for teachers, police, judiciary and financial police. Furthermore there were no increases in wages in 2013 and there will only be moderate wage increases in 2014. In order to boost efficiency of public administration, organizational structures will be tightened and expenditure will be cut in a number of fields of administration.

An essential contribution to the consolidation efforts will come from a reduction in subsidies. These payments shall be reduced substantially over the coming years. The vast number of

[5] BGBl I Nr. 30/2013

subsidies from Central Government, State Governments and municipalities will be covered by the new transparency database and thereby enable the authorities to avoid double and triple allowances. Additional fostering of efficiency shall come from stricter controls of tax shelters for research and from cutting labour market promotions to companies. The Federal Government intends to formalize minimum standards for subsidies. Furthermore, subsidies will be subject to a stronger performance based orientation. The increase of subsidies for the Austrian Federal Railways will be contained.

Measures on the revenue side shall protect the quality of the business location as well as purchasing power. Emphasis has been put on broadening the tax base as well as on high-income individuals. The tax basis shall be broadened by closing tax loopholes. More fairness and the enhanced incentive effect of the tax system will improve the acceptance of the system. An agreement on taxation of capital gains was signed with Switzerland and Liechtenstein. As part of a core-group of 11 EU member states, Austria will introduce a financial transaction tax.

The current consolidation path followed by the Federal Government will lead to structural improvements of the budget. The goal is to have a balanced budget in 2016. In 2017 a positive balance according to Maastricht should be achieved. The General Government structural deficit will be lowered to -0.45% by 2017. Public debt will be lowered to 67% of GDP by 2017. Following this policy stance, Austria will fully comply with national and European fiscal obligations, in line with the Austrian Stability Pact.

3.1. General Government budget 2012 (preliminary outcome)

The Federal Government Budget Proposal for 2012 (including the amendment of the Federal Budgetary Framework Law) provided for expenditures of approximately 76.5 bn €, revenues of about 65.3 bn € and an administrative deficit of about 11.1 bn € in the general budget.
Preliminary budget figures for 2012 show expenditures of about 72.9 bn €, revenues reached about 65.9 bn €, and the administrative deficit was about 7 bn €. Compared to the budget proposal, expenditures were 3.6 bn € lower than planned, while revenues were 0.6 bn € higher. Thus, the administrative deficit was 4.2 bn € lower than budgeted.

The highest savings of approx. 1.3 bn € could be achieved (under Budget heading 58) in the area of interest payments thanks to low levels of interest rates (that lead to higher agios on emissions). Expenditures also remained by 1.1 bn € lower than planned for federal assets (Budget heading 45). The main reasons were that guarantees were lowered by 0.4 bn € and planned bilateral loans to Greece were shifted to the EFSF (-0.5 bn €). Also, fewer funds than planned (-0.1 bn. €) were transferred to International Financial Institutions. Other savings occurred in the Federal Chancellery (-66 m €), in the Federal Ministry of Interior (-66 m. €) and in the financial administration (-75 m €). More favourable labour market and income developments in 2012 led to higher social security contributions and thus lowered the Federal Government's contribution to social security funds by 229 m €. Further expenditure savings were achieved in the fields of pensions for civil servants (-99 m €), science and research (-70 m €), transport, innovation and technology (-156 m €), agriculture (-36 m €) and environment (-272 m €).

Next to strict budget implementation, the main reasons for these lower than estimated expenditures was the new Austrian Budget Law that, through enhanced possibilities to create reserve funds, provides incentives for an economical use of the budget and enhances fiscal discipline.

On the revenue side, public revenues for the Federal Government (after deduction of revenues for States and Municipalities and the EU-budget) were smaller than expected (-1.1 bn €), mainly triggered by less revenues from the postponement of auctions of a broadcast license to 2013 (-252 million €), from lower than expected fees for guarantees (-210 million €) and from the postponement of the sale of Kommunalkredit (nationalized bank; -250 million €) originally planned for 2012.

On the other side, higher revenues could be generated by liquidation of considerably more reserves (+1.1 bn €) than originally planned, higher unemployment contributions and transfers of the insolvency insurance fund (+450 million €), pensions insurance transfers related to 2011 (+183 million €), higher revenues from the Justice sector – mostly fees (+160 million €), in the fields of the Family and Youth – higher subsidies from the reserve fund (+78 million €) and in the area of economic affairs (+102 million €).

3.2. Budgetary outlook for 2013

Due to the new budget law coming fully into force in 2013 the Federal Budget 2013 introduces accrual budgeting and accounting and Performance Budgeting. For the first time, there is a cash flow statement and an operating statement. The cash flow statement is organized in the same way as previous budgets around expenses and revenues. The operating statement distributes costs and earnings according to time periods and also contains costs that do not directly trigger cash flows, such as reserves, amortizations and diminutions in value. Furthermore, for the first time, a new and simpler structure of the budget is introduced: so called "global budgets" and more detailed "detail budgets".

The cash flow statement of the 2013 budget plans expenses of 75.0 bn €, revenues of 68.7 bn € and a net financing requirement of -6.3 bn €. The 2013 operating statement budgets a deficit of approx. -6.7 bn €.

The Federal budget for 2013 continues to be based on the success-proved double strategy of the Federal Government:

- Stable public finances through reforms
- Growth and employment through proactive measures

Growth enhancing programs based on stability measures introduced in spring 2012 will be maintained. Structural reforms in the fields of pensions, health care, public administration, subsidies and labour market will be rigorously continued. Proactive measures through investments in education, universities, research and development and infrastructure for growth and development continue to be implemented. The long-term sustainability of public finances will be guaranteed by the Austrian Federal Debt Brake rule at the federal level and the inner-Austrian Stability Pact with States and Municipalities.

3.3. The Austrian Federal Debt Brake

On December 7th, 2011 the Austrian Parliament adopted a debt brake at the federal level inspired by the German model.

The target of the debt brake is twofold:

- It prevents chronicle structural deficits in the federal budget
- It permanently establishes a pro-growth budgetary policy compatible with the business cycle.

During recessions, the debt brake allows for short-term deficits but requires their immediate reduction or even the achievement of surpluses in boom phases. In the middle- and long run, the debt brake triggers a decline in the debt-to-GDP ratio below the reference value of 60%.

The debt brake specifies that the Austrian Federal budget has to be structurally balanced by 2017. This requirement is fulfilled when the Federal Government balance (according to ESA) does not fall below -0.35% of GDP in structural terms. In this context, the Federal Government is also politically responsible for possible deficits of the social security funds.

The compensation requirement applies under the assumption of a "normal" production level and an average growth rate that can be considered as typical for the Austrian economy. In the case of an abnormal cyclical development, the consequences for the federal budget in the economic up- and downturn need to be considered. By these means, automatic stabilizers will function as previously.

Deviations from the structural deficit are registered on control accounts. If the accumulated deviations on the control accounts fall below the thresholds of -1.25% of GDP, a business cycle-compatible deficit reduction has to be initiated. That means that, in the years of the reduction, the structural deficit needs to be below 0.35% of GDP. Compliance with this rule guarantees that the State's capacity to act in economic downturns will be ensured and an active and counter-cyclical fiscal policy in economically challenging situations will remain feasible. Further details, especially the calculation of the structural deficit and the control and balance of variations of the maximum threshold are established in a regulation of the Minister of Finance.

In the case of emergency situations such as natural disasters, severe recessions or other situations out of public control and with severe effects on the public budget, an exception rule is provided in line with EU budgetary surveillance practices. The exception rule provides for a temporary higher structural budget deficit and, if used, requires the need to foresee how to get back to the regularly allowed deficit threshold. This emergency rule is in accordance with EU law. In case EU institutions do not agree that there is an emergency situation, the deviation also needs to be registered under the control account and be reduced.

In the framework of the Austrian Stability Pact, the following has been agreed with States and Municipalities:

- States and Municipalities in general apply the rules of the debt brake
- The structural general government deficit must not exceed 0.45% of GDP

The compliance with the debt break in the long-run ensures a sustainable reduction of public debt.

3.4. Excessive Deficit Procedure

In accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU), the ECOFIN Council decided on December 2nd, 2009 that an excessive deficit exists in
Austria and adopted recommendations under Article 126(7) TFEU to correct it. More specifically, Austria was urged to bring the general government deficit below the reference value of 3% of GDP by 2013, starting consolidation in 2011.

In October 2010, a comprehensive package of measures paved the way for the implementation of the recommendations ("Loipersdorf-package"). The Federal Government approved measures totalling 13.6 bn € for the period 2011 to 2014. The consolidation path provided for a gradual reduction of the deficit from 4.6% of GDP in 2010 to 3.9% of GDP in 2011 down to 2.9% of GDP in 2013 (for details, see Stability Programme Update 2010-2014).

Austria took advantage of the better than expected economic conditions in order to accelerate the consolidation process and managed to bring its deficit below the reference value of 3% of GDP already two years earlier than recommended. This fact supports the Austrian

Federal Government in the achievement of its objectives, which are a balanced budget until 2016 and a structural general government deficit of maximum 0.45% in the year 2017 (according to the Austrian Federal Debt Brake). By these means, the minimum level of -0.5% of GDP as medium-term budget objective, foreseen in the TSCG treaty would be achieved.

Table 5: Cyclical developments and budget balances

	ESA Code	2012	2013	2014	2015	2016	2017
							in % of GDP
1. Real GDP (rate of change in %)		0.8	1.0	1.8	2.0	1.8	1.9
2. Net lending/borrowing of the general government	EDP B.9	-2.5	-2.3	-1.5	-0.6	0.0	0.2
3. Interest expenditure	EDP D.41	2.6	2.6	2.6	2.5	2.5	2.4
4. One-off and other temporary measures[1)]		-0.8	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (in %)		1.5	1.2	1.3	1.2	1.3	1.4
6. Output gap		-0.7	-0.9	-0.4	0.4	0.9	1.4
7. Cyclical budgetary component		-0.3	-0.4	-0.2	0.2	0.4	0.7
8. Cyclically-adjusted balance		-2.2	-1.9	-1.3	-0.8	-0.5	-0.4
9. Cyclically-adjusted primary balance		0.4	0.7	1.3	1.7	2.0	2.0
10. Structural balance		-1.4	-1.8	-1.3	-0.8	-0.5	-0.4

1) A minus sign means deficit-increasing one-off measures.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

For 2013 a slight increase of the debt-to-GDP-ratio is expected. However, thereafter a declining trend can be expected whereas the debt-to-GDP-ratio will be below 70% in 2016.

Table 6: General Government debt developments

	ESA Code	2012	2013	2014	2015	2016	2017
							in % of GDP
1. Gross debt		73.4	73.6	73.0	71.3	69.3	67.0
2. Change in gross debt ratio		0.9	0.2	-0.6	-1.8	-1.9	-2.3
Contributions to changes in gross debt							
3. Primary balance		0.1	0.3	1.1	1.9	2.4	2.7
4. Interest expenditure	EDP D.41	2.6	2.6	2.6	2.5	2.5	2.4
5. Stock-flow adjustment		0.6	0.0	0.5	0.3	0.4	0.3
p.m.: Implicit interest rate on debt		3.5	3.5	3.5	3.5	3.6	3.6

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 7: Budgetary prospects

	ESA Code	2012 in bn €	2012	2013	2014	2015	2016	2017 in % of GDP
	EDP B.9							Net lending by sub-sector
1. General government	S.13	-7.7	-2.5	-2.3	-1.5	-0.6	0.0	0.2
2. Central government	S.1311	-8.1	-2.6	-1.9	-1.3	-0.6	-0.2	0.0
3. State governments (excl. Vienna)	S.1312	-0.2	-0.1	-0.3	-0.2	-0.1	0.0	0.0
4. Local governments (incl. Vienna)	S.1313	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0
5. Social security funds	S.1314	0.4	0.1	0.0	0.1	0.1	0.1	0.1
General government								
6. Total revenue	TR	150.9	48.7	48.9	48.8	48.8	48.8	48.8
7. Total expenditure	TE	158.6	51.2	51.3	50.4	49.4	48.9	48.6
8. Net lending/borrowing of the general government	EDP B.9	-7.7	-2.5	-2.3	-1.5	-0.6	0.0	0.2
9. Interest expenditure	EDP D.41	8.1	2.6	2.6	2.6	2.5	2.5	2.4
10. Primary balance		0.4	0.1	0.3	1.1	1.9	2.4	2.7
11. One-off and other temporary measures		-2.4	-0.8	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes		86.0	27.7	28.0	28.0	28.1	28.2	28.2
12a. Taxes on production and imports	D.2	44.8	14.5	14.5	14.4	14.4	14.4	14.4
12b. Current taxes on income, wealth etc.	D.5	41.1	13.3	13.6	13.6	13.7	13.8	13.8
12c. Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	50.9	16.4	16.4	16.4	16.4	16.5	16.5
14. Property income	D.4	3.7	1.2	1.2	1.1	1.1	1.0	1.0
15. Other		10.4	3.3	3.3	3.3	3.2	3.2	3.1
16. Total revenue	TR	150.9	48.7	48.9	48.8	48.8	48.8	48.8
p.m.: Tax burden		132.2	42.7	43.0	43.0	43.1	43.2	43.2
Selected components of expenditures								
17.Compensation of employees + intermediate consumption	D.1 + P.2	42.3	13.7	13.5	13.3	13.1	13.0	12.9
17a. Compensation of employees	D.1	29.0	9.4	9.3	9.1	9.0	8.9	8.9
17b. Intermediate consumption	P.2	13.3	4.3	4.3	4.2	4.1	4.1	4.0
18. Social payments		76.8	24.8	25.0	24.8	24.6	24.4	24.3
of which: Unemployment benefits		4.4	1.4	1.6	1.5	1.5	1.5	1.4
18a. Social transfers in kind	D.6311, D.63121, D.63131	17.6	5.7	5.7	5.7	5.7	5.6	5.6
18b. Social transfers other than in kind	D.62	59.2	19.1	19.3	19.2	19.0	18.8	18.7
19. Interest expenditure	EDP D.41	8.1	2.6	2.6	2.6	2.5	2.5	2.4
20. Subsidies	D.3	10.9	3.5	3.5	3.5	3.4	3.3	3.2
21. Gross fixed capital formation	P.51	3.0	1.0	1.0	1.0	0.9	0.9	0.9
22. Capital transfers	D.9	9.7	3.1	2.8	2.4	2.2	2.2	2.2
23. Other		7.9	2.5	2.8	2.8	2.6	2.5	2.6
24. Total expenditure	TE	158.6	51.2	51.3	50.4	49.4	48.9	48.6
p.m.: Government consumption (nominal)	P.3	58.0	18.7	18.5	18.2	18.0	17.9	17.7

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

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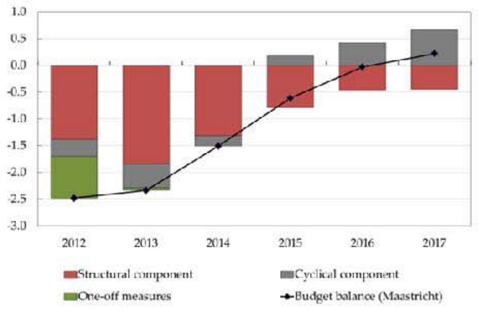
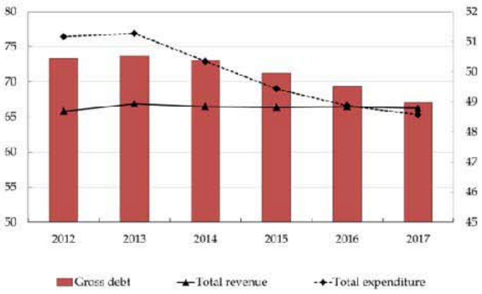
Figure 5: General Government budget balance



Left axis: General Government budget balance and its contributions in % of GDP
Sources: BMF, STAT, WIFO

Figure 6: General Government gross debt



Left axis: General Government gross debt in % of GDP
Right axis: Revenue and expenditure in % of GDP
Sources: BMF, STAT, WIFO

Table 8: No-policy change projections

	2012	2012	2013	2014	2015	2016	2017
	in bn €					in % of GDP	
1. Total revenue at unchanged policies	150.4	48.5	48.4	48.2	48.3	48.3	48.3
2. Total expenditure at unchanged policies	159.1	51.3	51.9	51.5	51.1	50.8	50.8

Positions may not sum up due to rounding errors.
Sources: BMF, STAT, WIFO

Table 9: Amounts to be excluded from the expenditure benchmark

	2012	2012	2013	2014	2015	2016	2017
	in bn €					in % of GDP	
1. Expenditure on EU programmes fully matched by EU funds revenue	1.5	0.5	0.5	0.5	0.5	0.5	0.5
2. Cyclical unemployment benefit expenditure	4.4	1.4	1.6	1.5	1.5	1.5	1.4
3. Effect of discretionary revenue measures	0.4	0.1	0.1	0.1	0.1	0.1	0.1
4. Revenue increases mandated by law	0.5	0.1	0.6	0.7	0.5	0.6	0.6

Positions may not sum up due to rounding errors.
Sources: BMF, STAT, WIFO

3.5. Measures of the Austrian Stability Package

The measures foreseen in the Austrian Stability Package for the time frame 2012-2016 are a combination of mostly savings, measures related to revenues, proactive measures and contributions by states and municipalities. Details can be found in last year's Austrian Stability Programme (Stability Programme Update 2011-2016).

Savings

In the areas of pensions and labour markets, a number of measures have been taken to counteract the trend to early retirement. These measures will save an accumulated amount of about 7 bn € until 2016.

In the federal public administration, about 2.5 bn € will be saved until 2016 via, on the one hand, a more restrictive personnel policy and, on the other, through measures that increase the efficiency of the public administration as well as through the merging and closing down of administrative entities.

In the health care sector, expenditures shall not rise faster than nominal GDP. The path of expenditure restraints agreed between the federal level, the states and social security funds is expected to generate savings in the amount of 3.4 bn € by 2016 (see 6.4."Health sector reform 2012").

The Austrian Federal Railways will realise more than 1.4 bn € in savings by 2016.

By reducing the increase in the debt-to-GDP ratio, the consolidation efforts also generate savings of about 1.6 bn € in interest expenditure until 2016.

Contribution by states and municipalities

States and municipalities also take their share in the consolidation efforts. They fully support the overall aim of the Federal Government and agreed to contribute 5.2 bn € to the consolidation package up to 2016.

Measures on the revenue side

On the revenue side, the objective is to continue to close loopholes in the tax system and broaden the tax base.

Proactive measures

In parallel, important proactive measures will be implemented or extended in order to strengthen Austria as a business location and its future growth potential. In total, over 2012-2016, more than 6 bn € will be made available for these proactive measures.

Table 10: Savings

	2013	2014	2015	2016
		in m €		
Pension and unemployment insurance system				
Harmonisation of pension systems (abolition of parallel calculation)		19	42	62
Tightening of eligibility criteria for corridor pension	77	144	168	144
Increasing the age-limit relevant for occupational protection	32	65	166	201
Increasing pension insurance contributions of farmers and self-employed	95	107	127	125
Abolishment of priviledged contributions related to night-shift labour	24	25	26	27
Increasing the maximum pension benefit basis	52	54	55	57
Moderate adjustments of pensions in the years 2013 and 2014	400	720	720	720
Fee for companies in the case of employee dismissals	29	51	72	93
Invalidity pension (system change)		-14	-33	-12
Supporting faster labour market re-integration	50	71	93	95
Measures to implement the "Bad Ischler Dialog"	-17	11	58	140
Extending the contribution period of unemployment insurance (until statutory retirement age)	14	39	57	113
Increasing the maximum unemployment benefit basis	13	13	13	14
Old-age part-time regulation (elimination of block time arrangements)	13	42	57	74
Unemployment insurance (other measures)	23	23	23	24
Structural effect due to later retirement	100	100	400	600
Other	15	15	15	15
Sum	**919**	**1,483**	**2,059**	**2,491**
Public companies/subsidies				
Austrian Federal Railways (construction projects will be re-dimensioned)	159	259	212	240
Austrian Federal Railways (reduction in retirement grants)	70	105	140	175
Research premium (stricter controls)	40	40	40	40
Reform of subsidies			500	500
Cuts in discretionary spending	169	169	169	169
Sum	**438**	**573**	**1,061**	**1,124**
Administration and public services law				
Hiring freeze (Central government)	94	112	112	112
Pay freeze in 2013 and only moderate pay increase in 2014	206	253	311	311
Public employment law (other savings)	19	42	42	42
Other savings on administration (e.g. IT, army hospitals, regional courts)	72	129	307	325
Sum	**391**	**536**	**772**	**790**
Interest expenditure (due to lower net lending)	**122**	**272**	**486**	**742**
Sum	**1,870**	**2,864**	**4,377**	**5,147**
in % of GDP	*0.6*	*0.9*	*1.3*	*1.4*

Estimations based on expert judgment.

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

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Table 11: Tax measures

	2013	2014	2015	2016
		in m €		
Tax on income from real estate and property sales	310	400	450	700
Group taxation	50	75	75	75
VAT - closure of tax loopholes	250	300	300	300
Solidarity surcharge on high incomes	110	110	110	110
Financial transaction tax		500	500	500
Mineral oil tax	70	80	80	80
Withholding tax on capital gains in Switzerland	1,000	50	50	50
Withholding tax on capital gains in Liechtenstein		500	20	20
Cut in premium on housing savings scheme and private pension provisions	70	100	100	100
Special surcharge on stability levy	128	128	128	128
Advanced income tax on private pension insurance	-75	-75	-75	-75
Commuting allowance	-140	-160	-180	-200
Other tax measures	90	210	210	210
Sum	**1,863**	**2,218**	**1,768**	**1,998**
in % of GDP	*0.6*	*0.7*	*0.5*	*0.6*

Estimations based on expert judgment, external tax statistics as well as tax declarations.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 12: Proactive measures

	2013	2014	2015	2016
		in m €		
Universities (increasing global budget)	250	250	250	250
Universities and college of higher education	80	80	80	80
Schools (expansion of full-day childcare)	80	80	80	80
New secondary school	34	66	102	132
Education (additional resources vis-à-vis the federal government budget proposal)	448	320	270	270
Research promotion	100	100	100	100
Applied research	25	25	30	30
Young entrepreneur offensive	30	10	10	10
Thermal insulation	100	100	100	100
Health funds (UG 24)	40	40	40	
Long-term care funds	200	235	300	350
Development assistance and external relations	11			
Sum	**1,398**	**1,306**	**1,362**	**1,402**
in % of GDP	*0.4*	*0.4*	*0.4*	*0.4*

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

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4. Sensitivity Analysis

4.1. Comparison with the previous programme

The General Government deficit in 2012 turned out significantly lower than expected in the previous Stability Programme and in the budget. The improvement can be traced back particularly to budget discipline of provinces and municipalities, which had balanced accounts in total, as well as to a more benign economic environment.

The General Government deficit is 2.5% of GDP, which is clearly under the reference value of 3%. The EU-deficit requirement has been reached in 2011 and in 2012, earlier than prescribed by the EU. By 2016, a balanced budget as announced by the government, and by 2017 even a small surplus should be realized.

The General Government gross debt ratio was 73.4%, which is more than 1 percentage point lower than projected. In 2013, it may rise slightly, but afterwards it will follow a declining path.

Table 13: Divergence from April 2012 Update

	ESA Code	2012	2013	2014	2015	2016	2017
Real GDP growth (in %)							
SP April 2012		0.4	1.4	2.0	2.2	2.1	
SP April 2013		0.8	1.0	1.8	2.0	1.8	1.9
Difference [1]		0.4	-0.4	-0.3	-0.2	-0.3	
General government net lending (in % of GDP)	EDP B.9						
SP April 2012		-3.0	-2.1	-1.5	-0.6	0.0	
SP April 2013		-2.5	-2.3	-1.5	-0.6	0.0	0.2
Difference [1]		0.5	-0.2	0.0	0.0	0.0	
General government gross debt (in % of GDP)							
SP April 2012		74.7	75.3	74.6	72.8	70.6	
SP April 2013		73.4	73.6	73.0	71.3	69.3	67.0
Difference [2]		-1.3	-1.7	-1.6	-1.5	-1.3	

1) Limited comparability due to data revisions (a positive sign denotes an improvement).
2) Limited comparability due to data revisions (a positive sign denotes a deterioration).
Positions may not sum up due to rounding errors.
Sources: BMF, STAT, WIFO

4.2. Sensitivity of the baseline scenario to exogenous shocks

In comparison to the main underlying baseline scenario, the effects of two alternative scenarios for the General Government net lending and the General Government gross debt ratio will be presented.

The first scenario builds on the assumption that Austria, as a small, open economy, benefits more than expected from the international cyclical upturn. The real gain in growth for 2013 and the forthcoming years is 0.5 percentage points higher compared to the baseline scenario. According to this there would already be a small surplus as of 2016. Further, the General Government gross debt ratio would follow a declining path already as of 2013.

The second scenario assumes lower growth rates than in the baseline scenario. In contrast to the baseline scenario the economy will contract by 0.5 percentage points from 2013 onwards. As a consequence of this the budget deficit will rise slightly in 2013 and a balanced budget will be reached by 2017. The General Government gross debt ratio would follow the same trend as in the baseline scenario, but on a more elevated level.

Table 14: Economic growth and public finances in three scenarios

	2012	2013	2014	2015	2016	2017
Baseline scenario						
GDP, nominal, in bn €	309.9	319.1	330.7	343.2	355.0	367.6
GDP, real, rate of change in %	0.8	1.0	1.8	2.0	1.8	1.9
Net lending/borrowing of the general government in % of GDP	-2.5	-2.3	-1.5	-0.6	0.0	0.2
Gross debt in % of GDP	73.4	73.6	73.0	71.3	69.3	67.0
Scenario 1						
GDP, nominal, in bn €	309.9	320.7	334.0	348.2	362.1	376.7
GDP, real, rate of change in %	0.8	1.5	2.3	2.5	2.3	2.4
Net lending/borrowing of the general government in % of GDP	-2.5	-2.1	-1.3	-0.4	0.2	0.5
Gross debt in % of GDP	73.4	73.0	71.9	69.6	67.1	64.3
Scenario 2						
GDP, nominal, in bn €	309.9	317.6	327.5	338.1	348.1	358.6
GDP, real, rate of change in %	0.8	0.5	1.3	1.5	1.3	1.4
Net lending/borrowing of the general government in % of GDP	-2.5	-2.6	-1.7	-0.8	-0.3	0.0
Gross debt in % of GDP	73.4	74.2	74.2	73.0	71.6	69.8

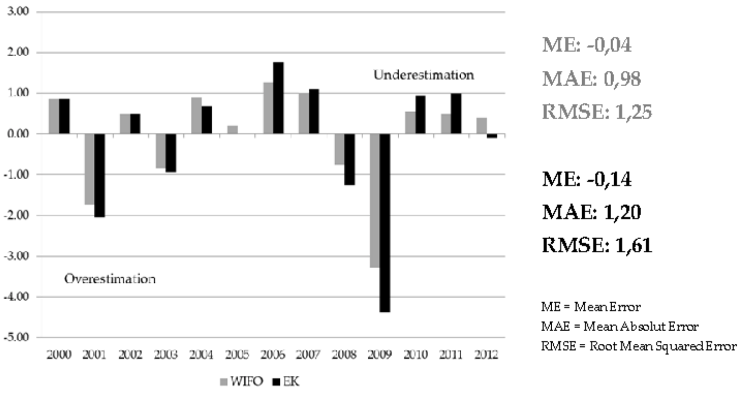
Positions may not sum up due to rounding errors.
Sources: BMF, STAT, WIFO

4.3. Forecast quality

According to Art. 4 of the directive 2011/85/EU, the budget planning should build on macroeconomic forecasts of independent institutions and the forecasts should be evaluated. Austria's budget planning is traditionally based on external forecasts of the WIFO.

As forecasts are based on assumptions, e.g. concerning the international development, mistakes cannot be excluded and the uncertainty cannot be abolished totally. To check the forecast quality, a forecast quality analysis has been undertaken. The forecast error of real GDP has been estimated by the divergence of the first official real GDP-growth flash estimate for the year t and the December forecast of the previous year (t-1), for the year t (see figure 7).[6] Since 2000 the WIFO on average slightly underestimates the GDP-growth of the subsequent year. Thus it forecasts neutral to cautious, the European Commission (COM) indeed is more cautious.

Figure 7: Forecast error of real GDP



Sources: BMF, COM, STAT, WIFO

The MAE and the RMSE, indicate that the WIFO is estimating more accurate than the COM, which forecasts are, however, released approximately four weeks earlier.

[6] The economic forecasts published in autumn (t-1) were used.

5. Sustainability of Public Finances

Public finances have come under significant pressure in recent years. Because of the economic and financial crisis, both budget deficits and public debt ratios have increased. Apart from the reduction of public debt and the costs of the recapitalization of financial institutions, the budgetary burden of ageing populations increasingly weighs on public finances.

Current long-term projections by the European Commission and the EU's Economic Policy Committee project an increase of total public age-related expenditure in Austria from 2015 until 2060 by 4.2% of GDP. Public expenditure on pensions, health and long-term care are expected to also increase by 4.2% of GDP until 2060. This is broadly in line with the average development in the Euro Area. Public expenditure on pensions will increase from 14.4% of GDP in 2015 to a peak of 16.7% in 2030, while a slight reduction to 16.1% of GDP is expected until 2060. The major part of the upward revision of this increase compared to the 2009 projections can be attributed to the sharp drop of GDP in 2009. Apart from pensions, also public health and long-term care expenditure are expected to increase over the projection horizon. Whereas public health expenditure is expected to increase from 7.7% of GDP in 2015 to 9% of GDP in 2060, public long-term care expenditure over the same period is expected to increase from 1.7% of GDP to 2.9% of GDP.

With the implementation of a comprehensive set of policy measure in the context of the 2012-2016 Austrian Stability Package, long-term age-related challenges have been taken account of. These measures, however, have not yet been adequately taken on board in the latest EU projections. The main objectives of structural measures in the pension sector are short- to medium-term budgetary consolidation and to foster sustainable long-term incentive effects. These effects aim at increasing the effective retirement age and participation rates of older workers. To this end the early old-age pensions for long term contributors ("Hacklerregelung") was reformed in 2011. From 2014 on, stricter requirements regarding contributory years will further tighten this regulation. Also the access to disability pension was adapted at the end of 2012, as from 2014 on, limited disability pensions will be abolished (see 6.5. "Pension reform"). These structural reforms have been complemented by revenue and expenditure based measures, such as to limit the increase of public pensions below the harmonized consumer price index. Besides the pensions sector, expenditure decreasing structural reforms have also been implemented in the health sector, e.g. capping the rate of increase of public health expenditure and implementing a cooperative system of objectives for the Central Government, federal states and social security (see 6.4. "Health reform 2012").

Table 15: Long-term sustainability of public finances

	2015	2020	2030	2040	2050	2060
						in % of GDP
Total age-related expenditure[1]	29.0	29.9	32.3	32.8	33.4	33.2
Pension expenditure[2]	14.4	15.1	16.7	16.5	16.4	16.1
Health care (excl. long-term care)	7.7	8.0	8.4	8.8	9.1	9.0
Long-term care	1.7	1.8	2.1	2.4	2.8	2.9
Education	4.5	4.3	4.4	4.4	4.4	4.5
Unemployment	0.7	0.7	0.7	0.7	0.7	0.7
Contributions to social security pensions[3]	8.5	8.5	8.5	8.6	8.6	8.6
Assumptions						
Real GDP (change in PO growth, in %)[4]	1.7	1.5	1.3	1.4	1.3	1.3
Labour productivity (change in %)[4]	1.5	1.5	1.5	1.5	1.5	1.5
Participation rate males (aged 15-64)[4]	77.2	76.6	75.7	76.6	76.3	76.2
Participation rate females (aged 15-64)[4]	68.4	68.9	70.6	72.8	72.5	72.4
Total participation rate (aged 15-64)[4]	72.8	72.8	73.1	74.7	74.4	74.4
Unemployment rate (Eurostat)[4]	4.1	4.0	4.0	4.0	4.0	4.0
Persons aged 65+ in % of total population[5]	18.8	19.9	24.4	27.7	28.4	29.2

1) Data based on COM/EPC projections (2012)

2) Gross amounts incl. compensatory allowances, excl. administrative costs, rehabilitation and health insurance expenditures

3) Excl. Revenues from federal fund

4) Data based on COM/EPC macro-assumptions (2011)

5) Data based on EUROSTAT demographic projections (EUROPOP 10)

Positions may not sum up due to rounding errors.

Sources: BMASK, BMF, COM, EPC, EUROSTAT, STAT

Table 16: Contingent liabilities

	2012
	in % of GDP
Public guarantees[1)]	31.9
of which: linked to the financial sector	3.6

1) Central government

Positions may not sum up due to rounding errors.

Sources: BMF, STAT

In April 2013 for the first time the Federal Ministry of Finance published a long-term budget forecast covering the horizon until the year 2050 (based on § 15 Abs. 2 BHG 2013). This projection exercise, which will be updated every three years, analyses the effects of foreseeable demographic trends on the sustainability of public finances. Projections are based on a "no-policy change" scenario, assuming an unchanged continuance of current policies over the projection horizon. According to the results of the first projection exercise, total age-related expenditure in Austria will increase similarly to what has been projected by the EC/EPC long-term projections. While until 2050 public pension, health and long-term care expenditure are expected to be marginally lower compared to the EC/EPC projections, expenditure for unemployment and education are expected to be somewhat higher compared to EC/EPC results. The sum of total age-related expenditure in 2050 amounts to 33.4% of GDP in both projections.

6. Quality of Public Finances

6.1. General Government expenditures by function

In 2012, the total expenditures accounted for 51.2% of GDP. This is 0.7 percentage points higher than in 2011.

In 2011, General Government expenditure as a percentage of GDP was 1.4 percentage points higher in Austria than in the EU-27 and 1 percentage point higher than in the Euro area. In 2010 it still were 2, respectively 1.6 percentage points.

The category "social protection", accounting for 21.1% of GDP, constitutes the most important expenditure category. Other important expenditure categories are "health" with a share of 7.8% of GDP, "general public services " with 6.7%, "economic affairs" with 5.8% and "education" with a share of 5.5% of GDP.

The increase compared to 2011 is notably caused by the bank packages, which are part of the category "economic affairs". By 2017, public expenditure as a percentage of GDP shall drop to 48.6%.

Especially in times of scarce budgetary resources, it is important to increase the efficiency of public expenditure. Performance based budgeting is, therefore, a central element of the Austrian budget management.

Table 17: General Government expenditure by function

	COFOG Code	2009	2010	2011	2012
				in % of GDP	
1. General public services	1	6.9	6.8	6.6	6.7
2. Defence	2	0.8	0.7	0.7	0.7
3. Public order and safety	3	1.6	1.5	1.5	1.5
4. Economic affairs	4	5.4	5.7	5.3	5.8
5. Environmental protection	5	0.5	0.6	0.5	0.5
6. Housing and community amenities	6	0.7	0.6	0.6	0.6
7. Health	7	8.2	8.1	7.7	7.8
8. Recreation, culture and religion	8	1.1	1.0	1.0	1.0
9. Education	9	5.7	5.7	5.6	5.5
10. Social protection	10	21.8	21.7	21.0	21.1
11. Total expenditure	TE	52.6	52.6	50.5	51.2

Positions may not sum up due to rounding errors.

Source: STAT

6.2. Administrative reforms

Administrative reforms are of particular concern for the Austrian Federal Government. On the one hand, a slim, dynamic and powerful administration is needed, to make the acting of the administration even more citizen- and economic friendly, as well as more efficient, thereby upgrading the quality of the Austrian administration and through this strengthen Austria as a business location. On the other hand it is very important to enhance the modern public administration, so that it is able to manage societal, political and economic challenges.
In a Federal State, effective administrative reforms are only possible by a joint exertion of all administrative units. The working group "Consolidation" has already implemented many measures.

In the area of "school administration" a new profile for directors of schools and rules to allow province teachers being employed in federation schools, as well as a rearrangement of the school supervision have been implemented.

In the area of "administration efficiency" there are potential savings of 100 million € per annum through administrative reform projects.

In the area of "state aid" the transparency database has been implemented, so it is possible to bring about clear structures to the, during a long-time grown, jungle of state aid schemes.

In the area of "health" an agreement according to Art. 15a B-VG and the health care reform act 2013 have been adopted. So it is possible to ensure a common integrated, sector comprehensive strategy and regulation to enhance the degree of bindingness in the health strategy and to build up sector comprehensive financing (see 6.4. "Health care reform 2012").

By reforming the care allowance 2012, the legislative and execution competence has been transformed from the provinces to the Federal Government. Simultaneously, the number of decision-makers has been reduced from 303 to seven.

Thanks to the most extensive Federal Budget Law Reform of the recent history, the Federal Government executes a modern budget management, based on international "best practice". The budget 2013 is an integrated controlling instrument, which covers resources as well as concomitant actions and effects. Furthermore, the Federal Government has adopted commercial accounting rules. In 2013, the budget will, in addition to a capital finance account, also contain a consumption of resources account. In the course of 2013, there will also be an opening balance sheet of the federation as of January 1st, 2013 (see 7.2. "Performance Budgeting").

To reduce double-tracks and disposable bureaucratic effort, the agendas around asylum and handling of foreigners, which are currently handled by 194 centres, will be concentrated at one Federal Office. Furthermore, the federal police directorates, safety boards and state police commandership have been consolidated. In the future the 31 agencies will be reduced to nine state police commanderships. With the amendment of administrative jurisdiction, more than 100 senates of appeals and special departments, which are unsupervised, will be concentrated at eleven independent administrative courts.

Through 2010, the Federal Government, in collaboration with the provinces, started a deregulation initiative, where numerous procedures were agreed to, particularly in the areas of water use rights, industrial law, traffic law as well as charges and fees, which allow for easier handling of bureaucratic processes.

Due to the high portion for personnel expenditures in the budget, actions in the area of "personnel" are of special importance. From 2012 to 2013 there will be a reduction of about 4,000 established posts in the Federal Government. Thanks to a mobility packet, personnel will hereafter be easier appointed to bottlenecks.

To increase the efficiency of national action, as has already been mentioned, there will be further tightening of the organisational structure. Among these are, for example the merger of existing federal training facilities, or the merger of small district courts. To ensure an optimized use of land and buildings a standardised real estate policy will be compiled.

6.3. Better regulation

In order to support the economy and strengthen Austria as a business location, the Federal Government has implemented an ambitious initiative since 2006 to reduce the administrative burden for businesses. Streamlining of services shall help businesses to simplify their dealing with authorities and make it less time-consuming, thus being able to utilise resources for productivity increasing activities, which is especially important in the current economically challenging period. By 2012, Austrian businesses have been able to save 25% of administrative burden (exceeding 1 billion €), which is an indicator for the increase of the attractiveness as a business location.

The flagship measures are the E-invoice and the Austrian Business Service Portal (USP). The possibility of replacing hundreds of millions of paper by electronic invoices offers an enormous potential to businesses and the public administration to optimise processes and reduce costs. The E-invoice for the Federal Government, compulsory from January 1st, 2014, is a measure of the administration to spread the electronic invoice. The USP went online on January 1st, 2010 as an information portal at http://www.usp.gv.at. By 2015, the portal will gradually develop into a one-stop shop with information and transaction services. In May 2012, the transaction portal with single-sign-on has been launched, providing the most important services of the Federal Government, e.g. FinanzOnline (handling of taxes), ELDA (electronic data exchange with the social insurance funds) and EDM (electronic data management of the Ministry of Life), with only one registration. At present, preparations for phase 2 of USP are undertaken. In phase 2, the focus will be on optimising registration processes and avoiding multiple registrations. Emphasis also lies on assistance in the process of founding a company. Thus, the USP also contributes importantly to public administration reform.

Moreover, a programme to reduce administrative burdens for citizens is currently being implemented. Among the key measures are the introduction of electronic identification via mobile phone for administrative processes, the implementation of the civil register as well as simplifications with regard to free transport for apprentices and students. All planned measures can be accessed in budget annex "reduce administrative expenses for citizens and corporations" (see http://www.wfa.gv.at).

6.4. Health reform 2012

Over the last years, the costs in the health sector grew significantly faster than GDP. While on average of the last 20 years (from 1990 to 2009) GDP in nominal terms increased by 3.75% per year, public health expenditures (without long-term care) increased by 5.2% during the same period.

On these grounds a cap on the growth rate of public health expenditures was enacted. By 2016 public health expenditure growth rate should converge to the nominal GDP growth rate. Thereby cumulated expenditure savings of 3.43 billion € (State Governments: 2.058 billion €, social security: 1.372 billion €) should be achieved. With respect to the already enacted Art. 15a-Agreement "Organisation and financing of the health sector" and "Health: a target-based governance system"

- a unified, integrated and cross-sectoral planning and targeting in the health sector will be ensured,
- the commitment concerning the health costs planning on the State Government level will be increased on the basis of a mutual coordination of the stationary and ambulant health service provisioning and
- a cross-sectoral financing structure will be established.

Additionally, the contractual partners, Central Government and State Governments on the one hand and the social security system on the other hand, agreed as equitable parties that a target-based governance of the structure, organisation and financing of the Austrian health service will be established. With respect to the complex responsibilities the agreement "Health: a target-based governance system" (based on Art. 15a of the Federal Constitutional Law) has the goal to achieve an optimal target-based governance (with modern forms of contract based delivery systems) as well as a strategic and outcome-oriented cooperation with respect to fulfilling the different assigned tasks. It consists of

- a governance structure for the different health services, which recognizes their interdependences,
- compliance with the guiding principles of target-based governance, responsibility, accountability, openness and transparency of structures as well as of procedures and fairness,
- securing an optimal health service provisioning and of its financing.

Due to the contractual principle of cooperation and coordination the diverging (financial and organisational) interests of the involved partners should be avoided. The 15a-Agreement "Health: a target-based governance system" rests upon the following political commitments:

- For the patients the simple accessibility to an adequate health service and the high quality of health services should be secured in the long-run.
- The public responsibilities for taxes and contributions paid by the citizen calls for instruments that can improve the efficiency and effectiveness of the health system.
- With respect to the principles of target-based governance of the health provisioning a permanent improvement of organisation and management mechanisms of Central- and State Government levels.
- Furthermore the objectives for the health provisioning and the financing structure are to be clearly defined and the performance must be monitored to assess the achievement of the objectives.
- The growth rate of the public health expenditures (without long-term care) should converge to the expected average GDP growth rate (in nominal terms) over the period until 2016, which should lead to a stable share of the health expenditures of around 7% of GDP until the year 2020.
- Increasing the share of mobile care in relation to stationary care over the next four years.

6.5. Pension reform

The structural reforms in the pension sector have been enacted consequently to dampen the growth dynamic of expenditures which has to be expected owing to the ageing of the population. The following measures were taken:

- In the year 2011 the requirements for early old-age pension (so-called "Hacklerpension") were tightened for long-term contributors. That new regulation showed good results: in 2012 the persons which claimed an early old-age pension for being long-term contributors decreased in comparison to 2011. Furthermore the number of disability pensions declined.
- The purchase of school- and studying times for pension insurance became more expensive.

- In the year 2014 a further tightening of the early old-age pension for long-term contributors will become effective: the necessary insured years must result from active employment: times of illness, schooling and studying will not be accounted for anymore. As of 2014 men can claim the early old-age pension due to long-term contributions only as from 62 years, women as from 57 years of age.
- Some reforms with respect to the disability pension were enacted: from 2014 the temporary disability pension for people born in 1964 or younger will be abolished. Instead a comprehensive medical and job-related rehabilitation will take place. The overriding goal is that people should remain healthy for a longer time and that they could be activated instead of living on passive transfers. Disability pension will only be approved in case of permanent disability.
- In 2013 the general increase of pensions amounted to only 1.8% (in comparison to an inflation rate of 2.8%); the compensatory allowances ("Ausgleichszulagen") were raised by 2.8%.

6.6. Speculation ban

The existence of risky financial investments in some State Governments has led to the request for extreme risk-averse financial strategies when conducted with tax payer's money. Therefore the Central Government, the State Governments and the Local Governments agreed to ban speculative transactions for the public sector.

It is planned that the ban on speculation will at least be enacted by an intrastate-agreement according to Art. 15a of the Federal Constitutional Law with respect to the Central Government as well as the State- and Local Governments. In that agreement the following budgeting principles for risk-averse financial investment strategies are stipulated on a unified basis for all layers of government:

- The obligation of a risk-averse financial investment strategy with avoidance of avoidable risks (e.g. no open foreign exchange risks, contracts of any derivative financial instrument only in parallel with the underlying deal) and that credit financing is not allowed for medium- and long-term financial investments.
- The obligation of a yearly strategic planning with respect to debt- and liquidity management in accordance with the objectives of the responsible bodies.
- The obligation of an effective operational and organisational structure including the four-eye's principle.
- The obligation of transparency of the transactions whereas regular reports on the transactions and the debt levels must be submitted.

Via changes of federal budgetary laws the Central Government and other institutions of the sector, which are covered by federal laws, must enact the above mentioned obligations. The

State Governments will enforce these obligations in their own legal responsibilities (also especially for the Local governments).

7. Institutional Framework

7.1. Austrian Stability Pact

The national budgetary coordination between the Federal Government, states and municipalities is regulated in the Austrian Stability Pact (ÖStP). Due to developments on European level associated with a strengthened economic governance of EU member states ("Sixpack", "Twopack" and "Fiscal Compact"), adjustments to EU regulations were implemented already in 2012.

The agreement currently in place has entered into force on January 1st, 2012 and is effective for an unlimited period. A system of multiple fiscal rules has been introduced. By implementing the new consolidation path through more demanding targets a balanced budget in structural terms in Austria from 2017 onwards can be safeguarded.

The agreement contains the following key aspects:

- Rule on the allowed annual nominal deficit, whereupon a balanced General Government budget balance as defined in ESA terms has to be achieved by 2016.
- Rule on a structurally balanced General Government budget ("Austrian Federal Debt Brake") from 2017 onwards. A structurally balanced budget is defined as a structural General Government deficit not exceeding 0.45% of GDP.
- Rule on the allowed annual expenditure growth (expenditure brake).
- Rule on the annual public debt reduction as defined in ESA terms (debt quota adjustment).
- Rule on contingent liability ceilings.
- Rule on improvements of budgetary coordination between the Federal Government, states and municipalities, medium-term budgetary planning, mutual exchange of information and transparency.

These fiscal rules are backed up by adequate sanctions.

7.2. Performance Budgeting

With the introduction of the medium-term budgetary framework from 2009 onwards, the first phase of the Federal Budget Law Reform has been successfully implemented. Despite the financial crisis, the expenditure ceilings have been strictly adhered to. The possibility to allocate unused financial resources to non-earmarked reserve funds effectively avoided the so-called "December fever".

The second phase of the Federal Budget Law Reform, implemented from January 1st, 2013 onwards, has provided the Federal Government with a modern budget law in line with international best practice. The budget functions as an integrated control document, covering resources as well as outcomes and measures funded by these inputs.

The outcome orientation is closely linked to the federal budgetary framework. As of January 1st, 2013 resources and outcomes to be attained for citizens will be closely linked to each other at all levels of the federal budget. Each line ministry has to formulate output targets within the respective budget and link them to the underlying measures. Every branch of the ministry has to present on a rolling basis a four-year medium-term plan for resources and outcomes. The budget will, thus, become an integrated control tool not only focused on resources but also on related performance. In this way, political consistency is strengthened and more "value for money" for tax-payers is fostered.

A cornerstone in the implementation of the reform is the new system of an outcome oriented impact assessment, which has entered into force on January 1st, 2013. It consists of ex-ante estimations as well as ex-post evaluations of all relevant economic, social and environmental impacts of laws, regulations, contracts of the public sector and major projects (in case the Ministry of Finance is involved). The assessment is supported by an IT-tool which has been provided to line ministries. With the implementation of the outcome oriented impact assessment for regulations and other projects, the legislative impact assessment has been designed from the scratch. Further information on legal grounds, a manual and the IT tool download are provided at http://www.wfa.gv.at.

Moreover, the second step of the Federal Budget Law Reform includes the following elements:

- A split into global and detailed budgets will result in a more transparent, comprehensive and flexible federal budget.
- A shift from cameralistic to double-entry bookkeeping will enhance the explanatory power of the public accounting system.
- Budget planning will be further improved by long term projections for at least 30 years ahead, which will be updated regularly from 2013 onwards.

7.3. Medium-term budgetary planning

The Federal Constitutional Law and the Federal Budget Law provide for legally binding medium-term budgetary planning at the federal level via the Federal Budgetary Framework Law (BFRG) and the Strategy Report. The former sets legally binding expenditure ceilings effective for the subsequent four years. Five spending categories are covered, representing the Federal Government's main engagements on the expenditure side. The Strategy Report contains political declarations of intent as well as annotations, inter alia regarding payments.

The draft BFRG has to be presented by the Federal Government by April 30th each year at the latest. This timing is in line with the rules in place at EU level for the submission of the Stability Programme.

7.4. Stability Programme procedure

The Stability and Growth Pact requires the submission of annual updates of the Austrian Stability Programme. The Programme is a core element of the European semester and is endorsed by the Federal Government with due regard to national budgetary coordination as specified in the ÖStP. Together with the National Reform Programme, the Stability Programme is submitted to the Council of the European Union, the European Commission, the Austrian Parliament and the Social- as well as Financial Equalisation Partners. The Finance Minister's report on the Austrian Stability Programme Update for the period 2011 to 2016 has been presented to the Austrian Parliament on April 27th, 2012, discussed in a public meeting by the Parliamentary Budget Committee on July 2nd, 2012 and according to § 28b of the Austrian Parliament's Rules of Procedure Law (GOGNR) finally deliberated.

Sources/Links

Public Employment Service Austria (AMS)

http://www.ams.at/

Federal Chancellery (BKA)

http://www.bundeskanzleramt.at/

Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK)

http://www.bmask.gv.at/

Federal Ministry of Finance (BMF)

https://www.bmf.gv.at/

Federal Ministry of Health (BMG)

http://www.bmgf.gv.at/

European Commission, Directorate General for Economic and Financial Affairs

http://ec.europa.eu/economy_finance/index_de.htm

Code of Conduct

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EU Economic Governance

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