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| from: | Gerhard LERCHBAUMER, Minister Counsellor (Finance)<br>Permanent Representation of Austria to the European Union |
| date of receipt: | 27 April 2012 |
| to: | Carsten PILLATH, Director-General, Council of the European Union |
| Subject: | Update of the Austrian Stability Programme for the period 2011 to 2016 |

The update of the Austrian Stability Programme for the period 2011 to 2016 pursuant to Regulation (EC) No 1466/97 is attached hereto.

(Complimentary close).

(s.) Gerhard LERCHBAUMER

Encl.:

BMF

FEDERAL MINISTRY OF FINANCE

# Austrian Stability Programme

## Update for the period 2011 to 2016

**Federal Ministry of Finance**

**Vienna, 24 April 2012**

This document is an unofficial translation of the German original version and can be accessed at the web page of the 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 2011-2016 are in line with the requirements of the Code of Conduct as endorsed by the ECOFIN Council on 24 January 2012.

The Federal Government's strategy for the period 2012-2016 was launched under the motto "structural consolidation and reforms" and is based on three targets:

- Achieving a broadly **balanced budget by 2016** as well as ensuring long-term sustainability and reducing the debt-to-GDP ratio,
- 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 mechanism 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 13 December 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 reform of the corrective arm of the SGP also operationalises 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 provisions of the "sixpack" are complemented by the TSCG, signed by Heads of State or Government on 2 March 2012, which 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 present programme is based on the national accounts data from Statistics Austria (STAT) until 2011, the economic forecast by the Austrian Institute of Economic Research (WIFO) until 2016, 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 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.

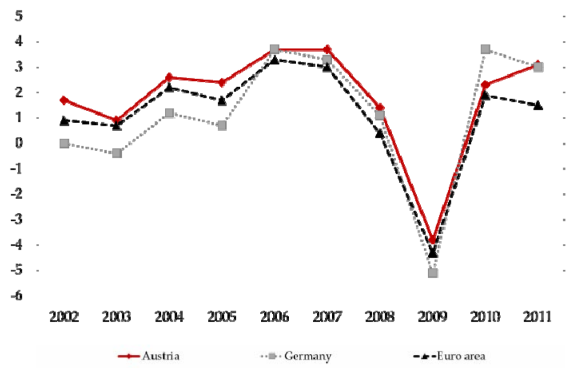
# 2. Development of the Austrian Economy

## 2.1. Strong expansion in 2011

The Austrian economy has successfully weathered the economic crisis in 2009 and experienced strong growth in 2011. Real GDP grew by 3.1% year-on-year (after 2.3% in 2010) – the past decade only saw higher growth rates during the economic boom phase of 2006-2007. The high growth rate was based on the very strong first half of the year.

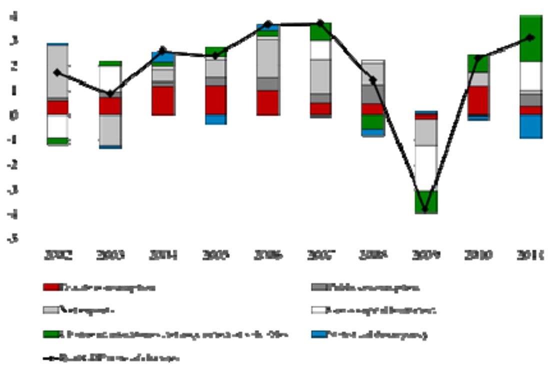
At the beginning of the year, the recovery was supported by high export growth driven by the strong global upswing and the need for catching-up in business investment. Starting from the second quarter, external demand slowed down, and in the fourth quarter of 2011, real exports decreased for the first time in two years. Gross fixed capital formation (+5.7%) and private consumption (+0.6%) stabilised the economy. Investment in equipment and machinery, especially vehicles, increased significantly (+11.3%) compared to past years, and construction investment started to rise (+2.6%) after having declined during the past two years. Private consumption strengthened over the course of the year notwithstanding the deteriorating consumer climate.

**Figure 1: Real GDP growth**




Left axis: Rate of change over previous year in %
Sources: EUROSTAT, WIFO

**Figure 2: Contribution to growth**



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

**Labour market** performance was markedly good during the whole year. The number of actively employed increased by around 71,000 (+1.9%) to 3,757,000 persons in 2011 and was above the number of actively employed before the economic crisis. An estimated plus of 18,000 non-self-employed persons can be attributed to the full liberalisation of the labour market for the EU Member States which joined the EU in 2004.

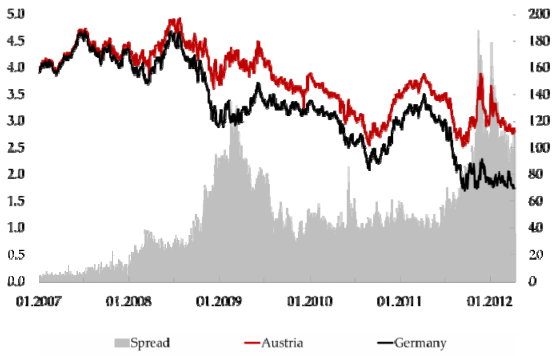
The crisis-related increase in **unemployment** has not yet been fully reversed. Despite a decrease in the number of unemployed by about 4,000 persons against 2010, the number of registered unemployed was 247,000 persons in 2011 - 35,000 higher than the pre-crisis figure (2008). However, the unemployment rate (Eurostat definition) declined by 0.6 percentage points against 2009 und by 0.2 percentage points against 2010. At 4.2%, unemployment in Austria was the lowest in the EU in 2011.

**Inflation** (HCPI) was 3.6% in 2011 and, thus, above the average of the EU and the Euro area. On the one hand, this was the result of significantly higher energy prices and an above-average economic growth rate; on the other hand, the domestic services sector and, to some extent, increases in excise taxes played a role.

## 2.2. Financial sector developments

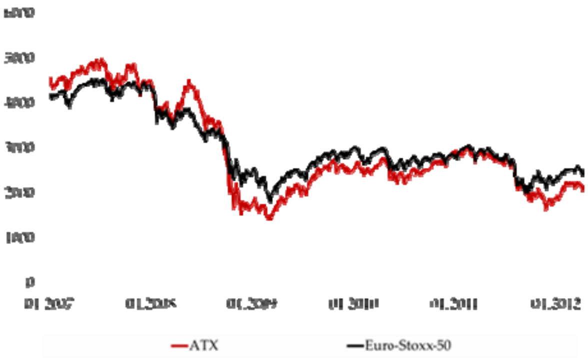
In the second half of 2011, financial market developments were driven by new concerns about a global economic downturn and possible negative real economic consequences of the debt crisis in the euro area. In autumn, the bond market situation deteriorated in Italy and Spain following a further increase in long-term interest rates. In November 2011, also other Euro area countries (including Austria) were temporarily facing notable increases in long-term interest rates, triggered by concerns about debt sustainability in the Euro area as a whole, financing problems of banks in the euro area and possible contagion effects.

**Figure 3: Long-term interest rates**




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

**Figure 4: Financial market performance**




Left axis: Index, closing rate
Source: Macrobond

On 13 January 2012 the rating agency Standard and Poor´s downgraded Austria's long-term rating from "AAA" to "AA+" (with negative outlook). According to Standard and Poor´s, the reasons for the downgrade were increasing (political, external, financial) problems within the Euro area as well as negative developments in important trade and direct investment partners (e.g. Italy and Hungary). The other rating agencies left the rating unchanged and the downgrade also had no sustained impact on the long-term interest rate spread to Germany or Austria's long-term interest rate level.

During the past few years, the Austrian equity market showed a strong correlation with the equity market of the Euro area (Euro Stoxx), but from summer 2011, a temporary decoupling could be observed (as was the case during the past financial market crisis in autumn 2008). Since year-end 2011, however, the Austrian Traded Index (ATX) has recovered in line with the Euro Stoxx Index.

*Banking sector*

The Euro area debt crisis also influenced the business development of the Austrian banking sector. Unconsolidated operating profits declined by 7.9% compared to the previous year and amounted to 7.5 bn €. While net interest income remained stable, commission income and income from securities and equity declined and the trading result was weaker. Moreover, rising labour costs, higher administrative costs and higher risk provisioning put pressure on the banks' profits. Over the whole year, the consolidated return on total capital of the Austrian banking sector is estimated at around 0.13% in 2011. The aggregated core tier 1 capital ratio has been rising continuously from its trough in the third quarter of 2008 and amounted to 10.1% in the third quarter of 2011.

In 2011, the volume of loans to domestic customers increased by 2.3% compared to the previous year. Foreign exchange loans, however, were declining considerably. Domestically, the quality of loans remained unchanged at an unconsolidated impairment ratio of 3.2%. In Central and Eastern Europe the impairment ratio continued to increase and amounted to 7.1% at the end of September 2011. The exposure of Austrian banks to the markets of the Euro area presently facing difficulties is very limited.

Exit from public support measures to the banking sector has been implemented with regard to the measures based on the Interbank Market Support Act (IBSG). As of 31 March 2012, government guaranteed bonds issued by financial institutions amounted to 9.7 bn €, which means a decrease of about half the total guarantee volume compared to the year before (19 bn €). On the basis of the Financial Market Stability Act (FinStaG), 11 bn € were made available for capital and liquidity support, whereof 4.8 € bn have been used for participation capital subscribed by five Austrian banks and 2.5 bn € for a guarantee programme for KA Finanz. At the end of 2011, the decision was taken to complete the privatisation of Kommunalkredit Austria by 2013.

Measures taken since the beginning of 2011 concerned Hypo Alpe Adria, KA Finanz and Österreichische Volksbanken AG (ÖVAG). As regards Hypo Alpe Adria, measures amounting to 1.07 bn € were taken in the form of a reduction in share capital and a capital conversion. Furthermore, the Federal Government assumed guarantees for assets and liabilities (2.9 bn €) and granted or committed to grant capital contributions for the total amount of 1.07 bn €. KA Finanz has drawn on a guarantee for a debtor warrant (*"Besserungsschein"*), out of which the Federal Government will pay 1.1 bn € in July 2013. In the course of the partial nationalisation of ÖVAG in February 2012, a reduction in government 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 2011, the Federal Government was paid 289 m € in dividends for the subscribed participation capital and 332 m € in fees for public guarantees. For the year 2012, income from these sources is expected to reach about 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 in Central and Eastern Europe, a "Cross Border Stability Group" was established with Bulgaria, Slovenia, Slovakia, the Czech Republic and Hungary to improve cross-border cooperation in crisis situations. The agreement was signed at the beginning of 2012; the next step is a crisis simulation exercise.

## 2.3. Short and medium-term perspectives 2012-2016

Following the slowdown of the **world economy** at the end of the year 2011, first signs of a stabilisation were observed at the beginning of 2012. International trade as well as capital flows gained momentum and macro-financial risks declined. Most national and international leading indicators reached their troughs in November 2011 and have improved continuously since then. As a result, global growth is expected to pick up again from the middle of the year at the latest.

In the **US**, economic growth expanded unexpectedly strong in the fourth quarter of 2011, at +0.7% in real terms against the previous quarter. Bank lending and consumer confidence increased and boosted business expenditure and consumption. Also the situation on the US labour market eased. In February 2012, initial claims for unemployment benefits reached their lowest level since March 2008, indicating a strengthening of the recovery.

Further impetus for growth is expected to come from **emerging markets**, especially from China, where high growth rates and sustained import demand can be expected, despite a moderate slow-down of economic activity in the last quarter of 2011. Conversely, **Japan** has not been able to benefit from the signs of recovery so far. In the fourth quarter of 2011, the real economy contracted by -0.6% quarter-on-quarter, more than previously expected. However, the development of the Japanese economy was characterised by one-off effects due to the natural disaster in spring and the reconstruction that followed, so that no clear economic pattern can be identified.

Economic development in the **Euro area** was affected by the debt crisis, high uncertainty and the fragility of financial markets. In the fourth quarter of 2011, real GDP contracted by -0.3% quarter-on-quarter. Although a stabilisation of financial markets has been observed following the expansionary monetary policy by the ECB and the successful debt exchange in Greece, economic recovery will remain subdued due to far-reaching fiscal consolidation packages in several Euro area countries. Confidence indicators have slightly improved and production expectations have increased recently, indicating a slowdown in the downward dynamic of private consumption and investment. Following slightly negative growth in the first half of 2012, a moderate upswing is expected from the middle of the year onwards. For the full year 2012, WIFO projects a contraction of real GDP by -0.2% in the Euro area, followed by a growth rate of +1.3% in 2013.

However, there will be a two-speed recovery in the Euro area: Germany and other economies closely linked to the German economy such as Austria will benefit from the global upswing, while in Southern Europe the economic outlook remains somewhat gloomy also in the medium-term due to comprehensive austerity measures, sustained uncertainty and a lack of competitiveness.

The weakness of economic activity in the Euro area also affects developments in **Central and Eastern Europe**, which are important for the Austrian economy. In addition to the decline in export demand, domestic demand, which used to be a key economic driver in the past, will be subdued because of more cautious bank lending. However, due to the continuing need for catching up, the region may still benefit from a growth differential vis-à-vis the Euro area of about 1.5 percentage points.

In line with the global economic outlook, expectations in **Austria** bottomed out in December 2011. Since the end of last year, important leading indicators have been edging up, indicating a moderate recovery from the middle of the year onwards. Current economic prospects have improved over the past few months, especially in manufacturing, where a turnaround in export orders indicates strengthening export activity, and the outlook in the areas of investment and consumption goods has been consistently positive. In the light of favourable prospects and the recently higher capacity utilisation, the willingness of companies to invest is growing.

Nevertheless, the lack of impetus from **foreign trade** in the first half of 2012 will dampen overall economic growth. Economic development will, however, be supported by private consumption (+0.8% and +0.9% in 2012 and 2013, respectively), which expanded at increasing rates during the second half of 2011. The Austrian Institute of Economic Research projects the total amount of wages and salaries to increase by 4.1% in 2012, which, together with the expected decline in inflation (CPI) to 2.4%, will raise net wages and salaries by +0.6% in real terms and strengthen purchasing power and domestic demand.

**Table 1: Macroeconomic prospects**

| | ESA Code | 2011 in bn € | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| | | | Rate of change in % | | | | | |
| 1. Real GDP | B1*g | 271.3 | 3.1 | 0.4 | 1.4 | 2.0 | 2.2 | 2.1 |
| 2. Nominal GDP | B1*g | 301.3 | 5.3 | 2.2 | 2.9 | 3.6 | 3.8 | 3.8 |
| **Components of real GDP** | | | | | | | | |
| 3. Private consumption expenditure | P.3 | 143.2 | 0.6 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 |
| 4. Government consumption expenditure | P.3 | 50.7 | 2.7 | -1.0 | -1.0 | 0.3 | 0.2 | 0.3 |
| 5. Gross fixed capital formation | P.51 | 54.6 | 5.7 | 1.1 | 2.0 | 2.5 | 2.9 | 3.2 |
| 6. Changes in inventories and net acquisition of valuables (% of GDP) | P.52 + P.53 | | 2.9 | 2.7 | 2.8 | 2.9 | 3.0 | 3.0 |
| 7. Exports of goods and services | P.6 | 155.4 | 6.7 | 3.3 | 5.9 | 6.7 | 6.6 | 6.0 |
| 8. Imports of goods and services | P.7 | 137.1 | 7.0 | 3.2 | 5.0 | 5.8 | 5.7 | 5.4 |
| **Contributions to real GDP growth** | | | | | | | | |
| 9. Final domestic demand | | | 2.0 | 0.5 | 0.7 | 1.2 | 1.3 | 1.5 |
| 10. Changes in inventories[1)] | P.52 + P.53 | | 0.9 | -0.2 | 0.1 | 0.1 | 0.1 | 0.0 |
| 11. External balance of goods and services | B.11 | | 0.2 | 0.2 | 0.6 | 0.8 | 0.8 | 0.6 |

1) incl. net acquisition of valuables and statistical discrepancy

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

The consolidation measures are expected to have only minor negative effects on private consumption, because they mainly affect higher income brackets and, as a result, may lead to a decline in the savings ratio. The projection, therefore, presumes a slight decrease in the savings ratio by 0.2 percentage points to 7.3% in 2012.

The contribution of **investment** to economic growth will be moderate, particularly in the first half of 2012. In the medium-term, a rise in accordance with the increase in export activity is expected (+1.1% and +2% in 2012 and 2013, respectively). Construction sector developments may be less dynamic than recently. As a result of the mild winter, building investment continued to expand during the last quarter of 2011, hence the seasonal recovery in spring 2012 may turn out somewhat lower. Cuts in infrastructure investment as part of the consolidation measures will further cushion the development.

After sluggish growth in the first half of 2012, the projection assumes a moderate recovery from the middle of the year onwards. For the full year, real GDP is expected to grow by +0.4%. In 2013, foreign trade will gain momentum, but due to the stepping up of the consolidation measures, real GDP is expected to grow only moderately at +1.4%. In the following years, economic growth will gain momentum and real GDP is expected to increase by about 2% per year.

The economic slowdown in the first half of 2012 will also affect the **labour market**. High employment growth in 2011 and weakening economic activity have mitigated labour demand, so that for the time being, working hours will be extended rather than new personnel recruited. Under the assumption of lower employment growth and rising labour supply, the unemployment rate is expected to increase from 4.2% in 2011 to 4.6% in 2012. Also in 2013, economic growth will not be sufficient to reverse the increase in unemployment. The Austrian Institute of Economic Research, therefore, projects a further rise in the unemployment rate to 4.8%. Only from 2014 onwards, the unemployment rate is expected to decrease slightly.

**Table 2: Labour market developments**

| | | 2011 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| | ESA Code | Level | | | | | | Rate of change in % |
| 1. Employment, persons | | 3,757,000 | 1.9 | 0.8 | 0.5 | 1.0 | 1.1 | 1.1 |
| 2. Employment, hours worked (in m) | | 7,100 | 1.8 | 0.3 | 0.4 | 0.9 | 1.1 | 1.0 |
| 3. Unemployment rate (EUROSTAT, in %) | | 179,000 | 4.2 | 4.6 | 4.8 | 4.7 | 4.6 | 4.4 |
| 4. Labour productivity, persons | | 72,210.3 | 1.2 | -0.4 | 0.9 | 1.0 | 1.0 | 1.0 |
| 5. Labour productivity, hours worked | | 38.2 | 1.3 | 0.1 | 1.0 | 1.1 | 1.1 | 1.1 |
| 6. Compensation of employees (in bn €) | D.1 | 149.7 | 4.7 | 4.2 | 2.8 | 3.7 | 4.2 | 4.1 |
| 7. Compensation per employee | | 39,837.6 | 2.7 | 3.3 | 2.3 | 2.6 | 3.1 | 3.0 |

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

The renewed increase in crude oil prices due to geopolitical tensions prevents a quick decline in **inflation**. Thus, the inflation rate (CPI) is expected to reach 2.4% in 2012 in spite of sluggish economic activity. From 2013, the inflation rate will stabilise at 2%. According to WIFO, the values for 2012 and 2013 are consistent with core inflation.

The **risks** to the outlook are mainly exogenous; related to demand in the Euro area, the further development of the debt crisis, the fragility of the international banking and financial system, and the development of commodity prices. Compared to other national and international forecasts, the underlying baseline scenario for the Austrian economy is very cautious and underlines a prudent budgetary policy stance. The recent forecasts by the European Commission (February 2012 and November 2011), for example, expect real GDP growth rates of 0.7% in 2012 and 1.9% in 2013.

**Table 3: Price developments**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| | | | | | | **Rate of change in %** |
| 1. GDP deflator | 2.1 | 1.7 | 1.4 | 1.5 | 1.6 | 1.7 |
| 2. Private consumption deflator | 2.9 | 2.4 | 2.0 | 2.1 | 2.3 | 2.2 |
| 3. HICP | 3.6 | 2.5 | 2.1 | 2.1 | 2.3 | 2.2 |
| 4. Public consumption deflator | 2.2 | 2.5 | 0.5 | 2.1 | 2.3 | 2.2 |
| 5. Investment deflator | 2.5 | 2.0 | 2.0 | 2.3 | 2.4 | 2.3 |
| 6. Export price deflator (goods and services) | 3.5 | 0.8 | 1.4 | 2.5 | 2.9 | 2.1 |
| 7. Import price deflator (goods and services) | 6.3 | 1.7 | 2.0 | 3.8 | 4.2 | 3.1 |

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

**Table 4: Sectoral balances**

| | ESA Code | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | | | | | | | **in % of GDP** |
| 1. Net lending/borrowing vis-à-vis the rest of the world | B.9 | 1.7 | 1.4 | 1.8 | 2.3 | 2.7 | 2.4 |
| 2. Net lending/borrowing of the private sector | B.9 | 4.3 | 4.4 | 3.9 | 3.8 | 3.3 | 2.4 |
| 3. Net lending/borrowing of the general government | EDP B.9 | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| 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

Solid and sustainable public finances are a necessary condition for economic development, new jobs and social stability. It is, thus, a central task of economic and budgetary policies to ensure confidence of consumers, companies, markets, and the international community in the sustainability of public finances.

Against this background, the Federal Government´s budgetary and economic policy targets are threefold:

- Achieving a broadly **balanced budget by 2016** as well as ensuring long-term sustainability and reducing the debt-to-GDP ratio,
- Fostering **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.

The Federal Government is committed to follow the budgetary policy recommendations in the context of the Excessive Deficit Procedure, the reformed Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). With a view to reducing the budget deficit and the public debt ratio, ensuring room for manoeuvre for Austria and its public finances in the future, improving the quality of budget structures and achieving the targets set at the European level, the Federal Government has approved a comprehensive consolidation package, including reforms in the field of pensions, health, subsidies and administration, as well as socially balanced measures on the revenue side and the closure of tax loopholes. Some measures have already come into force on 1 April 2012, and the National Parliament has already approved a large part of the "stability package". With these measures, Austria contributes markedly to strengthening confidence in Europe and its common currency.

## 3.1. 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 2 December 2009 that an excessive deficit exists in Austria and adopted recommendations under Article 126(7) TFEU to correct it. More specifically, Austria should 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 2011 and accelerated the consolidation, in line with the Council recommendation of 12 July 2011. In fact, the deficit was reduced to a larger extent than planned at all levels of government. The general government deficit in 2011 turned out significantly lower than planned, at 7.8 bn € or 2.6% of GDP. At the federal level, the Maastricht deficit was around 7.2 bn € or 2.4% of GDP, 1 percentage point of GDP below plans. The state and local level achieved a Maastricht deficit of around 1 bn € or 0.3% of GDP, 0.4 percentage points of GDP lower than planned. Social security funds achieved a surplus of about 0.4 bn € or 0.1% of GDP, whereas a balanced budget had been expected.

Compared to 2010, the general government Maastricht deficit decreased by 5 bn € (1.9 percentage points). Total revenues increased by 6.5 bn € (+4.7%) to 144.3 bn €, i.e. 1 bn € higher than expected. Total expenditures increased by 1.4 bn € (+1%) to 152 bn €, undershooting plans by 2.8 bn €. In light of nominal GDP growth of 5.3% in 2011, both the revenue and expenditure ratios declined: the former was reduced from 48.1% of GDP in 2010 to 47.9% of GDP; the expenditure ratio declined from 52.6% of GDP in 2010 to 50.5% of GDP in 2011.

Revenue increases were achieved in particular with regard to the personal income, corporate income and capital gains taxes (+7.1%). On the expenditure side, there was a slight rise in social expenditures and personnel expenditures (+2% and +1.3% respectively), whereas other expenditure items such as subsidies and interest expenditure could be reduced. Moreover, an extraordinary effect came into play: following a decision by Eurostat, state-aid to KA Finanz agreed upon in 2011 to the amount of 0.8 bn € has to be accounted for in 2012 instead of 2011. The observed underspending is moreover related to strict budget control and the new Federal Budget Law, which allows for more flexibility in allocating unused funds to non-earmarked reserve funds, thereby setting incentives for an efficient use of resources and strengthened budgetary discipline. At the level of the state and local governments, the new elements in the Austrian Stability Pact 2011-2014 seem to have had a positive impact.

In the period 2012-2013, structural consolidation will be reinforced by the measures adopted in the "stability package" (see below). Against the background of the economic slowdown in the first half of 2012 and one-off effects (state aid of 1.25 bn € for KA Finanz and 1 bn € for ÖVAG), however, the Maastricht deficit will deteriorate in 2012 as compared to 2011 and is expected to amount to 3% of GDP. By 2013 at the latest, the Maastricht deficit will be reduced sustainably and significantly below 3% of GDP.

**Table 5: Cyclical developments and budget balances**

| | ESA Code | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | | | | | | | in % of GDP |
| 1. Real GDP (rate of change in %) | | 3.1 | 0.4 | 1.4 | 2.0 | 2.2 | 2.1 |
| 2. Net lending of general government | EDP B.9 | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| 3. Interest expenditure | EDP D.41 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| 4. One-off and other temporary measures[1)] | | -0.2 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Potential GDP growth (in %) | | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 |
| 6. Output gap | | 0.0 | -0.9 | -1.0 | -0.4 | 0.3 | 0.7 |
| 7. Cyclical budgetary component | | 0.0 | -0.4 | -0.5 | -0.2 | 0.1 | 0.4 |
| 8. Cyclically-adjusted balance | | -2.6 | -2.6 | -1.7 | -1.3 | -0.7 | -0.4 |
| 9. Cyclically-adjusted primary balance | | 0.0 | 0.1 | 1.0 | 1.4 | 1.9 | 2.2 |
| 10. Structural balance | | -2.4 | -2.1 | -1.7 | -1.3 | -0.7 | -0.4 |

1) A plus sign means deficit-reducing one-off measures.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

The debt-to-GDP ratio in 2011 was also lower than anticipated, amounting to 72.2%. It will increase to 75.3% in 2013 (NB: numbers include debt effects of financial assistance programmes to Greece, Ireland and Portugal as well as the payment of capital for the European Stability Mechanism (ESM)), but decline steadily thereafter. The Federal Government´s goal is to reduce the debt-to-GDP ratio below 60% of GDP by 2020.

**Table 6: General government debt developments**

| | ESA Code | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | | | | | | | in % of GDP |
| 1. Gross debt | | 72.2 | 74.7 | 75.3 | 74.6 | 72.8 | 70.6 |
| 2. Change in gross debt ratio (in %) | | 0.4 | 3.5 | 0.8 | -0.9 | -2.5 | -2.9 |
| **Contributions to changes in gross debt** | | | | | | | |
| 3. Primary balance | | 0.0 | -0.3 | 0.6 | 1.2 | 2.0 | 2.6 |
| 4. Interest expenditure | EDP D.41 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| 5. Stock-flow adjustment | | 1.3 | 1.1 | 0.5 | 0.4 | 0.3 | 0.5 |
| p.m.: Implicit interest rate on debt | | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 |
| **Contributions to gross debt** | | | | | | | |
| 6. Euro area crisis management | | 0.7 | 2.4 | 2.9 | 3.0 | 2.9 | 2.8 |
| 7. Gross debt excl. crisis management measures | | 71.5 | 72.3 | 72.4 | 71.6 | 69.9 | 67.9 |

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Furthermore, a number of measures have been adopted to strengthen the growth potential of the Austrian economy, in line with the recommendation of the ECOFIN Council (see NRP).

**The General Government Budget 2011: Preliminary performance**

The Federal Government Budget Proposal for 2011 provided for expenditures of about 70.2 bn €, revenues of about 62.5 bn € and an administrative deficit of about 7.6 bn €. Preliminary budget figures for 2011 show expenditures were about 67.8 bn €, revenues reached about 63.5 bn €, and the administrative deficit was about 4.4 bn €. Compared to the budget proposal, expenditures were 2.3 bn € lower than planned, while revenues were 0.9 bn € higher. Thus, the administrative deficit was 3.3 bn € lower than budgeted. This improvement is due in particular to the more benign economic development, exogenous factors (lower interest rates and lower guarantee claims) and restrictive budget execution.

Better than expected economic development generated additional revenues in the areas of corporate income tax (+0.8 bn €), transfer taxes (+0.4 bn €), surcharges and receipts of late payments (+0.2 bn €), wage tax (+0.2 bn €) and self-assessed income tax (+0.2 bn €). Social security funds benefitted from additional income due to the clearing of invoices (+0.5 bn €).

At the same time, due to the low level of market interest rates, revenue from capital gains tax on interest fell 0.5 bn € behind plans. Also VAT receipts were 0.2 bn € lower than projected. New tax measures in 2011, agreed as part of the "*Loipersdorf*-package" at the end of 2010, were fairly precisely in line with the projections. The stability levy generated 509.9 m €, slightly more than the expected 500 m €. The air ticket levy was budgeted at 60 m € and generated 59.3 m €. Gross total income from taxes and duties amounted to 69.9 bn €, which was 0.9 bn € higher than expected. More than half of the additional income accrued to state and local governments, which were transferred a total of 21.7 bn € in revenue shares by the Federal Government. The contribution to the EU budget amounted to around 2.5 bn €, which was 112 m € higher than budgeted.

Contributions to the unemployment insurance system were about 0.2 bn € higher than projected. Moreover, releases of reserves exceeded plans (+0.4 bn €). Notable revenue shortfalls occurred due to the postponement of scheduled repayments of bank support measures (-0.8 bn €) and lower receipts from guarantees (-250.2 m €).

On the expenditure side, due to the favourable economic situation and higher social security contributions, the Federal Government's contribution to social security funds was lower than projected (-0.5 bn €). The largest deviation from the budget proposal due to exogenous factors occurred with regard to interest expenditure. Because of the lower level of interest rates, this expenditure item undershot plans by about 0.9 bn €. Expenditures also remained lower than planned with regard to guarantees (-0.4 bn €). Other notable savings could be achieved in the fields of agriculture (-110 m €), environment (-170 m €) and science and research (-149 m €). In the area of education, arts and culture, higher personnel expenditure for teachers at the federal and state levels increased expenditures by 146 m €.

## 3.2. Debt Brake

Several reforms contribute to better governance of public finances:

- With the introduction of the debt brake, the national fiscal framework has been further improved, the medium-term budgetary objective was made legally binding, and the provisions of TSCG were implemented.
- Via a new ÖStP, which extends all elements of the reformed EU fiscal surveillance to the state and local levels, states and municipalities will be more efficiently integrated into the fiscal consolidation process and public finance sustainability will be ensured at all levels of government.
- As of 2013, the implementation of performance budgeting as part of the second stage of the 2009 Budget Law Reform constitutes the basis for continuously increasing expenditure effectiveness and efficiency. Performance-based budget management and the introduction of a commercial (double entry) accounting system at the federal level allow for an integrated controlling of resources and performance as well as higher transparency of the federal financial situation (see chapter 7.2).

On 7 December 2011, the Austrian Parliament adopted a debt brake inspired by the German model. The debt brake specifies that the Austrian federal budget has to be structurally balanced by 2017. This obligation will be considered to be respected, if the Federal Government balance (according to the European System of Accounts) 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.

As of 2017, the budget of states and municipalities will be regarded as structurally balanced as long as the structural balance does not fall below -0.1% of GDP. Therefore, a structural balance of -0.45% of GDP represents the threshold at the general government level.

With the introduction of the debt brake, the medium-term budgetary target of a balanced budget over the business cycle has been signed into law. Moreover, the provisions of the TSCG, which set a lower threshold of -0.5% of GDP for the structural budget balance, have been implemented. Work is carried on to implement a general government debt brake at the constitutional level; however, the integration of states and municipalities via the ÖStP as a Treaty according to Art. 15a of the Federal Constitutional Law can be regarded as equivalent.

The target of the debt brake is twofold: It prevents chronic structural deficits and permanently establishes a counter-cyclical budgetary policy compatible with the business cycle. During recessions, the debt brake allows for short-term deficits but requires their immediate reduction or even surpluses in boom phases.

Deviations (positive or negative) from the structural balance of -0.35% of GDP at the federal level and/or -0.1% of GDP at the state and local level are registered on control accounts. If the accumulated deviations on the control accounts fall below the thresholds of -1.25% of GDP for the federal level and -0.35% for the state and local levels, a business cycle-compliant deficit reduction has to be initiated, otherwise sanctions can be applied. 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.

Thus the State'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. In the medium- to longer-term, the debt brake leads to a reduction of the public debt ratio below 60% of GDP and beyond. As a result, debt servicing costs will be reduced and financial resources become available for future-oriented investments in education, research and infrastructure.

## 3.3. Structural consolidation and reforms

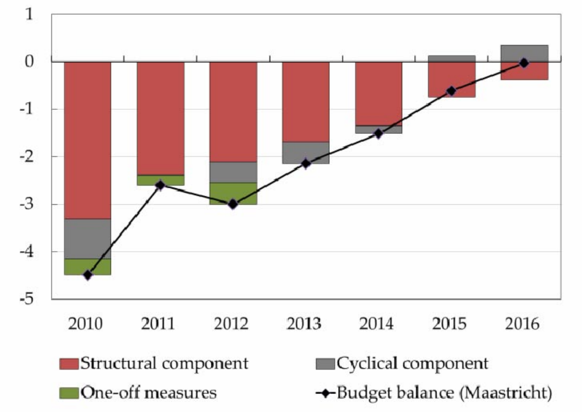
With the adoption of the debt brake, the course has been set for a sustainable consolidation of public finances. In preparation for its implementation from 2017 onwards, on 10 February 2012 the Austrian Federal Government adopted a "stability package" for the years 2012-2016 with an accumulated volume of 26.5 bn €.

After the political decision on the "stability package", the stabilisation of the *Volksbanken* sector and in the partial nationalisation of the Österreichische Volksbanken AG (ÖVAG) became economically necessary. To safeguard the consolidation target, an additional package was enacted, covering the recapitalisation of ÖVAG to the amount of 1 bn € as well as compensatory measures on the revenue side. Hence, the overall package covers an accumulated volume of 27.8 bn € for the years up to 2016, whereof 21.2 bn € fall upon the Federal Government and 1.4 bn € on social security funds. Most of the corresponding measures have been adopted by the Austrian Parliament on 29 March 2012. State and local governments agreed to consolidate 5.2 bn €.

The overall target is to reach a balanced budget by 2016 (Maastricht balance). The general government structural balance is projected at -0.4% of GDP in 2016 and the debt-to-GDP ratio is forecast to decline to 70.6%, down from 75.3% in 2013.

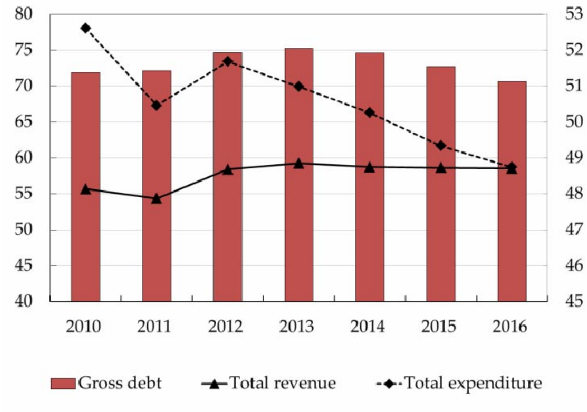
Consolidation is to the larger extent implemented on the expenditure side: At the general government level (excluding ÖVAG), two thirds of the measures are on the expenditure side and one third is accounted for by tax increases (these calculations do not include the foreseen revenue effects originating from measures in the areas of pension and social insurance). At the federal level, three fourths of the total volume can be allotted to the expenditure side and one fourth to the revenue side. The contribution of the states is distributed half-half on the expenditure and revenue sides.

**Figure 5: General government budget balance**




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

**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

The guidelines underlying the "stability package" are the following:

- Negative effects on economic growth and employment should be avoided as far as possible;
- The business location, quality of life and social equity should be improved via future-oriented investments;
- The budget should be relieved in a sustainable manner through structural reforms on the expenditure side, while abstaining from increases in mass taxes;
- Important cost drivers in the budget should be cut back and the consolidation package socially balanced, inter alia, through the inclusion of all population groups according to their ability to pay and equity considerations.

In line with these principles, the focus on the expenditure side is on increasing efficiency in public administration, the pension and health sectors, subsidies, and the Austrian Federal Railways. As regards the latter, transport infrastructure has been targeted.

On the revenue side, emphasis has been put on broadening the tax base as well as on high-income individuals. Moreover, tax loopholes in income and corporate group taxation have been closed, which can be considered a justifiable cutback of benefits against the background of the current economic situation and the necessary sharing of the consolidation burden. Furthermore, earners of very high incomes bear an important part of the consolidation effort via the solidarity fee. In addition, more fairness and the enhanced steering effect of the tax system will improve the acceptance of the system and strengthen social cohesion. Overall, the measures on the revenue side protect the quality of the business location as well as purchasing power, as there was no increase in mass taxes.

The stability package has a limited impact on growth and employment in the short run. It is supposed to strengthen confidence in the Austrian economy at the international and domestic levels, to increase growth in the medium- to longer-term, and to foster the attractiveness of the business location. Moreover, the package is meant to maintain and further strengthen the currently relatively advantageous labour market situation for as many of the population as possible. Measures with regard to pensions will ensure the sustainability of the well-proven public system. Potential growth will be strengthened: Measures concerning pensions, labour markets and education will significantly increase the labour force potential. Administrative reforms and simplification measures ensure the exploitation of efficiency potentials. In addition, the package sets more efficient economic incentives for households and the business sector.

**Table 7: Budgetary prospects**

| | | 2011 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| | ESA Code | in bn € | | | | | | in % of GDP |
| | EDP B.9 | | | | | | | Net lending by sub-sector |
| 1. General government | S.13 | -7.8 | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| 2. Central government | S.1311 | -7.2 | -2.4 | -2.5 | -1.7 | -1.3 | -0.6 | -0.2 |
| 3. State governments (excl. Vienna) | S.1312 | -0.9 | -0.3 | -0.4 | -0.3 | -0.2 | -0.1 | 0.0 |
| 4. Local governments (incl. Vienna) | S.1313 | -0.1 | 0.0 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| 5. Social security funds | S.1314 | 0.4 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| **General government** | | | | | | | | |
| 6. Total revenue | TR | 144.3 | 47.9 | 48.7 | 48.9 | 48.7 | 48.7 | 48.7 |
| 7. Total expenditure | TE | 152.0 | 50.5 | 51.7 | 51.0 | 50.3 | 49.3 | 48.7 |
| 8. Net lending/borrowing | EDP B.9 | -7.8 | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| 9. Interest expenditure | EDP D.41 | 7.7 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| 10. Primary balance | | -0.1 | 0.0 | -0.3 | 0.6 | 1.2 | 2.0 | 2.6 |
| 11. One-off and other temporary measures | | -0.6 | -0.2 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Selected components of revenue** | | | | | | | | |
| 12. Total taxes | | 82.0 | 27.2 | 27.9 | 28.1 | 28.1 | 28.2 | 28.3 |
| 12a. Taxes on production and imports | D.2 | 43.1 | 14.3 | 14.4 | 14.4 | 14.3 | 14.2 | 14.1 |
| 12b. Current taxes on income, wealth etc. | D.5 | 39.0 | 12.9 | 13.5 | 13.7 | 13.8 | 14.0 | 14.2 |
| 12c. Capital taxes | D.91 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13. Social contributions | D.61 | 48.7 | 16.2 | 16.3 | 16.3 | 16.3 | 16.3 | 16.3 |
| 14. Property income | D.4 | 3.5 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.0 |
| 15. Other | | 10.0 | 3.3 | 3.3 | 3.3 | 3.2 | 3.1 | 3.1 |
| 16. Total revenue | TR | 144.3 | 47.9 | 48.7 | 48.9 | 48.7 | 48.7 | 48.7 |
| p.m.: Tax burden | | 126.3 | 41.9 | 42.7 | 43.0 | 43.0 | 43.0 | 43.1 |
| **Selected components of expenditure** | | | | | | | | |
| 17. Compensation of employees + intermediate consumption | D.1 + P.2 | 41.2 | 13.7 | 13.8 | 13.7 | 13.4 | 13.3 | 13.1 |
| 17a. Compensation of employees | D.1 | 28.2 | 9.3 | 9.5 | 9.4 | 9.3 | 9.2 | 9.1 |
| 17b. Intermediate consumption | P.2 | 13.0 | 4.3 | 4.3 | 4.2 | 4.2 | 4.1 | 4.0 |
| 18. Social payments | | 73.9 | 24.5 | 25.1 | 25.0 | 24.7 | 24.4 | 24.2 |
| *of which:* Unemployment benefits | | 3.6 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 |
| 18a. Social transfers in kind | D.6311, D.63121, D.63131 | 16.8 | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.6 |
| 18b. Social transfers other than in kind | D.62 | 57.1 | 18.9 | 19.4 | 19.3 | 19.1 | 18.7 | 18.6 |
| 19. Interest expenditure | EDP D.41 | 7.7 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| 20. Subsidies | D.3 | 10.7 | 3.6 | 3.6 | 3.7 | 3.7 | 3.5 | 3.5 |
| 21. Gross fixed capital formation | P.51 | 2.9 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| 22. Other | | 15.5 | 5.2 | 5.6 | 5.0 | 4.7 | 4.6 | 4.4 |
| 23. Total expenditure | TE | 152.0 | 50.5 | 51.7 | 51.0 | 50.3 | 49.3 | 48.7 |
| p.m.: Government consumption (nominal) | P.3 | 58.1 | 19.3 | 19.2 | 18.5 | 18.3 | 18.1 | 17.9 |

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

## 3.4. Measures of the „stability package“

*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:

- The harmonisation of pension systems will be accelerated and the advantages of the pension account such as transparency, clarity, fairness and incentives for later retirement will come into effect immediately.
- Entry into the corridor pension scheme or early old-age pension for long-term contributors will become more difficult as a higher number of insurance years will be needed.
- Old-age part-time regulation: In the future, block time arrangements will only entitle to old-age part-time pension, if a previously unemployed worker or an apprentice is hired instead. The possibility to make use of the old-age part-time scheme until the statutory retirement age (60/65 years) is reached contributes to increasing the effective retirement age.
- Large inflows into invalidity pensions shall be limited by increasing the age-limit relevant for activity protection *(Tätigkeitsschutz)* from 57 to 60 years.
- The criteria for entitlement to advanced pension pay-outs will be changed so that persons who are able to work will rather receive unemployment benefits or social assistance, thereby supporting their faster re-integration into the labour market.
- Temporary invalidity pension for below 50-year olds will be transformed into a rehabilitation payment.
- Adjustments to pension payments will be moderate in the years 2013 and 2014.
- Pension insurance contributions for farmers and self-employed will be increased.
- The cap on earnings relevant for social insurance contributions will be raised beyond the usual annual adjustment. Contributions to unemployment insurance will again have to be paid until the right to a pension can be claimed.

In the area of federal **public administration**, about 2.5 bn € will be saved via more restrictive personnel policy, measures to increase administrative efficiency and through merging and closing down administrative entities:

- A hiring freeze is in place until 2014, and in 2015 and 2016, only half of the retirees will be replaced. Exceptions exist for teachers, police, judiciary services and financial police.
- There will be a pay freeze in 2013 and an only moderate pay increase in 2014.
- By the end of 2012, a federal real estate strategy will be developed to optimise the use of property and buildings. The core element will be the "federal electronic real estate data base", which captures all existing property at the federal level and acts as a sort of real estate agency. This will improve transparency with respect to benefits and costs; overcapacities can be identified and used alternatively including leases or sales of buildings.
- Smaller District Courts will be merged, and the Federal Army's medical service restructured and downsized. The plans also include the merger of the State Archives (*Staatsarchive*) and the Museum of Military History (*Heeresgeschichtliches Museum*), the integration of the Military Photography Services (*Heereslichtbildstelle*) into the Federal Press Service (*Bundespressedienst*), the merger of the demining services of the Interior Ministry and the Ministry of Defence, and the creation of an Austrian College of Administration.

In the **health care sector**, expenditures shall not rise faster than the nominal gross domestic product. The path of expenditure restraints agreed between the federal level, the states and social security funds is expected to generate savings to the amount of 3.4 bn € by 2016, out of which 1.4 bn € will be saved in the area of social insurance. Its implementation is supported by an agreement according to Article 15a of the Federal Constitutional Law, including a targeted control system for the public health care sector and joint financial responsibility across sectors.

**Table 8: Savings**

| | 2012 | 2013 | 2014 | 2015 | 2016 | Sum 2012-2016 |
|---|---|---|---|---|---|---|
| | | | | in m € | | |
| **Federal Government** | | | | | | |
| Pension and unemployment insurance system | 11 | 919 | 1,483 | 2,059 | 2,491 | 6,963 |
| Public companies/subsidies | 291 | 438 | 573 | 1,061 | 1,124 | 3,487 |
| Administration and public services law | 55 | 391 | 536 | 772 | 790 | 2,544 |
| Health care | 19 | | | | | 19 |
| Interest expenditure (due to lower net lending) | 12 | 122 | 272 | 486 | 742 | 1,634 |
| **Sum** | **388** | **1,870** | **2,864** | **4,377** | **5,147** | **14,646** |
| **State and local governments** | **85** | **-68** | **594** | **791** | **1,278** | **2,681** |
| **Social security funds** | **60** | **144** | **256** | **392** | **520** | **1,372** |
| **Sum** | **533** | **1,945** | **3,715** | **5,560** | **6,945** | **18,699** |
| *in % of GDP* | *0.2* | *0.6* | *1.1* | *1.6* | *2.0* | |

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

The **Austrian Federal Railways** will realise more than 1.4 bn € in savings by 2016. Construction projects will be re-dimensioned, reducing costs by about 900 m €, and a cutback in early retirements and the elimination of early retirement due to organisational reasons will save 525 m €.

A **reform of subsidies** will generate savings of about 0.5 bn € per year from 2015. The introduction of a transparency database shall bring light into the non-transparent jungle of subsidies and, thus, establish the basis for eliminating double and triple support. Efficiency will be further improved by strictly controlling tax privileges for research and by abolishing enterprise-related labour market subsidies. In addition, discretionary payments that can be arranged in flexible ways shall permanently be reduced by about 169 m €, adding up to a total of about 845 m € in the years up to 2016.

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

*Contribution by states and municipalities*

States and municipalities also 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. The revised version of the ÖStP with the relevant amendments of the deficit goals is already being negotiated. Measures on the state level are mainly related to the health care sector and subsidies.

*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, whereby some of the measures are focussing on high income individuals:

- The ten-year "speculation period" for sale of real estate and buildings was abolished; profits from such sales will now be subject to a tax rate of 25%. An exception is made for principle residence.
- Within the system of corporate group taxation, the possibilities to account for losses of foreign branches will be restricted. Following the new rules, losses of foreign branches may still be computed according to the Austrian rules for determining taxable profits; however, the amount to which they are deductible from the Austrian tax base is capped at the level of losses determined on the basis of the foreign rules.
- With regard to VAT, loopholes in the tax system were closed.
- Exemptions for excise duties on mineral oil for buses, rail and agricultural vehicles were abolished.
- High income individuals (more than 150,000 € p.a., affects approximately 20,000 individuals) will be charged a "solidarity fee".
- Starting from 2014, a financial transaction tax shall be implemented.
- Capital gains of individuals taxable in Austria arising from savings accounts or stock deposits in Switzerland shall lead to appropriate revenues.
- The premium on savings for housing and on private pension provisions will be cut in half.

**Table 9: Tax measures**

| | 2012 | 2013 | 2014 | 2015 | 2016 | Sum 2012-2016 |
|---|---|---|---|---|---|---|
| | | | in m € | | | |
| Tax on income from real estate and property sales | 10 | 350 | 450 | 500 | 750 | 2,060 |
| Group taxation - restriction on deduction of foreign losses | | 50 | 75 | 75 | 75 | 275 |
| VAT - closure of tax loopholes | 40 | 370 | 480 | 480 | 480 | 1,850 |
| Solidarity fee on high incomes | | 110 | 110 | 110 | 110 | 440 |
| Financial transaction tax | | | 500 | 500 | 500 | 1,500 |
| Withholding tax on capital gains in Switzerland[1)] | | 1,000 | 50 | 50 | 50 | 1,150 |
| Cut in premium on housing savings scheme and private pension provision | | 70 | 100 | 100 | 100 | 370 |
| Extension of corporate income tax duty | 30 | 40 | 50 | 50 | 50 | 220 |
| *Compensation banking package:* | | | | | | |
| Special contribution to stability levy | 128 | 128 | 128 | 128 | 128 | 640 |
| Ex-ante income tax on private pension insurance | 890 | -75 | -75 | -75 | -75 | 590 |
| **Sum** | **1,098** | **2,043** | **1,868** | **1,918** | **2,168** | **9,095** |
| *in % of GDP* | *0.4* | *0.6* | *0.6* | *0.6* | *0.6* | |
| *of which:* **Federal Government** | **1,071** | **1,404** | **1,288** | **1,321** | **1,488** | **6,572** |
| *of which:* **State and local governments** | **27** | **639** | **580** | **597** | **680** | **2,523** |
| *of which:* legally implemented as of 24 April 2012 | 1,098 | 1,043 | 1,318 | 1,368 | 1,618 | 6,445 |

1) The agreement with Switzerland has been signed and endorsed by the Government.

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

*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. Over 2012-2016, more than 6 bn € will be made available:

- Starting in 2013, the university system will receive an additional 250 m € per year, out of which 150 m € are distributed based on performance criteria via the University Structural Fund. In the area of education, funds will be increased by 300 m € per year on average.
- The long-term care fund will be financially endowed until 2016 (2015: 300 m €, 2016: 350 m €).
- The proactive measures agreed as part of the so-called "*Loipersdorf*-package" in 2010 for universities and full-day childcare (80 m € each per year) will be continued. In addition, special funds amounting to 100 m € per year will be made available until 2016 to support research and development.
- The subsidisation of thermal insulation (100 m € per year) will be continued.

The high social standards will be maintained: Transfers to families are fully excluded from expenditure cuts. The long-term care fund, whose financial endowment had been limited until 2014 so far, will be endowed until 2016. Funds for active and activating labour market policies will remain at a high level.

*Partial nationalisation of Österreichische Volksbanken AG (ÖVAG)*

On 27 February 2012, the Federal Government and the shareholders of the central institution of the *Volksbanken* sector achieved an agreement to safeguard the stability of the entire *Volksbanken* sector, which is systemically relevant for Austria's financial sector. The resolution is based on the Financial Market Stability Act (FinStaG), according to which banks can be recapitalised in order to overcome turmoil in Austria's banking sector, safeguard macroeconomic stability and protect the economy as a whole.
The agreement is built on the following cornerstones:

- The primary banks of the *Volksbanken* sector establish a joint liability scheme *(Bankenverbund)* according to §30a of the Austrian Banking Act (BWG). This new structure forms the basis for all further measures provided by the public sector.
- The former shareholders agree to a reduction of the share capital of the central institution ÖVAG and make sure that the participation capital held by the federal state is not reduced by more than 70%.
- The capital reduction will be accompanied by a parallel capital increase to the amount of 480 m €, whereof 250 m € will be provided by the federal state and the remainder by the *Volksbanken* sector. Subsequently, the federal state will hold 43% of the capital of ÖVAG, in addition, the participation capital remaining after the capital reduction (300 m €) remains with the central institution.
- As long as the federal state is either shareholder, participant or guarantor of the central institution of the *Volksbanken* sector according to FinStaG or IBSG, a restructuring agreement is in place with the shareholders, in particular the primary banks of the *Volksbanken* sector which form the *Bankenverbund* according to §30a BWG. This ensures that the investment of the federal state achieves the targets set in §1 FinStaG and also supports them in the long run.

The Federal Government's measures in the banking sector are financed by an ex-ante income tax on private pension insurance and a temporary special contribution to the stability levy. Revenues arising from these two tax measures will go to the federal level only, as the federal level bears the entire cost of measure without the contribution of other levels of government.

# 4. Sensitivity Analysis

## 4.1. Comparison with the previous programme

The general government deficit in 2011 turned out significantly lower than expected in the previous Stability Programme Update of April 2011. The improvement can be traced back to a more benign economic environment, enhanced budgetary discipline all levels of government, the usually cautious budgeting, and nonrecurring effects.

**Table 10: Comparison with April 2011 Update**

| | ESA Code | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Real GDP growth (in %) | | | | | | | |
| SP April 2011 | | 2.5 | 2.0 | 2.1 | 2.2 | | |
| SP April 2012 | | 3.1 | 0.4 | 1.4 | 2.0 | 2.2 | 2.1 |
| *Difference* [1)] | | 0.6 | -1.6 | -0.7 | -0.2 | | |
| General government net lending (in % of GDP) | EDP B.9 | | | | | | |
| SP April 2011 | | -3.9 | -3.3 | -2.9 | -2.4 | | |
| SP April 2012 | | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| *Difference* [1)] | | 1.3 | 0.3 | 0.8 | 0.9 | | |
| General government gross debt (in % of GDP) | | | | | | | |
| SP April 2011 | | 73.6 | 75.0 | 75.5 | 75.1 | | |
| SP April 2012 | | 72.2 | 74.7 | 75.3 | 74.6 | 72.8 | 70.6 |
| *Difference* [2)] | | -1.4 | -0.3 | -0.2 | -0.5 | | |

1) Limited comparability due to data revision (a positive sign denotes an improvement).

2) Limited comparability due to data revision (a positive sign denotes a deterioration).

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Significantly higher than expected growth of real GDP (3.1% compared to 2.5% as expected in April 2011) improved the budget balance by an estimated 0.3 percentage points compared to the previous update. Furthermore, state and local governments, who had been expected to adhere exactly to the budgetary target spelled out in the Austrian Stability Pact; performed better than planned with their deficit 0.4 percentage points lower. As already in previous years, the new Budget Law and the possibility to build reserves helped improve budget outcomes beyond plans at the federal level. Eventually, following a decision by Eurostat, the subsidy for KA Finanz only affects the 2012 budget, thus contributing a further 0.3 percentage points to the improvement of the budget balance.

In October 2011, the 2010 budget balance was revised to -4.4% of GDP due to a Eurostat decision concerning the accrual date of the depreciation of the Federal Government's participation capital for Hypo Alpe Adria to the amount of 625 m € (0.2% of GDP). This amount had to be assigned to the 2011 budget. In March 2012, the 2010 budget balance was revised to -4.5% of GDP.

## 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 budgetary balance and the public debt ratio are analysed. The first scenario builds on the assumption of higher growth rates of the Austrian export markets starting from 2012. As a consequence, the budget would be balanced already in 2015. Moreover, the debt-to-GDP ratio would decrease more dynamically, declining already from 2013 onwards.

The second scenario assumes lower growth rates of the Austrian export markets as of 2012. The general government deficit would still fall below the reference value of 3% of GDP by 2013, albeit in a less pronounced way than in the baseline scenario; a balanced budget would not be reached within the programme period. The debt-to-GDP ratio would increase up to 2014 and only decline from 2015 onwards.

**Table 11: Economic growth and public finances in three scenarios**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| **Baseline scenario** | | | | | | |
| GDP, nominal, in bn € | 301.3 | 307.9 | 316.7 | 328.1 | 340.5 | 353.5 |
| GDP, real, rate of change in % | 3.1 | 0.4 | 1.4 | 2.0 | 2.2 | 2.1 |
| Net lending/borrowing in % of GDP | -2.6 | -3.0 | -2.1 | -1.5 | -0.6 | 0.0 |
| Gross debt in % of GDP | 72.2 | 74.7 | 75.3 | 74.6 | 72.8 | 70.6 |
| **Scenario 1** | | | | | | |
| GDP, nominal, in bn € | 301.3 | 309.4 | 320.9 | 335.4 | 351.5 | 368.7 |
| GDP, real, rate of change in % | 3.1 | 0.9 | 1.9 | 2.5 | 2.7 | 2.6 |
| Net lending/borrowing in % of GDP | -2.6 | -2.9 | -1.8 | -1.1 | 0.0 | 0.7 |
| Gross debt in % of GDP | 72.2 | 74.3 | 74.1 | 72.5 | 69.6 | 66.3 |
| **Scenario 2** | | | | | | |
| GDP, nominal, in bn € | 301.3 | 306.3 | 312.4 | 320.8 | 329.6 | 338.3 |
| GDP, real, rate of change in % | 3.1 | -0.1 | 0.9 | 1.5 | 1.7 | 1.6 |
| Net lending/borrowing in % of GDP | -2.6 | -3.1 | -2.4 | -2.0 | -1.2 | -0.8 |
| Gross debt in % of GDP | 72.2 | 75.1 | 76.5 | 76.7 | 75.9 | 75.1 |

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

# 5. Sustainability of Public Finances

Public finances have come under significant pressure in recent years: The financial and economic crisis has increased budget deficits and public debt ratios. The public sector has to cope not only with the liabilities incurred by previous borrowing and the rescue packages for the banking sector, but also with the budgetary costs of population ageing.

According to the 2012 long-term projections by the European Commission and the EU's Economic Policy Committee, public expenditure on pensions, health and long-term care in Austria will increase by 4.8% of GDP until 2060 (and by 4.5% of GDP if expenditures on education and unemployment assistance are included). This is broadly in line with the average development in the Euro area. According to these projections, pension expenditures (including civil servant and minimum pensions) will rise from currently 14.1% of GDP to 16.7% in 2030, followed by a moderate decline to 16.1% by 2060. The major part of the upward revision of the long-term increase as compared to the 2009 projections can be explained by the sharp drop of GDP in 2009. Health and long-term care expenditures are projected to go up as well: the former from currently 7.4% of GDP to 9.0% of GDP; the latter from the current level of 1.6% of GDP to 2.8% of GDP in 2060.

The 2012-2016 "stability package" includes comprehensive measures, which help curb the projected increase in age-related public expenditures. However, these measures have not yet been considered in the latest EU projections. The pension reforms do not only aim at short- to medium-term budgetary impacts, but also at fostering sustainable incentive effects in order to increase the effective retirement age und participation rates of older workers. The following structural measures shall encourage longer working careers:

- The number of contributory years needed to be entitled to corridor pension or early old-age pension for long-term contributors will be gradually raised from 37.5 to 40 years by 2017.
- Deductions in case of early retirement will be increased from currently 4.2% to 5.1%.

- The system of parallel accounting between old and new law in order to accrue the replacement rate will be fully abolished. As a result, old law entitlements will be transferred into the new pension law in a budgetary neutral way. This leverages transparency about actual individual pension entitlements, thus encouraging longer working careers.
- Access to disability pension will be further restricted by raising the eligibility for activity protection *(Tätigkeitsschutz)* from 57 to 60 years.
- Early retirement shall be increasingly replaced by rehabilitation, the "Fit2work" and "health street" programmes will be further strengthened.
- Eligibility for part-time pension benefits will be restricted to the five years preceding the statutory retirement age. As of 2013, the part-time pension bloc variant will be conditional upon recruiting a new employee who replaces the retiree.

The structural reforms are complemented by revenue-increasing and expenditure-saving measures with an immediate budgetary impact:

- In 2013 and 2014, pensions will be increased by less than consumer price inflation: In 2013, pension benefits will be adjusted with a discount of 1 percentage point against CPI, in 2014 with a discount of 0.8 percentage points.
- On the revenue side, the cap on earnings relevant for social insurance contributions will be raised beyond the usual annual adjustment, the increase of the contribution rates of farmers and self-employed will be antedated and compulsory unemployment insurance up to the age of 63 reintroduced.

According to the projections in table 12, the pension spending deficit[2] would increase from currently 5.8% of GDP to 6.0% of GDP in 2016. Due to the consolidation measures, however, the deficit will be reduced to 5.3% of GDP in 2016. Apart from the area of pensions, reforms will also be implemented in the health care sector, resulting in cost reductions by 0.2% of GDP per year on average (increasing from 0.1% of GDP in 2012 to 0.3% of GDP in 2016).

Guarantees provided by the public sector amounted to 104.3 bn € in 2011 or 34.6% of GDP. Out of the total, 16.6 bn € or 5.5% of GDP have been provided for the stabilisation of the financial sector.

[2] The pension spending deficit is the difference between revenues and expenditures of private and public sector pensions, whereas only employee contributions are treated as revenues in the case of public sector pensions.

**Table 12: Long-term projections by the European Commission and the Economic Policy Committee**

| | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|---|---|---|---|---|---|---|
| | | | | | | in % of GDP |
| Total age-related expenditure | 28.8 | 29.9 | 32.3 | 32.8 | 33.4 | 33.2 |
| Pension expenditure (total) [1] | 14.1 | 15.1 | 16.7 | 16.5 | 16.4 | 16.1 |
| Health care (excl. long-term care) [2] | 7.4 | 8.0 | 8.4 | 8.8 | 9.1 | 9.0 |
| Long-term care [2] | 1.6 | 1.8 | 2.1 | 2.4 | 2.8 | 2.9 |
| Education [2] | 4.9 | 4.3 | 4.4 | 4.4 | 4.4 | 4.5 |
| Unemployment [2] | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Contributions to social security pensions [3] | 8.4 | 8.5 | 8.5 | 8.6 | 8.6 | 8.6 |
| **Assumptions** | | | | | | |
| Labour productivity (change in %) [4] | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Real GDP (change in %) [2] | 2.3 | 1.5 | 1.3 | 1.4 | 1.3 | 1.3 |
| Participation rate males (aged 15-64) [2] | 77.1 | 76.6 | 75.7 | 76.6 | 76.3 | 76.2 |
| Participation rate females (aged 15-64) [2] | 66.4 | 68.9 | 70.6 | 72.8 | 72.5 | 72.4 |
| Total participation rate (age 15-64) [2] | 71.7 | 72.8 | 73.1 | 74.7 | 74.4 | 74.4 |
| Unemployment rate [2] | 4.4 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Persons aged 65+ in % of total population [2] | 17.6 | 19.9 | 24.4 | 27.7 | 28.4 | 29.2 |

1) Data based on own projections, gross amounts incl. minimum pensions, excl. administrative costs, rehabilitation and health care expenditure

2) Data based on STAT and own projections

3) Data based on own projections, excl. "contributions" from federal funds (approximately 0.5% of GDP per year)

4) Data based on WIFO and own projections

Positions may not sum up due to rounding errors.

Sources: BMASK, BMF, STAT, WIFO

**Table 13: Public guarantees**

| | | 2011 |
|---|---|---|
| | in bn € | in % of GDP |
| Public guarantees[1)] | 104.3 | 34.6 |
| *of which:* linked to the financial sector | 16.6 | 5.5 |

1) Federal level

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

# 6. Quality of Public Finances

## 6.1. Administrative reforms

A modern public administration has to develop constantly in order to meet societal, political and economic challenges arising from an ageing population, deepening global economic and social integration or climate change. Measures are, therefore, continuously taken to further improve public services and offer them at competitive prices. In line with the number of targets and the Austrian federalist structure, reform efforts are made at different levels.

The working group "Consolidation" develops proposals for reform of public administration on the basis of work undertaken by the Court of Auditors and the Government Debt Committee. Eleven work packages including pensions, education, subsidies and efficiency in public administration are being discussed successively. A number of measures in different areas have already been successfully implemented:

- More than half of the 45 projects in the area of "Public Administration Efficiency" have been successfully completed.
- Reform measures implemented by state governments in the area of "Pensions" realised savings of 476 m €.
- The implementation of the transparency database improves the basis for decision-making and controlling of public services in the area of "Subsidies" and provides for faster and more efficient processing of applications at lower costs.

Measures have also been concluded independently from the work of the working group "Consolidation", aimed at reducing redundancies and unnecessary administrative burdens:

- In the area of health care administration, 303 benefit disbursing units were consolidated to 8 agencies.
- Thirty-one police corps were merged to 9 institutions.
- Instead of more than 100 Administrative Courts, there will only be 11 in the future.
- Out of 194 units for Immigration Law and migration, one federal agency will be created.

State governments presented to the Federal Government a catalogue of more than 330 measures in the federal law aiming at simplifying administration procedures and reducing administrative burdens. The Ministry of Finance coordinated a broad discussion with states and the line ministries concerned in order to identify measures with a chance of realisation and design a swift implementation plan. Some measures have already been considered in 2011. More than half of the proposals have been carried out or are in the process of implementation by the Federal Government. Other suggestions still need further clarification of the remaining open issues.

In the course of the design of the "stability package" 2012-2016, proposals of the working group "Consolidation" were taken up and measures with a combined saving volume of 2.5 bn € until 2016 were adopted:

- The merging and closing-down of different administrative bodies further improves administrative efficiency. For instance, the training facilities of the Federal Government will be merged. Small District Courts will be transformed into larger entities, and the Federal Army's medical service restructured and downsized. Plans also include the merger of the State Archives (*Staatsarchive*) and the Museum of Military History (*Heeresgeschichtliches Museum*), the integration of the Military Photography Services (*Heereslichtbildstelle*) into the Federal Press Service (*Bundespressedienst*), the merger of the demining services of the Interior Ministry and the Ministry of Defence as well as the consolidation of the transport-labour inspectorate and the labour inspectorate.
- With regard to subsidies, clear competences will be assigned to the federal, state and local levels.
- A uniform federal real estate strategy will help optimise the utilisation of all federal property and buildings.
- A mobility package will facilitate the transfer of staff to where it is most needed.
- The target of reducing employees in the federal administration is being realised by a hiring freeze.
- Measures are also intended with regard to a more efficient management of working hours and a faster harmonization of the public servants' pension system with the general pension system.

## 6.2. 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 administrative burdens 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 are expected to save 1 bn €. In 2010, the first intermediate target was met with a reduction of administrative costs by 564 m €.

The flagship measures are the E-invoice and the Austrian Business Service Portal. 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 Austrian Business Service Portal (USP) went online on 1 January 2010 as an information portal at http://www.usp.gv.at. By 2014, the portal will gradually develop into a one-stop-shop with information and transaction services. In the second quarter of 2012, the transaction portal with single-sign-on will be launched, providing the most important services of the Federal Government, e.g., *FinanzOnline,* ELDA (electronic data exchange with the social insurance funds) and EDM (electronic data management of the Ministry of Life). In the next phase from 2012 to 2014, the focus will be on optimising registration processes and avoiding multiple registrations. 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 at the web page http://www.verwaltungskostensenken.at.

## 6.3. Public expenditure and revenue

In 2010, public expenditure as a percentage of GDP was 2 percentage points higher in Austria than in the EU. Expenditures on “social protection”, “economic affairs” and “health” were above average. The area of “social protection”, accounting for 21.9% of GDP, constitutes the most important expenditure category and continues to show an upward trend, inter alia because of demographic developments. Other important expenditure categories are “health” with a share of 8.2% of GDP, and “education” and “economic affairs” with shares of 5.8% of GDP each. In the area of “social protection”, the main cost driver is the sub-group “age”; in “health”, it is “hospital care”. In both areas, measures aimed at containing expenditure increases were endorsed as part of the “stability package” 2012-2016 (see Chapter 3.4.).

In the course of the implementation of the consolidation package, public expenditure as a percentage of GDP was reduced from 52.6% in 2010 to 50.5% in 2011. By 2016, public expenditure as a percentage of GDP shall drop to 48.7%. 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 and will be implemented forcefully from 2013 onwards.

Public revenues as a percentage of GDP were 4 percentage points higher than the EU average in 2010. Strong growth of nominal GDP reduced the revenue ratio to 47.9% in 2011. In the course of the implementation of the “stability package”, measures were taken to close tax loopholes, broaden the tax base and eliminate exceptions in order to render the tax system more efficient, simpler and fairer. In the period 2012-2016, public revenues as a percentage of GDP will remain relatively constant at 48.7%.

**Table 14: General government expenditure by function**

| | COFOG Code | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| | | | | | in % of GDP |
| 1. General public services | 1 | 6.8 | 6.5 | 6.9 | 6.8 |
| 2. Defence | 2 | 0.8 | 1.0 | 0.8 | 0.7 |
| 3. Public order and safety | 3 | 1.4 | 1.5 | 1.6 | 1.5 |
| 4. Economic affairs | 4 | 4.9 | 5.3 | 5.4 | 5.7 |
| 5. Environmental protection | 5 | 0.5 | 0.4 | 0.5 | 0.5 |
| 6. Housing and community amenities | 6 | 0.6 | 0.6 | 0.7 | 0.7 |
| 7. Health | 7 | 7.5 | 7.8 | 8.3 | 8.1 |
| 8. Recreation, culture and religion | 8 | 1.1 | 1.0 | 1.1 | 1.1 |
| 9. Education | 9 | 5.2 | 5.4 | 5.8 | 5.7 |
| 10. Social protection | 10 | 19.8 | 20.0 | 21.8 | 21.7 |
| 11. Total expenditure | TE | 48.6 | 49.4 | 52.9 | 52.6 |

Positions may not sum up due to rounding errors.

Source: STAT

**Table 15: Expenditure to be excluded from the expenditure benchmark**

| | 2011 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | in bn € | | | | | | in % of GDP |
| Expenditure on EU programmes fully matched by EU funds revenue[1)] | 1.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Expenditure fully matched by mandated revenue increases[2)] | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-discretionary changes in unemployment benefit expenditure | -0.3 | -0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |

1) The bulk of these expenditures (1.3 bn € per year) is on agriculture and fisheries and not captured in national accounts.

2) ÖVAG

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

**Table 16: Breakdown of revenue**

| | 2011 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | in bn € | | | | | | in % of GDP |
| Total revenue at unchanged policies | 144.3 | 47.9 | 48.7 | 48.9 | 48.7 | 48.7 | 48.7 |
| Discretionary revenue measures[1)] | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |

1) Special contribution to stability levy and ex-ante income tax on private pension insurance

Positions may not sum up due to rounding errors.

Sources: BMF, WIFO

# 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). The agreement currently in place covers the period 2011-2014 and introduced a number of new elements: more rigorous sanctions in the case of deviations from the targets, improvements in budgetary co-ordination and the medium-term budgetary strategy, upper limits for guarantees incurred by the Federal Government, states and municipalities, more transparency and a *Rendez-vous*-clause for amendments which might become necessary due to changes in EU law.

The ÖStP also serves as the anchor for implementing the debt brake at the general government level. In this context, the following has been agreed by the Federal Government, states and municipalities on 29 November 2012 in Salzburg:

- States and municipalities generally adopt the rules of the Federal Government debt brake.
- The structural deficit of the general government shall not exceed the value of 0.45% of GDP.
- States and municipalities are considered to comply with the balanced budget principle if the combined share of states and municipalities in the structural deficit does not exceed 0.1% of GDP.
- Control accounts are kept for each state and for the municipalities of each state; the threshold for states and municipalities is a total of 0.35% of GDP.
- The operationalisation of the new fiscal rules will be specified in the ÖStP.

Due to the reforms of EU budgetary surveillance as well as the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) and the debt brake, a reform of the ÖStP was necessary. In concordance with the rules of the debt brake and the reformed EU governance, the new ÖStP defines the upper limits for the deficits of the Federal Government, states and municipalities in structural terms. Moreover, the public debt ratio and expenditure developments are given more attention. The government has committed itself to specify the details of the new ÖStP in the first half of 2012 and complete the parliamentary processes at the local and federal levels in the second half of 2012.

## 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 funds to non-earmarked reserve funds effectively avoided the so-called "December fever".

The second phase of the Budget Law Reform, implemented from 2013 onwards, will provide the Federal Government with a modern budget law in line with international best practice. Budgetary management will then be oriented along the achievement of targets and impacts. The budget will become an integrated control document, which covers resources as well as the outcomes and measures financed by the budget.

The outcome orientation is closely linked to the budgetary framework. As of 1 January 2013, resources and outcomes to be attained for citizens will be closely linked to each other at all levels of the federal budget. Each ministry has to formulate output targets as part of the budget and link them with the measures to achieve them. 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 exclusively focused on resources but also on the services to be performed. Thus, the consistency of politics is strengthened, as is more "value for money" for taxpayers.

A cornerstone in the implementation of the reform is the new system of impact assessment, which also comes into effect in 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 evaluation is supported by an IT-tool and a test run is expected to start within the next weeks. With the implementation of impact assessment for regulations and other projects, the legislative impact assessment will be put on an entirely new footing.

Moreover, the second step in the reform of the budgetary law includes the following elements:

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

## 7.3. Medium-term budgetary planning

The Federal Constitutional Law and the Federal Budget Law provide for legally binding medium-term budget planning of the federal level via the Federal Financial Framework Law (BFRG) and the Strategy Report. The former sets legally binding expenditure ceilings for the following four years for the five most important spending categories, reflecting the Federal Government's main functions. The Strategy Report contains political declarations of intent as well as annotations, e.g., regarding revenues. The draft BFRG has to be presented by the Federal Government by 30 April 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 among the core elements 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, the Social Partners and the Partners in the Financial Equalisation negotiations. The Finance Minister's report on the Austrian Stability Programme Update for the period 2010 to 2014 was presented to the Austrian Parliament on 29 April 2011 and discussed in a public meeting by the Parliamentary Budget Committee on 11 May 2011.

# Quellen/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/

Financial relations to states and municipalities

https://www.bmf.gv.at/Budget/BesondereBudgetthemen/Finanzbeziehungenzu_658/_start.htm

Austrian Stability Programme

https://www.bmf.gv.at/WipoEUInt/Wirtschaftspolitiki_506/Fiskalpolitiksterre_529/_start.htm

Strategy Report on the Federal Financial Framework Law

https://www.bmf.gv.at/Budget/Budgetsimberblick/Sonstiges/Bundesfinanzrahmeni_11557/

Business Service Portal

http://www.usp.gv.at

Reducing administrative burdens for citizens and businesses

http://www.verwaltungskostensenken.at

European Commission, Directorate General for Economic and Financial Affairs

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

Code of Conduct

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

EU Economic Governance

http://ec.europa.eu/economy_finance/economic_governance/index_en.htm

Stability and Growth Pact

http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm

Excessive Deficit Procedure

http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm

Eurostat

http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

Austrian Federal Financing Agency (OeBFA)

http://www.oebfa.co.at/

Austrian National Bank (OeNB)

http://www.oenb.at/

Austrian Institute of Economic Research (WIFO)

http://www.wifo.at/

Austrian Parliament

http://www.parlament.gv.at/PD/HP/show.psp

Finance Minister's report on the Austrian Stability Programme for the period 2010 to 2014

http://www.parlament.gv.at/PAKT/VHG/XXIV/III/III_00233/index.shtml#tab-Uebersicht

Austrian Court of Auditors (RH)

http://www.rechnungshof.gv.at/

Government Debt Committee (STA)

http://www.staatsschuldenausschuss.at/

Statistics Austria (STAT)

http://www.statistik.at/

Economic Policy Committee (EPC)

http://europa.eu/epc/index_en.htm

Economic and Financial Committee (EFC)

http://europa.eu/efc/index_en.htm