Eurogroup

Brussels, 18 November 2016
(OR. en)

EG 21/16
ADD 1

EUROGROUP 21
ECOFIN 1061
UEM 368

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	16 November 2016
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2016) 500 final
Subject:	COMMISSION STAFF WORKING DOCUMENT Analysis of the draft budgetary plans of Austria Accompanying the document COMMISSION OPINION on the draft budgetary plan of Austria
Enclosed:	SWD(2016) 500 final

Delegations will find attached document SWD(2016) 500 final.

EUROPEAN
COMMISSION

Brussels, 16.11.2016
SWD(2016) 500 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plans of Austria

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of Austria

{C(2016) 8000 final}

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COMMISSION OPINION

on the draft budgetary plan of Austria

1. INTRODUCTION

Austria has submitted its Draft Budgetary Plan (DBP) for 2017 on 12 October 2016 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. Austria is subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium term budgetary objective (MTO).

As the debt ratio was 80.9% of GDP in 2013 (the year in which Austria corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Austria is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In this period it should ensure sufficient progress towards compliance.

Section 2 of this document presents the macroeconomic outlook underlying the DBP and provides an assessment based on the Commission Forecast. Section 3 presents the recent and planned fiscal developments, according to the DBP, including an analysis of risks to their achievement based on the Commission 2016 autumn forecast. In particular, it also includes an assessment of the measures underpinning the DBP. Section 4 assesses the recent and planned fiscal developments in 2016-2017 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council in the spring of 2016, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic scenario underlying the DBP projects GDP growth to accelerate from 1.0% in 2015 to 1.7% in 2016, and then to stabilise at 1.5% in 2017. This represents an assessment of GDP growth slightly more positive in 2016 and slightly more conservative in 2017 compared to the 2016 Stability Programme, which expected an increase of 1.6% in both years. The DBP projection is broadly in line with the Commission 2016 autumn forecast, which expects GDP growth at 1.5% in 2016 and 1.6% in 2017. Compared to the DBP, in 2017 the Commission expects a weaker growth in imports of goods and services. Both the

DBP and the Commission forecast expect GDP growth in 2017 to be mainly driven by domestic demand. Similarly, both the DBP and the Commission forecast project inflation in Austria to remain above the euro area average, as prices in the services sector are growing steadily.

Table 1. Comparison of macroeconomic developments and forecasts

	2015	2016			2017		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.0	1.6	1.7	1.5	1.6	1.5	1.6
Private consumption (% change)	0.0	1.8	1.5	1.3	1.4	1.2	1.2
Gross fixed capital formation (% change)	0.7	1.7	3.4	3.1	1.8	2.3	2.3
Exports of goods and services (% change)	3.6	2.7	2.8	2.7	4.0	2.8	2.9
Imports of goods and services (% change)	3.4	2.9	3.8	3.3	3.8	3.0	2.7
Contributions to real GDP growth:							
- Final domestic demand	0.6	1.5	1.9	1.6	1.3	1.3	1.3
- Change in inventories	0.0	0.1	0.2	0.0	0.0	0.2	0.0
- Net exports	0.2	0.0	-0.4	-0.1	0.3	0.0	0.2
Output gap[1]	-0.9	-0.8	-0.5	-0.7	-0.4	-0.2	-0.4
Employment (% change)	0.6	1.2	1.3	0.8	1.3	1.1	0.8
Unemployment rate (%)	5.7	5.9	6.0	5.9	6.1	6.1	6.1
Labour productivity (% change)	0.3	0.4	0.4	0.7	0.3	0.4	0.8
HICP inflation (%)	0.8	1.2	1.0	1.0	1.8	1.7	1.8
GDP deflator (% change)	1.9	2.0	1.9	1.9	1.6	1.5	1.7
Comp. of employees (per head, % change)	1.9	1.4	1.5	1.4	1.5	1.6	1.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.0	3.1	2.8	2.7	3.2	2.6	2.7

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

The macroeconomic outlook of the DBP is based on plausible macroeconomic assumptions. Both the DBP and the Commission forecast expect only a negligible contribution of net exports to economic growth which is similar to the projections of the Stability Programme. Although both the DBP and the Commission forecast expect an increase in employment, they also both expect an increase in the unemployment rate. The main reason for this is that economic growth is not sufficient to absorb the increasing labour supply resulting from continuing immigration.

Box 1: The macro economic forecast underpinning the budget in Austria

The DBP for 2017 submitted by Austria states that the DBP is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) on 29 September 2016.

It is a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast that WIFO produces four times a year following an established, pre-announced calendar. The main features of WIFO's forecasts are freely available to the public.

WIFO was founded in 1927 and has a reputation as one of Austria's prominent policy oriented economic research institutes. Its analytical infrastructure and staff allow it to carry out research in a broad range of economic issues. WIFO is recognised for high-quality economic research and realistic and unbiased forecasts. It is also tasked with compiling the quarterly national accounts and the business/investment surveys.

WIFO is a non-profit association under Austrian law. The 14 member Governing Board (Vorstand) and the 33 member Supervisory Council (Kuratorium) comprise representatives of various non-governmental organisations, financial institutions, including the Austrian National Bank, businesses, business associations, academia and the central and regional governments. Representatives of the central as well as the regional governments are present both in the Governing Board and the Supervisory Council.

The Scientific Advisory Board comprising 16 renowned scholars ensures the strong integration of the institute in the international scientific community and promotes knowledge transfer of research content and methods. The board also acts as an external quality control mechanism for WIFO's activities.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The DBP projects the general government headline balance at -1.4% of GDP in 2016. This forecast is the combination of a projected deficit for the federal government (-1.6% of GDP) with small surpluses expected from federal states, municipalities and social security funds. The expected general government headline deficit has been narrowed compared to the Stability Programme, which projected -1.6% of GDP in 2016. The revision is led by lower projected expenditure, as the better than expected developments in the labour market required lower spending for social and unemployment benefits. The Commission 2016 autumn forecast expects the headline balance at -1.5% of GDP in 2016. The difference from the DBP is due to more conservative assumptions on the yields from measures against tax fraud aimed at financing the 2016 tax reform.

In 2017, the DBP expects the general government headline balance to improve to -1.2% of GDP, which represents an upward revision compared to the estimates of the Stability Programme (-1.5% of GDP). The DBP provides no explanation for this revision. According to the DBP, the improvement in 2017 compared to 2016 will be driven by higher revenues from taxes on income and wealth and decreasing interest expenditure, whereas the Stability Programme expected an adjustment in 2017 compared to 2016 mainly from decreasing compensation of employees and social payments.

The Commission 2016 autumn forecast projects the general government headline balance at -1.3% of GDP in 2017. The difference is mainly due to the base-effect from different expected outcomes in 2016.

The main risk to the DBP budgetary targets stems from the effectiveness of measures against tax fraud, which are expected to support the recovery of the revenue-to-GDP ratio after the income tax relief implemented in 2016. In addition, the possibility of further contingent costs for bank supporting measures cannot be excluded, although the probability that such costs may exceed the provisions budgeted by the DBP is low. It should also be noted that in recent years budget outcomes tended to outperform the government's projections.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2015	2016			2017			Change: 2015-2017
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**50.6**	**49.4**	**49.3**	**49.2**	**49.2**	**49.3**	**49.2**	**-1.3**
of which:								
- Taxes on production and imports	14.5	14.7	14.6	14.4	14.4	14.4	14.3	-0.1
- Current taxes on income, wealth, etc.	14.4	13.2	13.1	13.2	13.2	13.3	13.4	-1.1
- Capital taxes	0.0	0.0	0.2	0.1	0.0	0.2	0.1	0.1
- Social contributions	15.4	15.5	15.4	15.4	15.5	15.4	15.4	0.0
- Other (residual)	6.3	6.0	6.0	6.1	6.1	6.0	6.1	-0.3
Expenditure	**51.6**	**51.0**	**50.7**	**50.7**	**50.6**	**50.5**	**50.5**	**-1.1**
of which:								
- Primary expenditure	49.2	48.8	48.5	48.5	48.6	48.5	48.4	-0.7
of which:								
Compensation of employees	10.8	10.6	10.7	10.7	10.5	10.7	10.6	-0.1
Intermediate consumption	6.4	6.2	6.3	6.3	6.2	6.3	6.3	-0.1
Social payments	23.3	23.8	23.3	23.3	23.7	23.3	23.3	0.0
Subsidies	1.4	1.4	1.4	1.4	1.4	1.4	1.4	0.0
Gross fixed capital formation	2.9	2.9	2.9	2.9	2.9	2.8	2.8	-0.1
Other (residual)	4.5	3.9	3.9	4.0	3.9	4.0	4.0	-0.5
- Interest expenditure	2.4	2.2	2.2	2.2	2.1	2.0	2.2	-0.4
General government balance (GGB)	**-1.0**	**-1.6**	**-1.4**	**-1.5**	**-1.5**	**-1.2**	**-1.3**	**-0.2**
Primary balance	**1.3**	**0.6**	**0.8**	**0.7**	**0.6**	**0.8**	**0.8**	**-0.5**
One-off and other temporary measures	-0.5	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	0.3
GGB excl. one-offs	**-0.5**	**-1.4**	**-1.2**	**-1.4**	**-1.3**	**-1.0**	**-1.2**	**-0.5**
Output gap[1]	-0.9	-0.8	-0.5	-0.7	-0.4	-0.2	-0.4	0.7
Cyclically-adjusted balance[1]	-0.5	-1.1	-1.1	-1.1	-1.2	-1.1	-1.1	-0.6
Structural balance (SB)[2]	**0.0**	**-0.9**	**-0.9**	**-1.0**	**-1.0**	**-0.9**	**-0.9**	**-0.9**
Structural primary balance[2]	2.4	1.3	1.2	1.2	1.0	1.1	1.3	-1.3

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/programme as recalculated by Commission on the basis of the DBP/programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in Austria currently standing at 0.2%[1]. As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the DBP, interest expenditure in Austria is expected to fall from 2.4% of GDP in 2015 to 2.2% in 2016 and is projected to decrease further next year, to 2% of GDP, well below the

[1] 10-year bond yields as of 25 October 2016. Source: Bloomberg.

2.7% recorded in 2012 at the peak of the euro area sovereign debt crisis. These projections assume a declining implicit interest rate on debt. The Commission forecast takes a more prudent view, assuming a broadly stable implicit interest rate over the forecast horizon, which results in higher interest expenditure than in the DBP.

It is difficult to assess whether the DBP budgetary targets comply with the national fiscal rules enshrined in the Austrian Stability Pact that entered into force on 1 January 2012. The DBP does not provide any indication in this sense. Furthermore, many of the rules set for the government subsectors are overly complex in light of the data available and the current administrative practices. This conclusion has been reiterated by the national Fiscal Advisory Council, which on 29 June 2016 issued several proposals to simplify the national fiscal rules. If the deficit targets mentioned in the pact are still valid, the general government headline deficit is expected to breach the target of -0.2% of GDP set by the Austrian Stability Pact for 2016. In particular, the deviation is caused by the central government budget (target set at -0.19% of GDP), while federal states and municipalities are expected to comply with their targets. In addition, the DBP budgetary targets do not comply with the national targets in terms of structural effort, which would foresee a structural balance for the general government of -0.45% of GDP from 2017.

The DBP expects the (recalculated) structural balance[2] to deteriorate from a balanced position in 2015 to -0.9% of GDP in 2016, confirming the expectations of the Stability Programme. The strong deterioration is mainly due to the budgetary impact of the 2016 tax reform. In 2017, the DBP expects the structural balance to remain stable, as the change in the headline deficit corresponds to the improving economic cycle. The Commission 2016 autumn forecast expects broadly the same structural balance for 2016 and 2017, as the different assumptions on the output gap offset the difference in the projected headline deficit.

Against the background of falling interest expenditure, the projected deterioration in the structural balance in 2016-17 (-0.9 and 0.1 percentage points of GDP, respectively) is accompanied by a more pronounced deterioration in the structural primary balance (-1.2 and -0.1 percentage points of GDP, respectively).

The Austrian authorities indicated in the DBP for 2016 that the budgetary impact of the exceptional inflow of refugees is significant and should be considered as an unusual event and exceptional circumstances, as defined in Article 5.1 and Article 6.3 of Regulation (EC) No 1466/97. More specifically, this expenditure was estimated at 0.31% of GDP in 2016. In relation to this, Austria requested a temporary deviation from the MTO of 0.16% of GDP in incremental terms in 2016.

In the 2016 Stability Programme, the government has significantly revised those projections, estimating them at 0.57% of GDP, which corresponded to a requested temporary deviation from the MTO of 0.34% of GDP in incremental terms in 2016. On the basis of a preliminary assessment on eligibility, the Commission did not consider the additional resources for national defence as eligible, as it was not clear to what extent they were connected with measures to limit the inflow of arrivals. This resulted in an estimated additional eligible expenditure in 2016 compared to 2015 of 0.26% of GDP.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

In the present DBP, the government has broadly confirmed the projections of the 2016 Stability Programme both in levels and in incremental terms (0.58% of GDP and 0.34% of GDP respectively), but has changed the composition of the expected costs. While the additional resources for national defence have been excluded from the request and the "transport" costs have been revised downwards significantly, the Austrian authorities reported the expected expenditure for the basic minimum income scheme (*"Mindestsicherung"*) for legitimate asylum seekers.

The Austrian authorities indicated in the DBP for 2017 that also the budgetary impact of additional security costs related to the terrorist threat is significant and should be considered as an unusual event and exceptional circumstances, as defined in Article 5.1 and Article 6.3 of Regulation (EC) No 1466/97. More specifically, this expenditure is estimated at 0.06% of GDP in 2016 and 0.05% of GDP in 2017. In relation to this, Austria requested a temporary deviation from the MTO in 2016 of 0.06% of GDP, corresponding to the incremental impact of these measures in 2016.

A final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the authorities.

3.2. Debt developments

The DBP expects the debt-to-GDP ratio to decline by 2.3 percentage points in 2016, to 83.2%. This represents a downward revision compared to the Stability Programme, which projected the debt-to-GDP ratio at 84.3%. The expected strong decline is mainly due to the decreasing interest expenditure and the expected nominal GDP growth. As regards the stock-flow adjustment, in the years following the financial crisis, impaired assets from nationalised banks have been recorded as part of the government debt, causing substantial positive stock-flow adjustments over the period 2009-2015. From 2016 onwards, impaired assets will be progressively divested resulting in significant stock-flow adjustments in the other direction.

The Commission forecast expects the debt-to-GDP ratio to be slightly higher in 2016, at 83.5%. The difference is due to more conservative assumptions on GDP growth.

The DBP expects the government debt to decrease also in 2017 by 2.3 percentage points of GDP to 80.9% of GDP, on the back of a larger negative stock-flow adjustment and a further decrease in interest expenditure. This forecast is more positive compared to the Stability Programme, which projected the government debt at 82.6% of GDP. The Commission forecast projects similar developments in 2017, resulting in a slightly higher debt-to-GDP ratio compared to the DBP.

Table 3. Debt developments

(% of GDP)	2015	2016			2017		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**85.5**	**84.3**	**83.2**	**83.5**	**82.6**	**80.9**	**81.1**
Change in the ratio	1.1	-1.3	-2.3	-2.0	-1.6	-2.3	-2.4
Contributions[2] :							
1. Primary balance	**-1.3**	**-0.6**	**-0.8**	**-0.7**	**-0.6**	**-0.8**	**-0.8**
2. "Snow-ball" effect	**0.0**	**-0.8**	**-0.8**	**-0.6**	**-0.5**	**-0.5**	**-0.5**
Of which:							
Interest expenditure	2.4	2.2	2.2	2.2	2.1	2.0	2.2
Growth effect	-0.8	-1.3	-1.4	-1.2	-1.3	-1.2	-1.3
Inflation effect	-1.5	-1.7	-1.5	-1.6	-1.3	-1.2	-1.4
3. Stock-flow adjustment	**2.4**	**0.1**	**-0.7**	**-0.7**	**-0.5**	**-1.0**	**-1.0**
Of which:							
Cash/accruals difference			0.00			0.00	
Net accumulation of financial			-0.70			-1.00	
of which privatisation proceeds			0.00			0.00	
Valuation effect & residual			-0.70			-1.00	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the draft budgetary plan

The usual table quantifying in detail the budgetary effect expected by the discretionary measures underling the programme is not included in the DBP, which hampers its readability. Nevertheless, the DBP reports several measures aimed at supporting growth and employment. The expected budgetary effect of those measures has been reported bilaterally by the Austrian authorities. These measures are considered more in detail in box 4 and include an increase in resources for active labour market policies, a reduction in non-wage labour costs and measures to support start-ups. The measures affect both revenues and expenditure and in all cases are expected to be deficit financed, though the overall impact on deficit is limited. The estimates of the deficit impact of the measures seem plausible.

The DBP assumes one-off expenditures amounting to 0.1% of GDP in 2016 and 0.2% of GDP in 2017. These one-off expenditures represent preventive provisions for costs related to bank support measures[3]. These provisions appear justified in light of the large amount of costs for bank supporting measures incurred in recent years. The provisions also appear adequate to cover the additional contingent costs that may arise from the ongoing settlements of the financial defeasance structures included in government accounts.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP)		
	2016	2017	2018
Taxes on production and imports	0.0	-0.14	-0.10
Current taxes on income, wealth, etc.			
Capital taxes			
Social contributions	-0.03	0.0	0.0
Property income			
Other (residual)			
Total	-0.03	-0.14	-0.10

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.
Source: Draft Budgetary Plan 2017

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP)		
	2016	2017	2018
Compensation of employees			
Intermediate consumption			
Social payments	0.01	0.01	0.0
Subsidies	0.01	0.01	0.0
Gross fixed capital formation			
Capital transfers			
Other (residual)			
Total	0.02	0.01	0.0

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.
Source: Draft Budgetary Plan 2017

[3] The provisions for costs related to bank support measures have been treated as a one-off measures in the Commission 2016 autumn forecast. The treatment of these measures may change if it proves to be unwarranted.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Austria is subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. Box 2 reports the latest country-specific recommendations in the area of public finances. Austria is also subject to the transitional debt rule until 2016 and to the debt rule from 2017.

Box 2: Council recommendations addressed to Austria
On 12 July 2016, the Council addressed recommendations to Austria in the context of the European Semester. In particular, in the area of public finances the Council recommended to Austria to ensure that the deviation from the medium-term budgetary objective in 2016 and in 2017 is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees in 2015, and to that effect achieve an annual fiscal adjustment of 0.3% of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort.

4.1. Compliance with the debt criterion

After it corrected its excessive deficit in 2013, Austria is in the transition period as regards the debt criterion for the following three years. This implies that, during this period, it is required to make sufficient progress towards compliance with the debt criterion as defined by the minimum linear structural adjustment (MLSA) and comply with the debt benchmark at the end of the transition period.

Table 5. Compliance with the debt criterion*

	2015	2016			2017		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio	85.5	84.3	83.2	83.5	82.6	80.9	81.1
Gap to the debt benchmark [1,2]	n.r.	n.r.	n.r.	n.r.	-1.6	n.a.	-1.8
Structural adjustment [3]	0.7	-1.0	-1.0	-1.0	-0.1	0.1	0.1
To be compared to:							
Required adjustment [4]	-0.6	-1.4	n.a.	-1.9	n.r.	n.r.	n.r.

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining minimum annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source:

Stability Programme 2016 (SP); Draft Budgetary Plan for 2017 (DBP); Commission 2016 autumn forecast (COM); Commission calculations

The DBP does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark in 2016 or with the debt reduction benchmark in 2017.

According to the Commission 2016 autumn forecast, Austria is making sufficient progress towards compliance with the debt rule in 2016 as the projected change in the structural balance (-1.0% of GDP) is above the requirement (-1.9% of GDP). In 2017, based on the Commission forecast, Austria is expected to meet the debt benchmark as its debt-to-GDP ratio is expected to be below the debt benchmark on a no policy change basis, with a gap to the debt benchmark of -1.8% of GDP.

4.2. Compliance with the MTO

Box 3: Implementation of the "constrained judgement" approach and its impact in the context of the fiscal surveillance

The April 2016 Amsterdam Informal ECOFIN Council requested that improvements be made to the commonly agreed methodology for the estimation of potential growth and the output gap. In response to this mandate from the Council, two concrete decisions were taken in agreement with the Member States in October 2016. First, it was agreed that a revised methodology for the estimation of the non-accelerating wage rate of unemployment (NAWRU) would be introduced in the commonly agreed methodology. This change has already been implemented in the Commission 2016 autumn forecast. Second, in line with the renewed mandate provided by the ECOFIN Council on 11 October, the Economic Policy Committee – Output Gap Working Group has worked on a "constrained judgement" approach for cases where the common method is shown to produce counterintuitive output gap results for individual Member States.

The objective of the "constrained judgement" approach is to have a transparent and economically grounded tool to test statistically the plausibility of the output gaps for individual Member States estimated on the basis of the common method. To this end, the Commission developed in cooperation with the Member States an objective screening tool to assess if the common methodology produces plausible output gap estimates for all Member States. If this "plausibility" tool identifies counter-intuitive results, the Commission has carried out an "in depth" analysis.

For Austria, the plausibility tool provided indications that the output gap estimated on the basis of the common methodology may be counterintuitive. In particular, the plausibility tool indicates for 2016 an output gap of -2.2% of potential output, while the value obtained through the common methodology is -0.7% of potential output. In the case of Austria, the output gap computed on the basis of the common methodology appears to reflect the cycle of the Austrian economy better. According to the output gap as computed on the basis of the common methodology, starting from 2013 Austria has been facing a negative output gap (-0.7% of potential output), which has progressively widened and peaked in 2015 at -1.1% of potential output. From 2016 onwards, the output gap is expected to narrow progressively and to close in 2018. This is coherent with the recorded and the expected changes in the real GDP, which has stagnated since 2012 and is expected to recover from 2016 onwards. In light of these elements, the output gap of -2.2% of potential output indicated by the plausibility tool appears to be disproportionately large, and does not reflect the position of Austria in the economic cycle.

In the light of the uncertainty surrounding the estimation of the level of the output gap for Austria, the Commission does not see sufficient ground to deviate from the output gap estimated on the basis of the commonly agreed methodology.

In 2015, with a structural balance in balanced position, Austria overachieved its MTO, set at -0.45% of GDP until 2016. The 2016 Stability Programme reported costs related to asylum seekers and refugees amounting to 0.13% of GDP in 2014 and 0.22% of GDP in 2015, which corresponded to an additional expenditure of 0.09% of GDP in 2015. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow catering for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Austria's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. In 2015, as Austria was at its medium-term budgetary objective, it did not make use of the granted temporary deviation. In analogy to the implementation of the structural reform clause and the investment clause, Austria is allowed to carry forward the granted deviation as a distance from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015. This is to ensure that Austria benefits from the granted temporary deviation in the same way as countries not yet at their medium-term budgetary objective. Similarly, in 2016 Austria expects further costs related to asylum seekers and refugees and additional security costs related to the terrorist threat (combined increment of 0.4% of GDP, see section on deficit developments for further details). As Austria will be relatively close to its MTO in 2016 on the basis of the current Commission forecast, additional costs related to asylum seekers and security measures incurred in 2016 will still be considered in 2017.

According to the DBP, the (recalculated) structural balance is expected to deteriorate by 1.0 percentage point of GDP to -0.9% of GDP in 2016, generating a risk of some deviation from the MTO (gap of -0.4% of GDP). According to the information provided in the DBP, the growth rate of government expenditure, net of discretionary revenue measures, in 2017 will not exceed the applicable expenditure benchmark rate (reference rate 2.3%, gap of 0.4% of GDP). This calls for an overall assessment. The difference between the two indicators is mainly due to one-off transactions connected with year-to-year fluctuations in the cost of winding down financial institutions, which have an effect on the expenditure benchmark but are excluded from the structural balance. In particular, costs for bank support are expected to decline from 0.5% of GDP in 2015 to 0.1% of GDP in 2016, which generates a positive base effect on the expenditure benchmark. Therefore, the overall assessment points to a risk of some deviation in 2016. In case the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted, the assessment would point to compliance. The conclusion is confirmed, based on the Commission 2016 autumn forecast.

According to the DBP, the (recalculated) structural balance is expected to remain stable in 2017, generating a risk of some deviation from the adjustment path towards the MTO (gap of -0.2% of GDP). According to the information provided in the DBP, the growth rate of government expenditure, net of discretionary revenue measures, in 2016 is expected to exceed the applicable expenditure benchmark rate, pointing to a risk of significant deviation (reference rate 0.5%, gap of -0.9% of GDP). This calls for an overall assessment. According to the information provided in the DBP, the structural balance will be supported by a significant revenue windfall (0.6% of GDP). When correcting for this factor, the structural balance would point to significant deviation. Even when correcting the expenditure benchmark for the negative base effect from the one-off expenditures –which increase from 0.1% of GDP in 2016 to 0.2% of GDP in 2017– the indicator would still point to significant deviation. Therefore, the overall assessment points to a risk of significant deviation in 2017. In case the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted, the overall assessment would point to a risk of some deviation. The conclusion is confirmed, based on the Commission 2016 autumn forecast.

Following an overall assessment of the Member State's DBP, a risk of some deviation from the adjustment path towards the MTO is to be expected in 2016 and a risk of significant deviation in 2017. In case the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted from the assessment, the adjustment path towards the MTO would appear as appropriate and compliant with the requirement of the preventive arm of the Stability and Growth Pact in 2016, while some deviation from the adjustment path towards the MTO should be expected in 2017.

Table 6: Compliance with the requirements of the preventive arm

(% of GDP)	2015	2016				2017			
Initial position[1]									
Medium-term objective (MTO)	-0.45	-0.45				-0.5			
Structural balance[2] (COM)	0.0	-1.0				-0.9			
Structural balance based on freezing (COM)	0.0	-0.9							
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO				Not at MTO			
	2015	**2016**				**2017**			
		DBP		**COM**		**DBP**		**COM**	
(% of GDP)	**COM**	**Vis-à-vis the CSR**	**Including additional clauses**	**Vis-à-vis the CSR**	**Including additional clauses**	**Vis-à-vis the CSR**	**Including additional clauses***	**Vis-à-vis the CSR**	**Including additional clauses***
Structural balance pillar									
Required adjustment[4]	0.0	0.0				0.4			
Required adjustment corrected[5]	-0.2	-0.6	-1.0	-0.6	-1.0	0.3	-0.1	0.3	-0.1
Change in structural balance[6]	0.7	-1.0		-1.0		0.1		0.1	
One-year deviation from the required adjustment [7]	0.9	-0.4	0.0	-0.4	0.0	-0.2	0.2	-0.2	0.2
Two-year average deviation from the required adjustment [7]	0.5	0.2	0.4	0.2	0.4	-0.3	0.1	-0.3	0.1
Expenditure benchmark pillar									
Applicable reference rate[8]	1.4	2.3	3.1	2.3	3.1	0.5	1.4	0.5	1.4
One-year deviation [9]	1.1	0.4	0.8	0.2	0.6	-0.9	-0.5	-0.8	-0.4
Two-year average deviation [9]	-0.2	0.8	1.0	0.7	0.9	-0.2	0.2	-0.3	0.1
Conclusion									
Conclusion over one year	Compliance	Overall assessment	Compliance	Overall assessment	Compliance	Overall assessment	Overall assessment	Overall assessment	Overall assessment
Conclusion over two years	Overall assessment	Compliance	Compliance	Compliance	Compliance	Overall assessment	Compliance	Significant deviation	Compliance

Notes

* In order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its MTO in 2017 by the amount considered eligible for 2016.

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 27.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :
Draft Budgetary Plan (DBP); Commission 2016 autumn forecast (COM); Commission calculations.

5. IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

In the context of the 2016 European Semester, Austria was issued the recommendation to ensure the sustainability of the healthcare system and of the pension system by linking the statutory pension age to life expectancy, and to simplify, rationalise and streamline fiscal relations and responsibilities across the various layers of government.

Concerning the sustainability of the healthcare system, the DBP mentions that the cost containment path for hospital funding agreed with the government subsectors will be adjusted and extended. Nevertheless, no details are provided. The DBP also mentions two initiatives aimed at improving the health status of the population and enhancing the use of primary care.

While the initiatives move in the direction indicated by the 2016 country-specific recommendations, they do not appear sufficient to ensure the sustainability of the healthcare system.

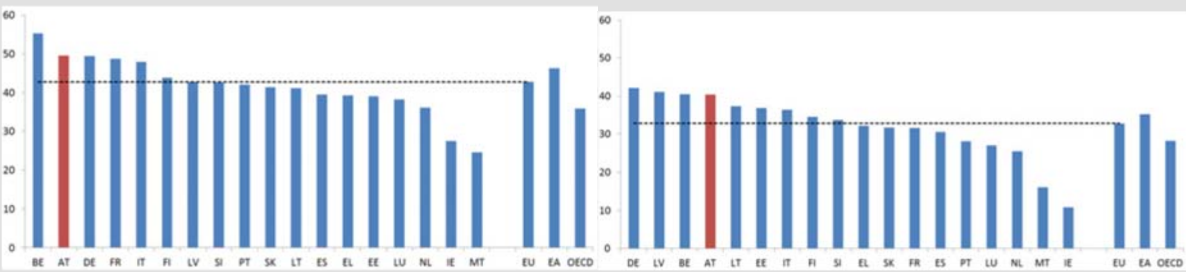
Concerning the sustainability of the pension system, the DBP reports several measures implemented in recent years, and mentions that the increase in the effective pension age will be "accelerated and supported". Nevertheless, no detailed policy measures are reported. The linking of the statutory pension age to life expectancy is not mentioned in the DBP.

Concerning the reform of the fiscal framework, the DBP reports that negotiations with the government subsectors are ongoing on a new financial equalisation scheme, which from 1 January 2017 will govern financial relations among the various layers of government. The DBP mentions that seven working groups are preparing specific reform proposals, as was indicated also in the 2016 DBP. Nevertheless, the DBP does not include concrete proposals for reform.

Box 4: Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability.

The tax burden on labour in Austria at the average wage and a low wage (2015)



Notes: No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted.

Source: European Commission Tax and Benefit Indicator database based on OECD data.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in Austria for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

In the context of the 2016 European Semester, and in particular in recital 7 of the country-specific recommendations to Austria, it was mentioned that taking steps to reduce the tax burden on labour by shifting the tax burden to other sources less detrimental to growth would help to address the high tax wedge on labour in Austria.

Austria's DBP contains the following measures that affect the tax wedge on labour:

1. Reduction of non-wage labour costs for employers by decreasing the contribution to the family burden equalisation fund by 0.4 percentage points from 2017 and by additional 0.2 percentage points from 2018, as already mentioned in the 2016 Stability Programme.
2. Refund of non-wage labour costs for start-ups during the first three years, up to a total amount of EUR 100 million.
3. Increased resources for active labour market policies by EUR 50 million from 2016 and EUR 100 million from 2017, which is relevant in the context of supporting the labour market although not directly connected with the tax wedge.

Although limited in scope, the reforms will contribute to lower labour costs, increasing the incentive for companies to hire workers. The measures are thus expected to have a positively impact on employment, also creating positive impulses for growth.

6. Overall conclusion

Based on the Commission 2016 autumn forecast, the structural improvement respects the minimum linear structural adjustment in 2016 and complies with the debt criterion in 2017.

Following an overall assessment of the DBP, the planned structural adjustment points to some deviation in 2016 and significant deviation in 2017. In case the current estimate of the budgetary impact of the exceptional inflow of refugees and security measures is deducted from the assessment, the planned structural adjustment would point to compliance in 2016 and to some deviation in 2017. The conclusion is confirmed, based on the Commission 2016 autumn forecast.