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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Delegations will find attached document SWD(2013) 610 final.

This document is aimed for discussion in the **Eurogroup**.

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Brussels, 15.11.2013  
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**COMMISSION STAFF WORKING DOCUMENT**

**Analysis of the Draft Budgetary Plan of AUSTRIA**

*Accompanying the document*

**COMMISSION OPINION**

**on the Draft Budgetary Plan of AUSTRIA**

{C(2013) 8009 final}

# **COMMISSION STAFF WORKING DOCUMENT**

## **Analysis of the Draft Budgetary Plan of AUSTRIA**

### *Accompanying the document*

#### **COMMISSION OPINION**

#### **on the Draft Budgetary Plan of AUSTRIA**

### **1. INTRODUCTION**

Austria has submitted its Draft Budgetary Plan (DBP) for 2014 on 15 October 2013 in compliance with Reg. 473/2013 of the Two-Pack. The information included in the DBP is in line with the information underpinning the Stability Programme (SP) presented on 16 April 2013. Given that general election were held on 29 September 2013, the next government will set up a comprehensive budgetary plan for the years 2014 and onwards in the coming months. In this sense, the present DBP has to be considered provisional.

Austria is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure (EDP) for Austria on 2 December 2009 and recommended to correct the excessive deficit by 2013 at the latest. After the correction of the excessive deficit, Austria will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2013 is projected at 74,8% of GDP according to the DBP, 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 criterion, during which it should ensure sufficient progress towards compliance.

Section 2 of this document presents the macroeconomic outlook underlying the DBP and provides an analysis based on the Commission 2013 Autumn Forecast. The following section presents the recent and planned fiscal developments, according to the DBP, including an analysis of risks to their achievement based on Commission Forecast. In particular, it also includes an analysis of the measures underpinning the DBP. Section 4 assesses the recent and planned fiscal developments in 2013-2014 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 6 summarises the main conclusions of the present document.

### **2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN**

The macroeconomic scenario underlying the DBP, assumes a bottoming out of the economy in 2013 and a consolidation of the recovery in 2014. Demand stemming from equipment investments, exports and private consumption is expected to drive growth up in 2014. Nevertheless, economic growth will not be sufficient to reduce unemployment as a further increase in labour supply due to continued inflow of foreign workers is expected. In view of moderately rising unit labour costs, inflation should trend down further.

Compared to the Stability programme of April 2013, the growth forecast for 2013 has been revised significantly downwards. This reflects the worse-than-projected outcome in the first half of the year. Although the postponement of the recovery marginally affects the projection for 2014, it remains broadly unchanged in qualitative terms compared to the projection of the stability programme. The delay of the recovery and a reassessment of labour migration have caused an upward revision in the projected unemployment rate.

The macroeconomic projections of the DBP are broadly in line with the Commission 2013 Autumn Forecast. The Commission forecast is nevertheless more conservative with regard to the speed of the recovery of investment and foreign demand.

### **Box 1: The macroeconomic forecast underpinning the budget in Austria**

The DBP for 2014 submitted by Austria clearly states that it is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) on 4 October 2013.

It has been a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecasts 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 is one of Austria's most prominent policy oriented economic research institutes. Its highly evolved analytical infrastructure and competent 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 charged with compiling the quarterly national accounts and the business/investment surveys.

WIFO was founded in 1927. It is a non-profit association under Austrian law. The 16 member Governing Board (Vorstand) and the 34 member Supervisory Council (Kuratorium) comprise representatives of various NGO's, financial institutions, including the Austrian National Bank, businesses, business associations, the academia. Representatives of the central and regional government occupy 1 and 2 seats respectively on the Governing Board and 2 seats each on the Supervisory Council.

The Scientific Advisory Board comprising 17 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.

**Table 1. Comparison of macroeconomic developments and forecasts**

	2012	2013			2014		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	0,9	1,0	0,4	0,4	1,8	1,7	1,6
Private consumption (% change)	0,5	0,6	0,0	0,0	0,9	0,9	0,9
Gross fixed capital formation (% change)	1,6	1,5	-1,4	-1,7	2,0	3,0	2,2
Exports of goods and services (% change)	1,2	3,3	2,7	1,6	5,8	5,2	4,7
Imports of goods and services (% change)	-0,3	3,6	0,7	0,4	5,4	5,1	4,5
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	0,7	0,8	-0,2	-0,2	1,1	1,3	1,1
- Change in inventories	-0,6	0,2	-0,6	-0,1	0,3	0,1	0,2
- Net exports	0,9	0,0	1,2	0,7	0,4	0,3	0,3
Output gap <sup>1</sup>	-0,3	-1,0	-1,1	-1,0	-0,9	-0,6	-0,7
Employment (% change)	1,3	0,7	0,8	0,5	1,0	0,8	0,7
Unemployment rate (%)	4,3	4,8	5,1	5,1	4,8	5,2	5,0
Labour productivity (% change)	-0,4	0,3	-0,3	-0,1	0,8	0,9	0,9
HICP inflation (%)	2,6	2,3	2,1	2,2	2,0	1,9	1,8
GDP deflator (% change)	1,7	2,0	2,1	2,1	1,8	2,0	1,7
Comp. of employees (per head, % change)	2,6	2,5	2,2	2,3	2,7	2,3	1,9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1,6	2,3	3,1	2,5	2,6	3,4	2,8
<b>Note:</b> <sup>1</sup> 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. <b>Source :</b> <i>Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.</i>							

### 3. RECENT AND PLANNED FISCAL DEVELOPMENTS

#### 3.1. Deficit developments

The DBP confirms the deficit target indicated in the Stability Programme pointing to a deficit of 2.3% of GDP in 2013, while the Commission 2013 Autumn forecast shows a slightly higher deficit on account of minor discrepancies both in the absolute level of expenditure and revenue.

From the projections of the DBP it can be concluded that the downward revision in the macro projections for 2013 would have led to an increase in the deficit by about 0.2% of GDP and the revision in the 2012 deficit by a further 0.1% of GDP. This fiscal gap of 0.3% of GDP has been offset by a reduction in expenditure of an equivalent amount.

The DBP confirms the SP target of a deficit of 1.5% in 2014. The Commission forecast of the general government deficit in 2014 is 0.4 percentage points higher than in the projections of the DPB. The bulk of this discrepancy is caused by higher expenditure in the Commission forecast, while a minor rise in revenue elasticities implicit in the forecast offset the negative contribution of lower nominal growth. Part of the higher expenditure projection is due to the attempt made by the Commission services to include an estimation of the additional support to be provided for HGAA in 2014, while DBP budget estimates does not include it yet. It has

to be noted that the size of the government intervention might be different than the Commission services' estimate since the overall amount of the support and its timeline are still uncertain.

Another source of risk in the DBP scenario arises from the inclusion in the 2014 Budget of the revenue from the financial transaction tax at European level, amounting to 0.15% of GDP, which is not going to materialise due to delay in its adoption and no decision over revenue utilisation.

**Table 2. Composition of the budgetary adjustment**

(% of GDP)	2012	2013			2014			Change: 2012-2014
	COM	SP	DBP	COM	SP	DBP	COM	DBP
<b>Revenue</b>	<b>49,2</b>	<b>48,9</b>	<b>49,6</b>	<b>49,6</b>	<b>48,8</b>	<b>49,5</b>	<b>49,7</b>	<b>0,3</b>
<i>of which:</i>								
- Taxes on production and imports	14,6	14,5	14,7	14,6	14,4	14,6	14,6	0,0
- Current taxes on income, wealth, etc.	13,4	13,6	13,7	13,8	13,6	13,8	13,9	0,4
- Capital taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Social contributions	16,6	16,4	16,7	16,6	16,4	16,7	16,6	0,1
- Other (residual)	4,5	4,4	4,5	4,6	4,4	4,4	4,6	-0,1
<b>Expenditure</b>	<b>51,7</b>	<b>51,3</b>	<b>51,9</b>	<b>52,1</b>	<b>50,4</b>	<b>51,0</b>	<b>51,7</b>	<b>-0,7</b>
<i>of which:</i>								
- Primary expenditure	49,1	48,7	49,3	49,4	47,8	48,4	49,0	-0,7
<i>of which:</i>								
Compensation of employees	9,5	9,3	9,4	9,5	9,1	9,2	9,3	-0,3
Intermediate consumption	4,3	4,3	4,3	4,3	4,2	4,3	4,3	0,0
Social payments	25,0	25,0	25,3	25,2	24,8	25,2	25,2	0,2
Subsidies	3,5	3,5	3,7	3,7	3,5	3,7	3,7	0,2
Gross fixed capital formation	1,0	1,0	1,0	1,0	1,0	1,0	1,0	0,0
Other (residual)	5,8	5,6	5,6	5,8	5,2	5,0	5,6	-0,8
- Interest expenditure	2,6	2,6	2,6	2,6	2,6	2,6	2,6	0,0
<b>General government balance (GGB)</b>	<b>-2,5</b>	<b>-2,3</b>	<b>-2,3</b>	<b>-2,5</b>	<b>-1,5</b>	<b>-1,5</b>	<b>-1,9</b>	<b>1,0</b>
<b>Primary balance</b>	<b>0,1</b>	<b>0,3</b>	<b>0,3</b>	<b>0,2</b>	<b>1,1</b>	<b>1,1</b>	<b>0,7</b>	<b>1,0</b>
One-off and other temporary measures	-0,8	0,0	-0,3	-0,4	0,0	0,1	-0,1	0,9
<b>GGB excl. one-offs</b>	<b>-1,7</b>	<b>-2,3</b>	<b>-2,0</b>	<b>-2,1</b>	<b>-1,5</b>	<b>-1,6</b>	<b>-1,9</b>	<b>0,1</b>
Output gap <sup>1</sup>	-0,3	-1,0	-1,1	-1,0	-0,9	-0,6	-0,7	-0,3
Cyclically-adjusted balance <sup>1</sup>	-2,4	-1,8	-1,8	-2,0	-1,1	-1,2	-1,6	1,2
<b>Structural balance (SB)<sup>2</sup></b>	<b>-1,6</b>	<b>-1,8</b>	<b>-1,5</b>	<b>-1,6</b>	<b>-1,1</b>	<b>-1,3</b>	<b>-1,5</b>	<b>0,3</b>
<i>Change in SB</i>	<i>0,7</i>	<i>-0,4</i>	<i>0,1</i>	<i>0,0</i>	<i>0,7</i>	<i>0,2</i>	<i>0,0</i>	-
<i>Two year average change in SB</i>	<i>0,9</i>	<i>0,2</i>	<i>0,4</i>	<i>0,3</i>	<i>0,2</i>	<i>0,1</i>	<i>0,0</i>	-
Structural primary balance <sup>2</sup>	1,1	0,8	1,1	1,1	1,5	1,3	1,1	0,2
<i>Change in structural primary balance</i>		<i>-0,4</i>	<i>0,1</i>	<i>0,0</i>	<i>0,7</i>	<i>0,2</i>	<i>0,0</i>	-
<b>Expenditure benchmark</b>								
Applicable reference rate <sup>3</sup>	0,46	0,5	0,5	0,5	0,08	0,08	0,08	-
Deviation <sup>4</sup> (% GDP)	0,6	-1,4	-0,4	-0,4	-1,7	-0,9	0,1	-
Two-year average deviation (% GDP)	-0,3	-1,9	-0,7	0,1	-1,5	-0,6	-0,1	-

**Notes:**

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

<sup>2</sup>Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

<sup>3</sup>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 lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.

<sup>4</sup>Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

**Source:**

Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

In the DBP, the recalculated structural balance deficit<sup>1</sup> is projected to decrease by 0.1% in 2013 and 0.2% in 2014. In light of a higher nominal deficit in 2014 the structural deficit expected by the Commission forecast is projected to remain broadly unchanged in 2013 and in 2014.

<sup>1</sup> Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission service on the basis of the information provided in the DBP, using the commonly agreed methodology.

The deviation between the level of the structural balance forecast by the Commission forecast and the recalculated structural balance is lower than the difference in the headline balance due to a different computation of one-off measures (for instance the Commission services already includes an estimate of the one-off recapitalisation of HGAA).

### **3.2. Debt developments**

The DBP projects a higher debt ratio with respect to the Stability Programme by about 1 pp. in 2013. The bulk of this change is due to downward revision in the denominator due to lower rate of GDP growth forecast, while the projected level of the debt has remained unchanged compared to the Stability Programme.

In 2014 the debt ratio is expected to decline by about 0.6% of GDP on the back of a stronger negative contribution from the primary balance.

The Commission forecast expects a higher debt path than the DBP in 2013-2014 while the pattern, i.e. the inversion in the trend, is confirmed in 2014 by the Commission forecast as well. In 2014 the divergence is mainly due to the fact that the Commission projects a lower primary balance.

Risks to the current debt estimates of the DBP and the Commission forecast may stem from a lower primary balance contribution, partly due to a possible further support to the financial sector. It should be recalled that the magnitude of the risk connected to financial sector support is higher for the debt level than for the deficit. This is because those forms of government support (such as liquidity provisions) which generally do not have impact on the deficit result in an increase in government debt. On the other hand statistical revisions shifting up the debt path could materialise following the on-going Eurostat investigation about the recording of financial transaction in the Land of Salzburg.



**Table 3. Debt developments**

(% of GDP)	2012	2013			2014		
		SP	DBP	COM	SP	DBP	COM
<b>Gross debt ratio<sup>1</sup></b>	<b>74,0</b>	<b>73,6</b>	<b>74,6</b>	<b>74,8</b>	<b>73,0</b>	<b>74,0</b>	<b>74,5</b>
Change in the ratio	1,2	-0,4	0,6	0,8	-0,6	-0,6	-0,3
<i>Contributions<sup>2</sup>:</i>							
<b>1. Primary balance</b>	<b>-0,1</b>	<b>-0,3</b>	<b>-0,3</b>	<b>-0,2</b>	<b>-1,1</b>	<b>-1,1</b>	<b>-0,7</b>
<b>2. "Snow-ball" effect</b>	<b>0,8</b>	<b>0,5</b>	<b>0,7</b>	<b>0,8</b>	<b>0,0</b>	<b>0,0</b>	<b>0,2</b>
<i>Of which:</i>							
Interest expenditure	2,6	2,6	2,6	2,6	2,6	2,6	2,6
Growth effect	-0,6	-0,7	-0,3	-0,3	-1,3	-1,2	-1,2
Inflation effect	-1,2	-1,4	-1,6	-1,5	-1,3	-1,4	-1,2
<b>3. Stock-flow adjustment</b>	<b>0,5</b>	<b>0,0</b>	<b>0,2</b>	<b>0,1</b>	<b>0,5</b>	<b>0,6</b>	<b>0,2</b>
<i>Of which:</i>							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial		n.a.	n.a.		n.a.	n.a.	
<i>of which privatisation</i>							
<i>proceeds</i>		n.a.	n.a.		n.a.	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	
<b>Notes:</b> <sup>1</sup> End of period. <sup>2</sup> 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 effects. <b>Source:</b> Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.							

### 3.3. Measures underpinning the Draft Budgetary Plan

The DBP includes the effect of the measures approved in spring 2012 within the so called "Stability Package". Since the purpose of the Commission analysis is to evaluate the new measures presented in the Budget for the year 2014, past measures are not considered part of the plan even if their lagged effect falls in 2014. It follows that no additional measures can be considered to underpin the present DBP.

The analysis of the impact of old measures shows a contribution to the deficit reduction of 0.8% of GDP in 2013 and 0.4% of GDP in 2014.

According to Commission services' estimates the contribution of discretionary revenue measures to the deficit reduction will fade out in 2014 and it will turn negative taking into account that the already mentioned revenue from the European Financial Transaction Tax will not be generated. It is not clear whether the budgetary effect of this measure, amounting to 0.15% of GDP, has been considered in the DBP projections. The DBP refers to the fact that this revenue shortfall will be compensated by one-off revenue arising from the tax agreement with Liechtenstein which was not yet budgeted. This issue remains unclear since the effect of this agreement is already reported within the discretionary measures both in the present DBP and in the Stability Programme. In addition, the Commission remarks that one-off revenue, such as the tax agreement with Liechtenstein, cannot compensate for structural revenue which was expected to be generated from the financial transaction tax.

Discretionary expenditure savings will be the main source of the reduction of the deficit in 2014. Further planned savings from subnational governments and Social Security Funds, accounting for 0.26% of GDP, have not been implemented yet and it is not clear to what extent they were considered in the budget.

After the presentation of the Stability Programme in April 2012, further measures have had an impact on the budget in 2013. They relate to additional expenditure for flood assistance accounting for 0.1% of GDP and to one-off revenue from the auctioning the mobile telecommunication licenses which have been budgeted in the DBP for an amount equal to 0.15% of GDP, while the actual revenue are much higher. The latter measure is statistically recorded as negative expenditure.

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

##### **Box 2. Council recommendations addressed to Austria**

On 02 December 2009, the Council decided that an excessive deficit existed in Austria and adopted the most recent Council Recommendation under Art. 126(7) TFEU. On 02 December 2009, the Council recommended Austria under Art.126(7) of the Treaty to correct its excessive deficit by 2013. To this end, Austria should: bring the general government deficit below 3% of GDP in a credible and sustainable manner; ensure an average annual fiscal effort of ¾% of GDP over the period 2010-2013, which should also contribute to bringing the gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus. On 9 July 2013, the Council also 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 implement the 2013 budget as envisaged and to attain the MTO by 2015. The Council also recommended to harmonise the pensionable age between men and women and to link retirement age or the pension benefits to changes in the life expectancy.

##### **4.1. Compliance with EDP recommendations**

The general government deficit is expected to fall below the 3% of GDP threshold in 2013 according to both the DBP and the Commission forecast. It has to be noticed that the deficit unexpectedly already fell below the 3% threshold also in 2012.

The reason which has prevented the Commission from proceeding with the abrogation of the EDP procedure is the uncertainty over the cost of the support for Hypo Alpe Adria. As mentioned above, while the Commission services has attempted to include preliminary estimates in its forecast, the size of the support is still unclear since various factors relative to market developments and to the decision over the creation of a bad bank could have an impact on the deficit. This cost could affect not only the level of the deficit in the year of the deadline for the correction of the excessive deficit (2013) which, however, seems to be secured, but also the deficit in the following years, casting doubts over the sustainability of the correction.

In the coming months, the Commission expect to receive additional information shedding light over Hypo Alpe Adria restructuring and the size and the timeline of the required support.

## 4.2. Compliance with the debt criterion

If the EDP is abrogated, Austria will be in transition period from 2014 on and, based on an overall analysis of the DBP, is making sufficient progress towards compliance with the debt criterion. This evaluation is based on the Commission forecast which projected the structural balance broadly unchanged in 2014.

**Table 4. Compliance with the debt criterion**

	2012	2013	2014
		COM <sup>1</sup>	COM <sup>1</sup>
Gap to the debt benchmark <sup>2,3</sup>	n.r.	n.r.	n.r.
Structural adjustment <sup>4</sup>	n.r.	n.r.	0,03
To be compared to:			
Required adjustment <sup>5</sup>	n.r.	n.r.	-0,07

**Notes:**

<sup>1</sup> Assessment of the consolidation path according to 2013 COM Autumn Forecast and assuming growth follows COM projections.

<sup>2</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

<sup>3</sup> 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.

<sup>4</sup> Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

<sup>5</sup> Defines the remaining 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 budgetary projections for the previous years are achieved.

**Source:**

Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

## 4.3. Adjustment towards the MTO

### *Structural balance and compliance with the expenditure benchmark*

If the EDP is abrogated in spring 2014 Austria will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO starting from 2014, the year after the correction of the excessive deficit. With a debt ratio above 60% and normal cyclical conditions (the output gap falls in the interval between -1.5% and 1.5% of GDP) Austria is required to pursue an annual structural adjustment toward the MTO higher than 0.5% in 2014.

As already discussed in section 3.3, the annual structural adjustment in the year 2014 estimated by the DPB is 0.2% of GDP, hence it is insufficient to deliver the required adjustment towards the MTO. However, on the basis on Commission 2013 Autumn Forecast Austria will not deliver any structural adjustment since the structural balance is estimated to remain broadly unchanged. Consequently, according to Commission's estimates, the estimated deviation from the required structural adjustment will reach in 2014 the significance threshold set out in the Stability and Growth Pact (0.5%).

The other indicator to assess (the risk of) a significant deviation from the adjustment towards the MTO is the compliance with the requirements of the expenditure benchmark.

According to the information provided in the DBP, the growth rate of government expenditure, net of discretionary revenue measures, is expected to contribute by 0.5% of GDP to the annual structural adjustment in 2014. This is because the growth rate of this expenditure

is below the benchmark of 0.1%, the lower rate applicable for countries that are adjusting to the MTO. In fact, the growth rate of government expenditure projected by the DBP in 2014 is -1.83%. However, the DBP includes a substantial share of revenue increase mandated by law, items which are netted out from the expenditure growth rate. In the present analysis, the Commission services have taken into account only part of the amount of the revenue increase mandated by law. In this scenario, the growth rate of government expenditure is above the expenditure benchmark, contributing to a deterioration of the structural balance by 0.1% of GDP, which remains however below the significance threshold of 0.5% of GDP.

Since in 2014 the structural adjustment towards the MTO of the structural balance is significantly lower than the required one under the preventive arm, the overall analysis of both the changes in the structural balance and the expenditure benchmark will become crucial to assess compliance with the provisions of the preventive arm of the Pact. To this extent the methodology used by Austria to compute some elements of the expenditure benchmark is unclear, in particular concerning the computation of the revenue increase mandated by law. Also other components of the expenditure benchmark such as government expenditure for EU funds and cyclical unemployment benefits differs from the computation made by the Commission services in line with the agreed methodology.

Overall, the analysis on the compliance of the Austria's DBP, with the structural balance as a reference, including an analysis of expenditure growth net of discretionary revenue measures does not allow drawing a firm conclusion. The change in the structural balance in 2014 as projected by the Commission forecast points to a significant deviation from the adjustment path towards the MTO. Expenditure growth is also projected to deviate, although not significantly, from the benchmark according to Commission forecast, while the computation of the expenditure aggregate reported in the DBP remains unclear.

## **5. SUMMARY**

The DBP does not provide comprehensive additional information in comparison with the Stability Programme since it will not underpin the upcoming Budget Law which will be presented after the new government has taken office. It confirms that Austria is on track, although with some risks, to correct the Excessive Deficit in 2013, thus respecting the deadline of the EDP recommendation. In terms of future requirements under the transition period of the debt rule and the preventive arm of the pact, Austria is expected to make sufficient progress towards compliance with the debt criterion. Conversely, according to the no policy-change scenario, the adjustment towards the MTO measured by the change in the structural balance is insufficient in 2014, with the deviation being significant according to Commission forecast. Furthermore, the growth rate of expenditure net of discretionary measures in 2014 is projected to deviate, although not significantly, from the reference rate of the expenditure benchmark according to the Commission forecast.