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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Enclosed:	C(2017) 8010 final

Delegations will find attached document C(2017) 8010 final.

EUROPEAN
COMMISSION

Brussels, 22.11.2017
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COMMISSION OPINION

of 22.11.2017

on the Draft Budgetary Plan of Austria

{SWD(2017) 510 final}

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING AUSTRIA

3. On the basis of the Draft Budgetary Plan for 2018 submitted on 17 October 2017 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Following the general elections on 15 October 2017, the Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies.

5. Austria is subject to the preventive arm of the Pact and should ensure sufficient progress towards its medium term budgetary objective (MTO) of -0.5% of GDP. On 11 July 2017, the Council recommended that Austria achieve its medium-term budgetary objective in 2018, taking into account the allowance linked to unusual events. As its public debt exceeds the 60% of GDP reference value of the Treaty, Austria also needs to comply with the debt reduction benchmark.

6. Overall, the macroeconomic assumptions underlying the Draft Budgetary Plan are plausible in 2017 and favourable in 2018. In both years, the macroeconomic scenario is more positive compared to the Stability Programme. The Draft Budgetary Plan expects real GDP to grow by 2.8% both in 2017 and 2018. This growth projection is broadly in line with the Commission forecast for the year 2017 (2.6%), and somewhat more optimistic for 2018, where the Commission expects a deceleration of GDP growth to 2.4%. Compared to the Draft Budgetary Plan, the Commission expects weaker growth of private consumption and of gross fixed capital formation in 2018.

7. Austria complies with the requirement of Regulation EU No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the Austrian Institute of Economic Research (WIFO).

8. The Draft Budgetary Plan projects the general government headline balance at -0.9% of GDP in 2017 and -0.8% of GDP in 2018. The structural balance[1] is expected to

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

improve to -0.8% of GDP in 2017 and, based on unchanged policies, to deteriorate to -1.2% of GDP in 2018. The current low interest rate environment is expected to support significantly the structural balance, as the costs for servicing debt are projected to decline strongly both in 2017 and 2018, by 0.3% and 0.2% of GDP respectively. Against the background of falling interest expenditure, the projected improvement and deterioration in the structural balance in 2017 and 2018 (+0.2% of GDP and -0.4%, respectively) are accompanied by a slight and a larger deterioration in the structural primary balance (-0.1% of GDP and -0.6%, respectively). General government debt is expected to decline significantly, from 83.6% of GDP in 2016 to 78.3% of GDP in 2017 and then to 75.2% of GDP in 2018. Such fast decline is supported by the divestment of impaired assets from bad banks included in government accounts, as well as by the positive contribution of the primary balance, declining interest spending and the high nominal GDP growth.

9. In its 2017 Stability Programme, Austria indicated that the budgetary impact of the additional costs related to the exceptional inflow of refugees and the terrorist threat is significant and should be considered as an unusual event outside the control of the government, as defined in Article 5.1 and Article 6.3 of Regulation (EC) No 1466/97. Specifically, Austria requested a temporary deviation from the adjustment path towards the MTO of 0.01% of GDP in 2017 in relation to the incremental costs for exceptional security measures. In the present Draft Budgetary Plan the government has revised slightly the projected costs of the inflow of refugees, which are now estimated at 0.5% of GDP. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the threat of terrorism and the inflow of refugees are exceptional events, their impact on the country's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the MTO. The Commission provisionally assessed Austria to be eligible for an allowance of 0.02% of GDP in 2017 in relation to the incremental costs considered by the Commission to have a clear and direct link to the exceptional inflow of refugees and to security measures related to the threat of terrorism. The Commission will make a final assessment, including on the eligible amounts, in spring 2018 on the basis of observed data as provided by the authorities.

10. The Commission 2017 autumn forecast projects the headline balance at -1.0% of GDP in 2017 and -0.9% of GDP in 2018. The difference from the projections of the Draft Budgetary Plan is due to slightly more conservative assumptions on interest expenditure and on collected revenues in 2017. In particular, revenues from taxes on production and imports and social security contributions are expected to be slightly lower compared to the Draft Budgetary Plan, also due to small differences in the projected private consumption and employment growth. The difference in 2018 is mainly driven by base effects. The structural balance is projected at -0.9% of GDP in 2017 and -1% of GDP in 2018. The differences from the (recalculated) structural balance based on the Draft Budgetary Plan reflect the different projected headline balance, as well as the narrower estimated output gap in 2018. Government debt is expected to decline to 78.6% of GDP in 2017 and 76.2% of GDP in 2018, slightly less than assumed by the Draft Budgetary Plan due to the different projections of headline deficit and nominal GDP growth. The main risks to the budgetary projections of the Draft Budgetary Plan relate to the favourable economic outlook underlying the revenue forecasts. In addition, some of the recently implemented policy measures aimed at supporting the labour market could result in higher costs than currently estimated.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2017 autumn forecast, the debt reduction benchmark is projected to be met in 2017 and 2018.

12. In 2015, Austria was granted a temporary deviation from the adjustment path towards the MTO amounting to 0.09% of GDP in relation to the exceptional inflow of refugees. In 2016, an additional temporary deviation of 0.25% of GDP was granted in relation to the exceptional inflow of refugees and 0.04% of GDP for additional security measures related to the terrorist threat. The carry-forward effect of these costs amounts to 0.38% of GDP in 2017 and 0.29% of GDP in 2018.

According to the information provided in the Draft Budgetary Plan, in 2017 the expenditure benchmark points to a risk of some deviation from the applicable real reference rate of 1.1% (gap of 0.3% of GDP), while the (recalculated) structural balance points to compliance. Over 2016 and 2017 together, the expenditure benchmark points to a risk of significant deviation (gap of 0.4% of GDP), while the (recalculated) structural balance points to compliance. The difference between the two indicators is largely driven by the different underling estimates of potential growth, where the 10-year average of potential growth underpinning the expenditure benchmark appears more robust. Therefore, the overall assessment points to a risk of some deviation in 2017 and of significant deviation for 2016 and 2017 together. This conclusion is confirmed based on the Commission 2017 autumn forecast, and would not change in case the additional budgetary impact of the inflow of refugees and the exceptional security measures in 2017 were excluded from the assessment.

In 2018, based on the information provided in the Draft Budgetary Plan, the expenditure benchmark points to a risk of significant deviation from the applicable nominal reference rate of 2.6% (gap of 0.7% of GDP), while the (recalculated) structural balance points to a risk of some deviation from the required adjustment of 0.1% of GDP (gap of 0.4% of GDP). Similarly to 2017, the expenditure benchmark appears to more adequately reflect the fiscal effort. Therefore, the overall assessment points to a risk of significant deviation from the required adjustment in 2018. Based on the Commission 2017 autumn forecast and applying similar arguments, the overall assessment points to a risk of some deviation in 2018 and of significant deviation for 2017 and 2018 together. This conclusion would not change in case the carry-over of the additional budgetary impact of the inflow of refugees and the exceptional security measures in 2017 were excluded from the assessment.

13. The nominal adjustment projected by the Draft Budgetary Plan in 2018 is driven by a stronger decline of expenditure with respect to revenues as a percentage of GDP. The Draft Budgetary Plan projects public investment to remain broadly constant as a percentage of GDP in 2017 and 2018. The Draft Budgetary Plan reports several measures implemented since the Stability Programme, which relate to the fiscal-structural part of the country-specific recommendations contained in the Council Recommendation of 11 July 2017[2]. Concerning streamlining competencies across the various layers of government and aligning their financing and spending responsibilities, some steps have been taken to increase the tax autonomy of federal states. While these are positive steps, spending powers of federal states remain far above their revenue raising responsibilities, and the 2017 Financial Equalisation Law includes several positive initiatives that still need to be implemented. The Draft

2 *OJ C 261, 9.8.2017.*

Budgetary Plan also mentions the planned strengthening of primary care services, which could contribute to improve the sustainability of the healthcare sector in the medium term. No measures are mentioned concerning the sustainability of the pension system.

14. Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the Draft Budgetary Plan of Austria, which is currently under the preventive arm and subject to the debt reduction benchmark, is at risk of non-compliance with the provisions of the Stability and Growth Pact. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP.

The Commission is also of the opinion that Austria has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017 in the context of the European Semester and thus invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

The authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan, as soon as a new government takes office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament.

Done at Brussels, 22.11.2017

For the Commission
Pierre MOSCOVICI
Member of the Commission