Eurogroup

Brussels, 22 November 2018
(OR. en)

EG 26/18

EUROGROUP 26
ECOFIN 1090
UEM 360

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	21 November 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2018) 8010 final
Subject:	COMMISSION OPINION of 21.11.2018 on the Draft Budgetary Plan of Austria
Enclosed:	C(2018) 8010 final

Delegations will find attached document C(2018) 8010 final.

EUROPEAN
COMMISSION

Brussels, 21.11.2018
C(2018) 8010 final

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Austria

{SWD(2018) 510 final}

EN EN

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Austria

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 2019 submitted on 11 October 2018 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Austria is subject to the preventive arm of the SGP. On 13 July 2018, the Council recommended Austria to achieve the medium-term budgetary objective (MTO), a structural deficit of 0.5% of GDP, in 2019, taking into account the allowance linked to unusual events for which a temporary deviation is granted.[1] As its public debt, at 78.3% of GDP in 2017, exceeds the 60% of GDP reference value of the Treaty, Austria also needs to comply with the debt reduction benchmark.

5. According to the Commission 2018 autumn forecast, the Austrian economy is expected to grow by 2.7% in 2018 and 2.0% in 2019. The Draft Budgetary Plan states that real GDP is expected to grow at 3.0% in 2018 and 2.0% in 2019. Compared to the Draft Budgetary Plan, the Commission expects a somewhat weaker growth of exports and imports in 2018 and weaker growth of private consumption and gross fixed capital formation in 2019. Overall, the macroeconomic assumptions underlying the Draft Budgetary Plan are favourable for 2018 and plausible thereafter. Austria complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

6. The Draft Budgetary Plan projects the general government headline balance at -0.3% of GDP in 2018 and 0.1% of GDP in 2019. The structural balance[2] is expected to improve from -0.8% of GDP in 2018 to -0.3% of GDP in 2019. The Commission 2018 autumn forecast projects the headline balance at -0.3% of GDP in 2018 and a balanced budget position in 2019. The structural balance is projected at -0.8% of

[1] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Austria and delivering a Council opinion on the 2018 Stability Programme of Austria (2018/C 320/19), ST/9427/2018/INIT, OJ C 320.

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

GDP in 2018 and -0.4% of GDP in 2019, broadly in line with the Draft Budgetary Plan.

7. Austria submitted an updated Draft Budgetary Plan for 2018 together with its Stability Programme in March 2018. They described a restrictive expenditure path is described for 2018 and 2019 with the objective to achieve a balanced budget position in 2019. In 2019, the introduction of a new income tax credit and the reduction of employers' contributions to the accident insurance are expected to reduce the tax wedge on labour. Together, the two measures are expected to reduce 2019 revenue in the order of 0.2% of GDP. With respect to the Recommendation of 13 July 2018 addressed by the Council to Austria[3] to make public services more efficient, including through aligning financing and spending responsibilities, the government has presented draft laws for a clearer attribution of competences between the federal and state governments as well as the re-organisation of social insurance agencies. Several other initiatives (e.g., spending reviews, task-oriented financing) included in the 2017 Financial Equalisation Law are still ongoing.

8. In 2018, for Austria to comply with the requirements of the preventive arm, it should achieve its MTO, taking into account the allowances linked to unusual events.[4] According to both the information provided in the Draft Budgetary Plan and the Commission 2018 autumn forecast, the projected distance of the (recalculated) structural balance to the MTO is below what is allowed when considering the temporary deviation granted related to unusual events. Thus, the current assessment for 2018 points to compliance.

In 2019, Austria is requested to achieve its MTO, taking into account the allowance linked to unusual events for which a temporary deviation is granted. According to both the Draft Budgetary Plan and the Commission 2018 autumn forecast, Austria is projected to respect its MTO. Thus, the current assessment for 2019 points to compliance.

At the same time, Austria has a requirement that the nominal growth rate of net primary government expenditure should not exceed 3.3% in 2018 and 2.9% in 2019, corresponding to a deterioration of the structural balance by maximum 0.2% of GDP and an improvement of the structural balance by 0.3% of GDP in 2018 and 2019, respectively. The expenditure benchmark would currently point to a risk of a significant deviation from the requirement in 2018 and in 2018 and 2019 taken together, based on both the Draft Budgetary Plan and the Commission 2018 autumn forecast. If compliance with the MTO taking into account the allowance linked to unusual events can no longer be established in future assessments for 2018 or 2019, the overall assessment of compliance will need to take into account a possible deviation from that requirement.

9. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will decline from 74.2% in 2018 to 70.5% in 2019, slightly below the Commission's projection for 2019 of 71.0%. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark in 2018 and

[3] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Austria and delivering a Council opinion on the 2018 Stability Programme of Austria, OJ C 320, 10.9.2018, p. 84.

[4] Since 2015, Austria was granted a temporary deviation from the adjustment path towards the MTO correponding to the additional expenses incurred due to the exceptional inflow of refugees and security measures against the terrorist threat on a year-to-year basis. The granted deviation is carried forward for two years, and amounts to 0.32% of GDP in 2018 and 0.03% of GDP in 2019, as an allowed distance to the MTO.

2019. According to the Commission 2018 autumn forecast, Austria is expected to meet the debt reduction benchmark both in 2018 and 2019.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Austria is compliant with the provisions of the Stability and Growth Pact. However, this assessment is dependent on the current projection that Austria will respect the MTO, taking into account the allowance linked to unusual events. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council. The Commission invites the authorities to implement the 2019 budget.

The Commission is also of the opinion that Austria has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission