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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(2018) 8010 final}

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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**

## 1. INTRODUCTION

Austria submitted its Draft Budgetary Plan for 2019 on 11 October 2018 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. Austria is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the medium term budgetary objective (MTO). As the debt ratio was at 78.3% of GDP in 2017, Austria also needs to comply with the debt reduction benchmark.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2018 autumn forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2018 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2018-2019 (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 in the context of the European Semester adopted by the Council in July 2018, 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 2.6% in 2017 to 3.0% in 2018 and subsequently to moderate to 2.0% in 2019. This represents a slightly more negative projection for GDP growth in 2018 and 2019 compared to the 2018 Stability Programme, which expected an increase of 3.2% in 2018 and moderation to 2.2% in 2019[1]. The DBP growth projection is slightly more optimistic for 2018 than the Commission 2018 autumn forecast, which expects GDP to grow by 2.7%. For 2019, the Commission 2018 autumn forecast expect GDP to grow by 2.0%, in line with the DBP. Both the forecast underlying the DBP and the Commission 2018 autumn forecast expect GDP growth to be mainly driven by domestic demand. Compared to the DBP, the Commission 2018 autumn forecast expects a somewhat weaker growth of exports and imports in 2018 and weaker

[1] However, it should be noted that on the 25 September 2018, an important data revision was performed by Statistics Austria, the Austrian statistical office, impacting GDP growth rates and its components for the years 2015 until 2017. This lead to a downward revision of 2017 GDP growth to 2.6% as compared to 2.9% in the 2018 Stability Programme, explaining the adjustment of GDP projections reported in the DBP.

growth of private consumption and gross fixed capital formation in 2019. Both project inflation in Austria to ease only slightly to 2.1%, as inflation in the services sector continues to be strong.

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

| | 2017 | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | COM | SP | DBP | COM | SP | DBP | COM |
| Real GDP (% change) | 2.6 | 3.2 | 3.0 | 2.7 | 2.2 | 2.0 | 2.0 |
| Private consumption (% change) | 1.4 | 1.8 | 1.8 | 1.8 | 1.6 | 1.7 | 1.6 |
| Gross fixed capital formation (% change) | 3.9 | 3.5 | 3.4 | 3.4 | 2.5 | 2.7 | 2.5 |
| Exports of goods and services (% change) | 4.7 | 5.5 | 4.9 | 4.6 | 4.5 | 3.7 | 3.7 |
| Imports of goods and services (% change) | 5.1 | 4.6 | 4.0 | 3.4 | 3.8 | 3.5 | 3.3 |
| *Contributions to real GDP growth:* | | | | | | | |
| - Final domestic demand | 2.0 | 2.0 | 1.9 | 2.0 | 1.7 | 1.7 | 1.6 |
| - Change in inventories | 0.5 | 0.5 | 0.5 | 0.0 | 0.0 | 0.1 | 0.0 |
| - Net exports | -0.1 | 0.6 | 0.6 | 0.7 | 0.5 | 0.2 | 0.4 |
| Output gap[1] | 0.1 | 0.7 | 0.9 | 0.8 | 0.9 | 0.8 | 0.8 |
| Employment (% change)[2] | 1.7 | 1.7 | 1.8 | 1.8 | 1.1 | 1.2 | 1.1 |
| Unemployment rate (%) | 5.5 | 5.2 | 4.8 | 4.8 | 5.0 | 4.5 | 4.6 |
| Labour productivity (% change)[2] | 0.8 | 1.4 | 1.1 | 0.9 | 1.1 | 0.8 | 0.9 |
| HICP inflation (%)[3] | 2.2 | 1.9 | 2.1 | 2.1 | 1.9 | 2.1 | 2.1 |
| GDP deflator (% change) | 1.3 | 1.7 | 1.7 | 1.6 | 1.8 | 2.1 | 1.9 |
| Comp. of employees (per head, % change)[2] | 1.5 | 2.6 | 2.8 | 2.5 | 2.7 | 2.6 | 2.6 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 2.0 | 2.3 | 1.9 | 1.8 | 2.6 | 2.0 | 2.0 |

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.

[2]The DBP figures were provided by the Austrian authorities and are in line with the Commission definition of persons employed. They differ from the figures in the DBP, which correspond to the national definition.

[3]The inflation presented in the SP and the DBP represent the national CPI.

*Source:*

*Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations*

The DBP's macroeconomic assumptions are favourable for 2018 and plausible thereafter. Both the DBP and the Commission 2018 autumn forecast expect a positive contribution of net exports to GDP growth in 2018 and a moderation of the contribution in 2019, which is similar but more pronounced than in the projections of the Stability Programme. In line with the Stability Programme, the DBP and the Commission 2018 autumn forecast expect strong employment growth in 2018 and more moderate growth in 2019, along with the economic slowdown. However, both the DBP and the Commission 2018 autumn forecast expected a larger fall in the unemployment rate for 2018 and 2019 than the Stability Programme, due to a stronger than expected decline in the first half of 2018.

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

The DBP for 2019 submitted by Austria is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) on 15 October 2018. WIFO is a non-profit association under Austrian law, recognised for high-quality economic research and realistic and unbiased forecasts. 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.

## 3. Recent and planned fiscal developments

### 3.1. Deficit developments

The DBP reports the general government headline balance at -0.3% of GDP in 2018, revising upwards the projections of the Stability Programme (-0.4% of GDP). This is the result of higher than expected revenues from personal and corporate income taxes in the order of EUR 0.5 billion. The Commission 2018 autumn forecast also points to a -0.3% of GDP headline balance in 2018, which is in line with the DBP.

In 2019, the DBP reports a headline surplus of 0.1% of GDP, while the Stability Programme projected a balanced budget position. That improvement is again due to the continuously high revenue from current taxes on income and profits. The Commission 2018 autumn forecast points to a balanced budget position in 2019, reflecting the somewhat more conservative macroeconomic projections.

The main risks to the DBP budgetary projections relate to the favourable macroeconomic outlook underlying the revenue forecasts in 2018. On the expenditure side, the risks have receded, as several expansionary measures adopted in 2017 with a budgetary impact in 2018 and 2019 have been scaled down or abolished, leading to a lower than previously expected fiscal expansion in 2018, and to almost no budgetary impact as of 2019.

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in Austria currently standing at 0.65[2]. 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 Draft Budgetary Plan, interest expenditure in Austria is expected to fall from 1.8% of GDP in 2017 to 1.6% in 2018 and is projected to decrease further next year, at 1.5% of GDP, well below the 2.7% recorded in 2012 at the peak of the euro area sovereign debt crisis. This is confirmed by the Commission 2018 autumn forecast.

[2] 10-year bond yields as of 24 October 2018. Source: Bloomberg.

## Table 2. Composition of the budgetary adjustment

| (% of GDP) | 2017 | 2018 | | | 2019 | | | Change: 2017-2019 |
|---|---|---|---|---|---|---|---|---|
| | COM | SP | DBP | COM | SP | DBP | COM | DBP |
| **Revenue** | **48.4** | **48.1** | **48.1** | **48.3** | **47.8** | **47.8** | **48.0** | **-0.6** |
| *of which:* | | | | | | | | |
| - Taxes on production and imports | 14.1 | 13.8 | 13.8 | 13.9 | 13.6 | 13.7 | 13.8 | -0.4 |
| - Current taxes on income, wealth, etc. | 13.0 | 13.2 | 13.3 | 13.3 | 13.2 | 13.2 | 13.2 | 0.2 |
| - Capital taxes | 0.0 | 0.2 | 0.2 | 0.0 | 0.2 | 0.1 | 0.0 | 0.1 |
| - Social contributions | 15.1 | 15.0 | 15.0 | 15.1 | 15.0 | 14.9 | 15.0 | -0.2 |
| - Other (residual) | 6.1 | 5.9 | 5.8 | 6.1 | 5.8 | 5.9 | 6.1 | -0.3 |
| **Expenditure** | **49.2** | **48.5** | **48.5** | **48.7** | **47.8** | **47.6** | **48.0** | **-1.5** |
| *of which:* | | | | | | | | |
| - Primary expenditure | 47.3 | 47.0 | 46.9 | 47.1 | 46.4 | 46.1 | 46.5 | -1.2 |
| *of which:* | | | | | | | | |
| Compensation of employees | 10.6 | 10.4 | 10.4 | 10.5 | 10.4 | 10.4 | 10.4 | -0.2 |
| Intermediate consumption | 6.2 | 6.1 | 6.0 | 6.1 | 6.0 | 6.0 | 6.0 | -0.3 |
| Social payments | 22.2 | 22.2 | 21.9 | 22.0 | 22.0 | 21.6 | 21.7 | -0.6 |
| Subsidies | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 0.1 |
| Gross fixed capital formation | 3.1 | 3.0 | 3.1 | 3.1 | 3.0 | 3.0 | 3.0 | 0.0 |
| Other (residual) | 3.8 | 3.8 | 4.0 | 4.0 | 3.5 | 3.6 | 4.0 | -0.2 |
| - Interest expenditure | 1.8 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | -0.3 |
| **General government balance (GGB)** | **-0.8** | **-0.4** | **-0.3** | **-0.3** | **0.0** | **0.1** | **0.0** | **0.9** |
| **Primary balance** | **1.0** | **1.2** | **1.3** | **1.3** | **1.5** | **1.6** | **1.5** | **0.6** |
| One-off and other temporary measures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **GGB excl. one-offs** | **-0.8** | **-0.4** | **-0.3** | **-0.3** | **0.0** | **0.1** | **0.0** | **0.9** |
| Output gap[1] | 0.1 | 0.7 | 0.9 | 0.8 | 0.9 | 0.8 | 0.8 | 0.7 |
| Cyclically-adjusted balance[1] | -0.8 | -0.8 | -0.8 | -0.8 | -0.5 | -0.3 | -0.4 | 0.5 |
| **Structural balance (SB)[2]** | **-0.8** | **-0.8** | **-0.8** | **-0.8** | **-0.5** | **-0.3** | **-0.4** | **0.5** |
| Structural primary balance[2] | 1.0 | 0.7 | 0.8 | 0.8 | 1.0 | 1.2 | 1.0 | 0.2 |

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 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations*

Based on the information provided in the DBP, the structural balance[3] is expected to stay at its 2017 value of -0.8% of GDP in 2018, which is also the projeciton of the Stability Programme. In 2019, the (recalculated) structural balance is expected to significantly improve to -0.3% of GDP. This improvement of 0.2 percentage points with respect to the Stability Programme is

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

due to the improvement of the headline balance and a lower than previously expected output gap. The Commission 2018 autumn forecast projects the structural balance at -0.8% of GDP in 2018 and -0.4% of GDP in 2019, which is broadly in line with the DBP.

The 2018 headline deficit reported in the DBP is driven by the deficit of the central government (-0.4% of GDP), while federal states and social security funds are expected to achieve a surplus in the order of 0.1% of GDP, respectively. On aggregate, municipalities are expected to have a deficit in the order of 0.1% of GDP. In 2019, all sectors but municipalities are expected to realise a budget surplus in the order of 0.1% of GDP. The national fiscal rules embedded in the 2012 Austrian Stability Pact require Austria to achieve a structural balance of -0.45% of GDP from 2017 onwards, with the upward limit set at -0.35% of GDP for the federal government (including social security funds) and -0.1% of GDP for federal states and municipalities.

### 3.2. Debt developments

According to the DBP, government debt is projected to decline markedly from 78.3% of GDP in 2017 to 74.2% of GDP in 2018 and also in absolute terms. This decline is mainly driven by strong nominal GDP growth (denominator effect) and supported by the improvement of the primary balance and stock-flow adjustments. In 2019, government debt is expected to decline further to 70.5% of GDP, mainly due to the improvement of the primary balance. Both in 2018 and 2019, declining interest expenditure is supporting the favourable development of debt. Based on the Commission 2018 autumn forecast, government debt is expected to follow similar dynamics, declining to 74.5% of GDP in 2018 and to 71.0% of GDP in 2019. The decline is somewhat lower compared to the DBP projections, due to slightly more conservative projections of nominal GDP growth in 2018 and the primary balance in 2019.

**Table 3. Debt developments**

| (% of GDP) | 2017 | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | SP | DBP | COM | SP | DBP | COM |
| **Gross debt ratio[1]** | **78.3** | **74.5** | **74.2** | **74.5** | **70.9** | **70.5** | **71.0** |
| Change in the ratio | -4.7 | -3.8 | -4.1 | -3.8 | -3.6 | -3.7 | -3.5 |
| *Contributions [2] :* | | | | | | | |
| **1. Primary balance** | **-1.0** | **-1.2** | **-1.3** | **-1.3** | **-1.5** | **-1.6** | **-1.5** |
| **2. "Snow-ball" effect** | **-1.2** | **-2.0** | **-1.9** | **-1.7** | **-1.4** | **-1.4** | **-1.3** |
| *Of which:* | | | | | | | |
| Interest expenditure | 1.8 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 |
| Growth effect | -2.0 | -2.4 | -2.2 | -2.1 | -1.5 | -1.4 | -1.4 |
| Inflation effect | -1.0 | -1.3 | -1.3 | -1.2 | -1.3 | -1.5 | -1.4 |
| **3. Stock-flow adjustment** | **-2.5** | **-0.6** | **-0.9** | **-0.9** | **-0.7** | **-0.7** | **-0.7** |

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 effects.

*Source:*

*Stability Programme 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations*

### 3.3. Measures underpinning the draft budgetary plan

Following a change in government in December 2017, Austria submitted an updated Draft Budgetary Plan for 2018 together with its Stability Programme in March 2018, which included also measures for 2019.[4] Therein, a restrictive expenditure path is described for 2018 and 2019 with the objective to achieve a balanced budget position in 2019. The introduction of a new Family Bonus plus constitutes the major discretionary revenue measure described in the updated DBP. The new bonus provides for a non-refundable personal income tax credit of EUR 1,500 per child and year while abolishing in turn the deductibility of child care cost and the child allowance. The net budgetary impact of this measure is estimated at EUR 1.2 billion. The current Draft Budgetary Plan for 2019 includes two further measures with respect to spring: a reduction of the employer contribution rate to the accident insurance from 1.3% to 1.2%, causing revenue shortfalls of EUR 100 million euro in 2019, and increased social transfers to compensate for the revenue foregone by the abolished recourse to assets of people in inpatient long-term care (*Pflegeregress*) in the order of EUR 240 million in 2018. The DBP does not report one-off measures over 2018-2019. The Commission 2018 autumn forecast includes the discretionary fiscal measures described above.

[4] See Assessment of the 2018 Stability Programme for Austria, Brussels 23 May 2018 for a detailed assessment of the measures underpinning the updated DBP/Stability Programme for 2018.

**Table 4. Main discretionary measures reported in the DBP**

**A. Discretionary measures taken by General Government - revenue side**

| Components | Budgetary impact (in % of GDP) (as reported by the authorities) | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Taxes on production and<br>Current taxes on income,<br>Capital taxes<br>Social contributions<br>Property Income<br>Other | 0.0 | 0.0 | 0.0 |
| Total | 0 | 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 increases as a consequence of this measure.
*Source: Draft Budgetary Plan for 2019*

**B. Discretionary measures taken by general Government- expenditure side**

| Components | Budgetary impact (in % of GDP) (as reported by the authorities) | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Compensation of employees<br>Intermediate consumption<br>Social payments<br>Interest Expenditure<br>Subsidies<br>Gross fixed capital formation<br>Capital transfers<br>Other | 0.1 | 0.0 | 0.0 |
| Total | 0.1 | 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 expenditure increases as a consequence of this measure.
*Source: Draft Budgetary Plan for 2019*

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

Austria is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the MTO. Box 2 reports the latest country specific recommendations in the area of public finances. Austria is also subject to the debt reduction benchmark.

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

On 13 July 2018, the Council addressed recommendations to Austria in the context of the European Semester. In particular, in the area of public finances the Council recommended that Austria take action in 2018 and 2019 to achieve the medium-term budgetary objective in 2019, taking into account the allowance linked to unusual events for which a temporary deviation is granted.

In view of the autumn 2018 forecast projecting that Austria will be 0.3% of GDP away from its MTO in 2018, in line with the temporary deviation related to unuausal events, the nominal growth rate of net primary government expenditure should not exceed 2.9%, corresponding to an improvement in the structural balance by 0.3% of GDP.

### 4.1. Compliance with the debt criterion

As its public debt exceeds the 60% of GDP reference value of the Treaty, Austria needs to comply with the debt reduction benchmark. The DBP does not include sufficient information to assess compliance with the debt reduction benchmark in 2018 and 2019. According to the Commission 2018 autumn forecast, Austria is expected to meet the debt reduction benchmark both in 2018 and 2019, as its debt-to-GDP ratio is expected to be below the debt benchmark with a gap to the debt benchmark of -5.3% of GDP in 2018 and -5.7% of GDP in 2019.

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

| | 2017 | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | SP | DBP | COM | SP | DBP | COM |
| Gross debt ratio | 78.3 | 74.5 | 74.2 | 74.5 | 70.9 | 70.5 | 71.0 |
| Gap to the debt benchmark [1,2] | -5.7 | -5.3 | n.a. | -5.3 | -5.8 | n.a. | -5.7 |

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 2018 (SP); Draft Budgetary Plan for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations*

* An ex-ante assessment of planned compliance with the debt criterion can be based on the DBP only for the Member States concerned providing extended data series (i.e. covering years up to t+4) in the DPB on a voluntary basis, as agreed at the EFC-A on 22 September 2014 and reflected in the updated Code of Conduct of the two-pack.

## 4.2. Compliance with the required adjustment path towards the MTO

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 as well as 0.04% of GDP for security measures related to the terrorist threat.[5] Finally, for 2017, a further temporary deviation from the adjustment path towards the MTO was granted, amounting to 0.03% of GDP in relation to the exceptional inflow of refugees. The cumulative carry-forward effect of those costs amounts to 0.32% of GDP in 2018 and 0.03% of GDP in 2019.

[5] By analogy to the implementation of the structural reform clause and the investment clause, temporary deviations granted on behalf of the unusual events clauses are carried forward for a total of three years as an allowed distance from the MTO. This is to ensure that Austria benefits from the granted temporary deviation similarly to Member States not yet close to their medium-term budgetary objective.

### Table 5: Compliance with the requirements of the preventive arm

| (% of GDP) | 2017 | 2018 | | 2019 | |
|---|---|---|---|---|---|
| **Initial position**[1] | | | | | |
| Medium-term objective (MTO) | -0.5 | -0.5 | | -0.5 | |
| Structural balance[2] (COM) | -0.8 | -0.8 | | -0.4 | |
| Structural balance based on freezing (COM) | -0.6 | -0.8 | | - | |
| **Position vis-a -vis the MTO**[3] | Not at MTO | At or above the MTO | | Not at MTO | |
| (% of GDP) | **2017** | **2018** | | **2019** | |
| | **COM** | **DBP** | **COM** | **DBP** | **COM** |
| **Structural balance pillar** | | | | | |
| Required adjustment[4] | 0.4 | 0.0 | | 0.3 | |
| Required adjustment corrected[5] | 0.0 | -0.2 | | 0.3 | |
| Change in structural balance[6] | 0.3 | 0.0 | 0.0 | 0.5 | 0.4 |
| *One-year deviation from the required adjustment* [7] | 0.3 | 0.2 | 0.3 | 0.3 | 0.1 |
| *Two-year average deviation from the required adjustment* [7] | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 |
| **Expenditure benchmark pillar** | | | | | |
| Applicable reference rate[8] | 1.2 | 3.3 | | 2.9 | |
| *One-year deviation adjusted for one-offs* [9] | 0.3 | -0.6 | -0.5 | -0.2 | -0.3 |
| *Two-year average deviation adjusted for one-offs* [9] | -0.1 | -0.2 | -0.1 | -0.4 | -0.4 |

Notes

[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 38.).

[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 20XX-1) was carried out on the basis of Commission 20XX 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, revenue increases mandated by law and one-offs 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 for 2019 (DBP); Commission 2018 autumn forecast (COM); Commission calculations.*

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. 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.

## 5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

The improvement in the general government balance projected by the DBP for 2018 and 2019 is mainly driven by higher than expected revenues from taxes on personal and corporate income in the order of roughly 0.1% of GDP. The expenditure side is revised downwards with respect to spring both for 2018 and 2019 (by 0.1% and 0.2% of GDP, respectively), which is mainly the result of lower than expected intermediate consumption and social payments. Based on the DBP projections, in 2019 public investment is expected to remain broadly stable at around 3% of GDP, which is the same rate observed since 2011. The same holds for expenditure for public wages, which is expected to remain constant at 10.4% of GDP.

Overall, Austria's tax structure relies heavily on taxes on labour, with social security contributions and yields from income taxes paid by households representing a relatively high share of total tax revenues. Against this background, several implemented or announced measures aim at reducing the labour tax wedge (see Box 3). With respect to the Recommendation of 13 July 2018 addressed by the Council to Austria[6] to make public services more efficient, including through aligning financing and spending responsibilities,, the DBP reports the formation of a working group on the disentanglement of competences and responsibilities across the various layers of government. On that basis, in October, new reform plans have been announced. The reform package for a clearer attribution of competences (*Kompetenzbereinigungspaket*) has assigned several policy areas in which the federal government currently issues basic laws and the States implementation laws to the states level only. Several other initiatives included in the 2017 Financial Equalisation Law are still ongoing. These include spending reviews, benchmark systems and task-oriented financing at the subnational level. Furthermore, a comprehensive reform of the social insurance agencies from 21 to five is announced to take place as of 2019. However, the budgetary and efficiency effects of this reform are currently not yet sufficiently determined.

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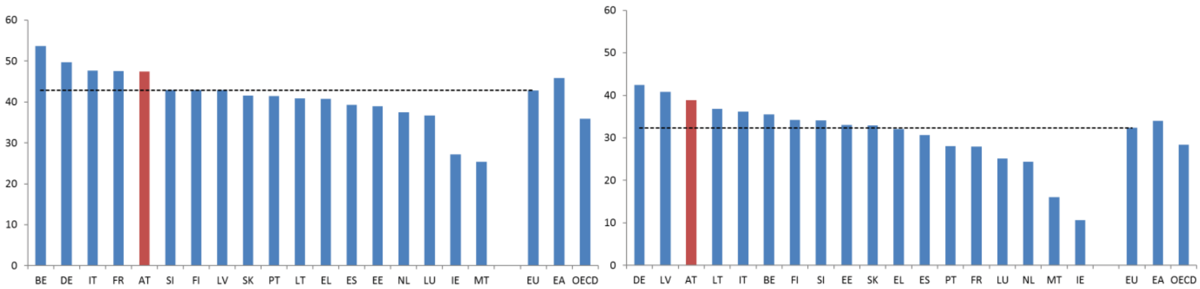
[6] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Austria and delivering a Council opinion on the 2018 Stability Programme of Austria , OJ C 320, 10.9.2018, p. 84.

**Box 3. 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 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.

**The tax burden on labour in Austria at the average wage and at low wage (2017)**




*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.

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 2018 European Semester, Austria received the country-specific recommendations to reduce the tax wedge, especially for low-income earners, by shifting the tax burden to sources of revenue less detrimental to growth.

Against that background, Austria has recently implemented or announced several measures. Firstly, as of July 2018 income thresholds for reduced contributions to the unemployment insurance have been increased for employees, reducing the tax wedge for lower income earners. Secondly, as of January 2019, employers will benefit from a reduction of their contribution to the accident insurance from 1.3% to 1.2%. Finally, as January 2019, the new Family Bonus plus will reduce the annual personal income tax liability by about EUR 1,500 per child. Overall, it is the declared aim of the government to reduce the tax to GDP ratio to 40% in the medium term.

## 6. OVERALL CONCLUSION

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

Based on both the information contained in the Draft Budgetary Plan and the Commission 2018 autumn forecast, the structural balance is expected to meet the medium-term budgetary objective both in 2018 and 2019 taking into account the allowances where revelant. However, if the projection that Austria will respect the MTO taking into account the allowance linked to unusual events 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.