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Delegations will find attached document C(2020) 8500 final.

EUROPEAN
COMMISSION

Brussels, 18.11.2020
C(2020) 8500 final

COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Austria

{SWD(2020) 870 final}

(Only the German text is authentic)

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(Only the German text is authentic)

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. As indicated in the Annual Sustainable Growth Strategy 2021[3] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[4], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[5], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027[6]. This proposal includes the establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[4] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[5] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING AUSTRIA

5. On 15 October 2020, Austria submitted its Draft Budgetary Plan for 2021. On that basis, the Commission has adopted an opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Austria[7] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Austria to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Austria's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the Austrian economy is expected to contract by 7.1% in 2020 and to grow by 4.1% in 2021. According to the Draft Budgetary Plan, the Austrian economy is expected to contract by 6.8% in 2020 before rebounding by 4.4% in 2021. This is driven mainly by the fall and subsequent recovery of domestic demand, in particular private consumption, while net exports are expected to recover more slowly. The labour market is expected to follow a similar pattern, reflected in the unemployment rate rising to 5.5% in 2020, before falling back to 5.1% in 2021, according to the Commission 2020 autumn forecast. According to the forecast from the Austrian Institute of Economic Research (WIFO)[8], which underlies the macroeconomic projections of the Austrian Draft Budgetary Plan, the economic downturn is expected to accelerate structural change in the form of a decrease of employment in the industrial sector, also in 2021. Employment in the tourism sector is expected to recover only slowly, as overnight stays are projected to remain subdued at least until spring of 2021. On most salient points, the macroeconomic projections underpinning the 2021 Draft Budgetary Plan are in line with the Commission 2020 autumn forecast. The main differences are the larger projected contraction in domestic demand and the lower projected contribution of net exports in the 2020 Commission projection, followed by a smaller rebound in 2021. Additionally, the Commission expects lower growth in the compensation of

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[7] Council Recommendation of 20 July 2020 on the national Reform Programme of Austria and delivering a Council opinion on the 2020 Stability Programme of Austria, OJ C 282, 26.8.2020, p 129.

[8] 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.

employees in 2020, and especially 2021. Austria complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

8. For 2020, the Draft Budgetary Plan expects the general government deficit to rise to 9.5% of GDP. This increase in the government deficit by more than 10 percentage points compared to the preceding year results from both a contraction in revenue and an increase of cyclical expenditure via the activation of automatic stabilisers, and from discretionary COVID-19-related measures. According to the Draft Budgetary Plan, the deficit is expected to narrow to 6.3% of GDP in 2021, helped by the rebound in economic activity. The Draft Budgetary Plan includes in its revenue projections an assumption in the order of 0.05% of GDP of grants from the Recovery and Resilience Facility. However, it does not feature corresponding expenditures under the Recovery and Resilience Facility.[9] For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Austria, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 324 million in 2021.[10]

On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[11] The evolution of the deficit in 2021 could hence turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility. The Commission 2020 autumn forecast projects the general government deficit at 9.6% of GDP in 2020 and at 6.4% of GDP in 2021. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase slightly from 84.0% at the end of 2020 to 84.8% in 2021, similar to the Commission's projection of 84.2% and 85.2%, respectively.

9. The Draft Budgetary Plan provides a qualitative description of discretionary fiscal measures with a direct budgetary impact in 2020 in response to the COVID-19 outbreak and its related economic effects. In sum, the measures amount to around EUR 23.2 billion (about 6.2% of GDP) in 2020. These consist of expenditure measures totalling EUR 18.9 billion (5.0% of GDP) and revenue measures costing EUR 4.3 billion (1.2% of GDP).

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9 The statistical treatment of the financial support provided by the Recovery and Resilience Facility is subject to ongoing discussions between Eurostat and the Member States.

10 Indicative number based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

11 The treatment of the Recovery and Resilience Facility (RRF) in the Commission’s 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission’s Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

The COVID-19 crisis management fund (*COVID-19 Krisenbewältigungsfond*) launched in March provides for extraordinary healthcare expenditure, fixed cost subsidies for distressed companies, short-time work arrangements, non-repayable grants to non-profit organisations and sport leagues, as well as a hardship fund for self-employed, small businesses and micro-entrepreneurs. Social hardship is addressed through the Corona family hardship compensation and a one-time children bonus of EUR 360, among others, while the Municipal Investment Act 2020 provides earmarked grants in support of additional investment, maintenance and renovation projects at the municipal level.

The economic stimulus package adopted in June shifts the focus from the preservation of the production potential to support for the economic recovery from the COVID-19 pandemic recession. It comprises a combination of temporary and permanent measures to boost private consumption and investment, and alleviate the balance sheet impact of COVID-19-related company losses. Measures include a permanent reduction of the personal income tax rate in the first tax bracket, increased tax credit, and temporary tax exemptions and VAT reductions for the gastronomy, culture and arts sectors. Unemployed people will receive a one-time payment. Businesses benefit among others from the possibility of loss carryback and declining-balance depreciation as well as grants for additional investments.

Beyond the expenditure and revenue measures that have a direct impact on the deficit, additional funds have been made available to finance tax deferrals and reduced advance payments (up to 2.7% of GDP) and public guarantees for loans (approximately 2.8% of GDP) to help companies avoid liquidity constraints. The current take-up of the guarantees amounts to 1.5% of GDP. Overall, the measures taken by Austria in 2020 were in line with the guidelines of the Commission Communication of 30 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. In 2021, the overall budgetary impact of all measures (extended from 2020 and new ones) amounts to EUR 16.1 billion (4.0% of GDP). The Draft Budgetary Plan includes a series of expenditure-side measures that affect mainly the compensation of employees, transfers in the areas of disaster control, environment and research, intermediate consumption for digitalisation projects and IT infrastructure, as well as public investments to strengthen the federal army (terror and disaster control, cyber security). The Plan includes also the newly created Corona Labour Foundation, which shall provide targeted support to re-integrate unemployed people into the labour market and address the medium and long-term demand for skilled labour. Other measures adopted since the economic stimulus package include an extraordinary pension increase and the financing of the deposit insurance fund. In sum, the budgetary impact of those new and other recently adopted measures amounts to 0.3% of GDP in both 2020 and 2021. According to the Commission forecast, while most of those measures are temporary, around 0.1% of GDP are assessed as not temporary.

11. Following a significant rise in the number of infections, the Austrian government imposed a month-long second lockdown on 3 November and adopted enhanced fiscal support in the order of approximately ½% of GDP for those sectors that are particularly affected. In light of these developments, the Austrian Institute of Economic Research has significantly revised downwards its macroeconomic projections, which has considerable implications for the budgetary projections. As a result, on 6 November, the Austrian government presented an amendment to the

Budget Law for 2020, which revises downwards the fiscal targets for 2020 and 2021. In particular, in 2020, the real GDP is now set to contract by 7.7% (instead of 6.8%) and the headline deficit is projected to reach 9.8% of GDP (instead of 9.5%). In 2021, the real GDP is now forecast to grow only by 2.8% (instead of 4.4%) and the headline deficit is projected to decrease to 7.1% of GDP (instead of 6.3%).

12. The Commission is of the opinion that the Draft Budgetary Plan of Austria is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Austria are supporting economic activity against the background of considerable uncertainty. Austria is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that Austria will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission