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Assessment of the 2015 Stability Programme for

AUSTRIA

(Note prepared by DG ECFIN staff)

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1. Introduction

This document assesses Austria's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 21 April 2015 and covers the period 2014-2019. The Stability programme was presented to Parliament on 29 April 2014 for discussion by the Budget Committee. The budgetary plans of the Programme are based on the Federal Budgetary Framework Law 2016-2019, which was adopted by the government and presented at the same time to the Parliament for approval.

Austria is currently subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position ensuring compliance with the medium-term objective, which was met in 2014. As the debt ratio was 80.9% of GDP in 2013 (the year in which Austria corrected its excessive deficit), 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 reduction benchmark. In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2016, Austria is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2015 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the main conclusions.

2. Macroeconomic outlook

The macroeconomic scenario of the Stability Programme assumes GDP growth of 0.5% in 2015, 1.4% in 2016 and a gradual strengthening thereafter to 1.9% in 2019. Domestic demand is projected to be the key driver of growth, whereas net external trade contributes significantly only in the outer years of the projection.

The projections constitute a significant downward revision compared to the ones used in the April 2014 Stability Programme (projecting 1.7% and 1.9% GDP growth for 2015-16) and the October 2015 Draft Budgetary Plan (1.2% for 2015). For 2015, the update has largely been driven by downward revisions to net exports as well as domestic demand, in particular to private consumption and investment. For 2016-18 the bulk of the revision is due to a smaller contribution by net exports against the background of somewhat weaker dynamics of trade flows. Private and public consumption growth are projected slightly stronger, while investment growth slightly weaker. The lower base due to the lower 2014 outturn need also be taken into consideration.

The output gaps as recalculated by the Commission[1] based on the information in the programme, following the commonly agreed methodology indicate a further deterioration of the economic cycle in 2015 and a gradual closure of the output gap until 2019. Over 2014-2016, this profile is largely consistent with the Commission Spring 2015 forecast. The output gap of the programme taken at face value implies a larger output gap than in the Commission's recalculation and a slower closure of the output gap towards the end of the programme period.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018	2019
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	0.3	0.3	0.8	0.5	1.5	1.4	1.5	1.7	1.9
Private consumption (% change)	0.2	0.2	0.6	0.4	1.0	1.4	1.4	1.3	1.2
Gross fixed capital formation (% change)	0.5	0.5	0.9	1.0	3.2	2.0	2.0	2.0	2.2
Exports of goods and services (% change)	1.5	1.5	2.1	2.0	3.9	3.2	3.4	3.7	4.1
Imports of goods and services (% change)	2.4	2.4	2.1	2.3	4.0	3.7	3.5	3.4	3.5
Contributions to real GDP growth:									
- Final domestic demand	0.3	0.3	0.7	0.7	1.4	1.3	1.4	1.4	1.4
- Change in inventories	-0.1	0.4	0.0	-0.1	0.0	0.2	0.0	0.1	0.0
- Net exports	-0.4	-0.4	0.1	-0.1	0.1	-0.1	0.1	0.3	0.5
Output gap[1]	-1.2	-1.0	-1.3	-1.4	-0.9	-1.0	-0.6	-0.2	0.3
Employment (% change)	0.9	0.8	0.6	0.6	0.8	0.8	0.9	1.1	1.2
Unemployment rate (%)	5.6	5.0	5.8	5.3	5.7	5.3	5.3	5.2	5.1
Labour productivity (% change)	-0.5	-0.5	0.2	-0.1	0.6	0.6	0.6	0.6	0.7
HICP inflation (%)	1.5	1.7	0.8	1.3	1.9	1.9	1.8	1.7	1.8
GDP deflator (% change)	1.7	1.7	0.9	1.4	1.6	1.7	1.7	1.6	1.6
Comp. of employees (per head, % change)	1.8	1.8	1.5	1.6	1.4	2.0	2.2	2.3	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.3	1.4	2.4	1.4	2.4	1.0	n.a.	n.a.	n.a.

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.

Source :

Commission 2015 spring forecast (COM); Stability Programme (SP).

The Stability Programme estimates the macroeconomic effects of the income tax reform at 0.1 percentage points of additional year on year GDP growth and additional cumulative employment gains of 0.2% over 2016-2019. The long-term effect on the GDP level is estimated at 1% and on the employment level – at 0.7%.

[1] For 2014-17 the recalculated output gaps are 0.5 percentage points of potential GDP smaller in absolute terms than the output gaps presented in the programme itself. This difference narrows to 0.4 points for 2018 and 0.3 points for 2019.

The real GDP growth projections for 2015-16 are broadly consistent with the Commission spring 2015 forecast[2]. There are however notable differences in the composition of growth for 2016, where the Commission forecast see more scope for the tax stimulus to buttress household savings rather than consumption. The Commission forecast also assumes somewhat lower wage settlements applicable to 2016 due to lower inflation and weak productivity growth in 2015, and as also noted by the Stability Programme, continued employment growth in the part-time segment. Overall the 2015 Austrian Stability Programme is based on plausible macroeconomic assumptions.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

The general government deficit stood at 2.4% of GDP in 2014, 0.4% better than estimated in the Draft Budgetary Plan (DBP) submitted by Austria in autumn 2014, which forecast a deficit of 2.8% of GDP in 2014. This outcome is due to two factors: First, positive statistical revisions of the 2013 government deficit data accounting for 0.2% of GDP. The upside revisions involve subnational government accounts. In particular States and local government roughly attained a balanced budget with respect to past expectations of a deficit balance in 2013. The other factor underlying the 2014 positive outcome relates to favourable expenditure developments in the execution of the 2014 Budget due to lower contributions to the EU budget and to better-than-expected economic results in a number of semi-public companies, which are now included under general government accounts in line with the new ESA10 methodology, and therefore having an impact on compensation of employees, intermediate consumption and to a number of other budgetary items. The positive expenditure developments have allowed to more than offsetting the additional cost of roughly 0.2% of GDP arising from lower valuation of the impaired assets of the former Hypo Alpe Adria. The write-downs of these assets have driven the overall deficit impact of the resolution of Hypo up to 1.4% of GDP (4.5 billion) in 2014.

The expenditure-to-GDP ratio attained 52.3% of GDP in 2014, 0.5% lower compared to the DPB's expectations. This result has benefitted from lower nominal expenditure of about 0.6% of GDP which has more than offset the negative denominator effect arising from lower nominal GDP growth. Subdued economic activity negatively affected general government revenue, which implied a revenue-to-GDP ratio of 49.9% of GDP, 0.1% lower than in the DBP. However, the rate of growth of tax revenue between 2013 and 2014 remained above nominal GDP growth, leading to an increase in the tax burden up to 43.1% of GDP.

The improvement in the headline deficit has led to the recalculated structural balance[3] showing a structural deficit of 0.5% in 2014, which is within the range for considering that Austria's medium-term objective (MTO) of a structural deficit of 0.45% of GDP has been achieved. The MTO reflects the objectives of the Pact. The structural deficit estimated by the Commission 2015 spring forecast is 0.4% of GDP also indicating that the MTO was achieved

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[2] Compared to the Commissions Spring Forecast, the programme's macroeconomic scenario assumes a 9% weaker US dollar, a slightly (ca. 1%) stronger NEER, 0.3-0.4 percentage points weaker EU growth, 0.8-1.6 percentage points weaker export market growth and 30% higher oil prices. These assumptions are consistent with the weaker GDP growth.

[3] The structural balance of the programme is recalculated by the Commission according to the commonly agreed methodology on the basis of the information in the programme

in 2014, one year before the date suggested by the 2014 Country Specific Recommendation. The difference between the 2014 structural deficit of the Commission 2015 spring forecast and the recalculated structural balance of the programme is due to larger output gap in the Commission's forecast (-1.2% of potential GDP) compared to the recalculated output gap of the programme (-1% of potential GDP).

3.2. Target for 2015 and medium-term strategy

The target for 2015

The Stability Programme expects a headline deficit at 2.2% of GDP in 2015. This estimate exceeds by 0.3% the forecast of the autumn DBP which pointed to a deficit of 1.9% of GDP. This difference is explained by both higher expenditure growth and lower revenue growth compared to the DBP, which more than offsets the better-than-expected fiscal outcome attained in 2014. The expenditure ratio is expected to slightly decline to 52.1% of GDP compared to 2014, while with respect to the previous DBP the expenditure ratio is estimated to increase by 0.3% of GDP. The positive base effect of 2014 is more than offset by the denominator effect and by additional nominal expenditure. The revenue ratio is forecast to remain broadly unchanged at 49.9% of GDP. The general government deficit is due to the deficit of the central government, whereas subnational governments are expected to achieve a small surplus.

The Commission 2015 spring forecast expects the headline deficit at 2.0% of GDP, therefore 0.2% lower than the estimate of the Stability Programme. This is mainly due to better projections concerning nominal government consumption expenditure, which are partly explained by lower inflation growth factored into the Commission's forecast.

The recalculated structural balance points to an increase in the structural deficit by 0.3% of GDP, driving the structural balance to -0.9% of GDP, which is above Austria's MTO of a structural deficit not higher than 0.45%. According to the non-recalculated structural balance of the programme, the structural deficit would shift up from 0.3% in 2014 to 0.5% of GDP in 2015, therefore remaining within the range for considering the MTO attained. This difference is explained by lower negative output gap recalculated by the Commission both in 2014 (-1% of potential GDP recalculated versus -1.5 % of potential GDP non-recalculated) and in 2015 (-1.4% of potential GDP versus -1% of potential GDP). According to the Commission forecast, the structural balance deteriorates by 0.4% of GDP to -0.8% of GDP, with the difference mainly explained by the reasons laid out above.

The medium-term strategy

The budgetary strategy underlying the 2015 Stability Programme aims at maintaining the MTO in all years of the horizon covered by the programme, by reducing the headline deficit nearly to the level of the MTO in 2019 when the output gap is expected to be closed. However, the recalculation of this scenario made by the Commission on the basis of the commonly agreed methodology signals that the deviation from the MTO, which would emerge in 2015, will not be closed during the programme period. This is due to the output gap closing faster than in the scenario calculated by the government, reaching a positive output gap in 2019. Consequently, the recalculated structural balance is estimated at a deficit of 0.8% of GDP in 2016, declining to 0.6% of GDP in 2019.

The other main objective underlying the Stability Programme is the implementation of a major tax reform in 2016 of about 1.5% of GDP, mainly aimed at providing a tax-relief to households. The budgetary plans included in the Stability Programme points to a net

reduction of the revenue-to-GDP ratio by 0.4% of GDP in 2016, lower than the tax relief due to counter-financing measures on the revenue side. The expenditure ratio is forecast to decline by 0.1% of GDP in 2016. Overall the effect of the reform appears to drive up the headline deficit by 0.3% to 1.6% of GDP in 2016 with respect to the no-policy change scenario. The headline deficit is nevertheless forecast to decline during the programme period to 0.5% of GDP in 2019. The current estimates exceed those of the 2014 Stability Programme, which planned to reach a headline deficit of 0.5% already in 2018.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	2019	Change: 2014-2019
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**49.9**	**50.0**	**49.9**	**49.1**	**49.5**	**49.5**	**49.4**	**49.4**	**-0.5**
of which:									
- Taxes on production and imports	14.4	14.4	14.5	14.6	14.8	14.8	14.7	14.5	0.1
- Current taxes on income, wealth, etc.	13.7	13.9	13.8	13.0	13.0	13.1	13.3	13.4	-0.3
- Social contributions	15.4	15.5	15.5	15.4	15.6	15.5	15.5	15.4	0.0
- Other (residual)	6.3	6.2	6.1	6.1	6.1	6.1	5.9	6.1	-0.2
Expenditure	**52.3**	**52.0**	**52.1**	**51.2**	**51.2**	**50.7**	**50.4**	**49.9**	**-2.4**
of which:									
- Primary expenditure	49.9	49.7	49.8	48.8	49.0	48.7	48.5	48.0	-1.9
of which:									
Compensation of employees	10.6	10.6	10.7	10.5	10.5	10.4	10.4	10.3	-0.3
Intermediate consumption	6.5	6.5	6.5	6.4	6.4	6.3	6.3	6.2	-0.3
Social payments	23.3	23.7	23.8	23.6	23.8	23.9	23.8	23.8	0.5
Subsidies	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.3	-0.2
Gross fixed capital formation	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.8	-0.1
Other (residual)	5.2	4.5	4.6	4.1	4.0	3.9	3.9	3.7	-2.3
- Interest expenditure	2.4	2.3	2.3	2.3	2.2	2.0	1.9	1.9	-0.5
General government balance (GGB)	**-2.4**	**-2.0**	**-2.2**	**-2.0**	**-1.6**	**-1.3**	**-0.9**	**-0.5**	**1.9**
Primary balance	**0.0**	**0.3**	**0.1**	**0.3**	**0.5**	**0.7**	**1.0**	**1.4**	**1.4**
One-off and other temporary measures	-1.3	-0.5	-0.5	-0.2	-0.2	-0.1	-0.1	-0.1	1.2
GGB excl. one-offs	**-1.1**	**-1.5**	**-1.7**	**-1.9**	**-1.4**	**-1.2**	**-0.8**	**-0.4**	**0.7**
Output gap[1]	-1.2	-1.3	-1.4	-0.9	-1.0	-0.6	-0.2	0.3	1.5
Cyclically-adjusted balance[1]	-1.7	-1.3	-1.4	-1.5	-1.0	-1.0	-0.8	-0.7	1.0
Structural balance (SB)[2]	**-0.4**	**-0.8**	**-0.9**	**-1.4**	**-0.8**	**-0.9**	**-0.7**	**-0.6**	**-0.2**
Structural primary balance[2]	2.0	1.6	1.4	1.0	1.4	1.1	1.2	1.3	**-0.6**

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the 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 (SP); Commission 2015 spring forecasts (COM); Commission calculations.

Measures underpinning the programme

The 2015 Stability Programme does not include the usual table quantifying in detail the effects of the discretionary measures underlying the programme. This does not go in the direction of promoting transparency and makes the budgetary plan more elusive. However, the Stability Programme and in particular the National Reform Programme in broad terms describe the quantitative effect of the discretionary measures, which are planned to be

implemented in the framework of the tax reform. In particular, the tax reform will cost EUR 5.2 billion (1.5% of GDP), of which the tax relief consisting on lower wage tax and reimbursement of social security contribution should account for EUR 4.9 billion. The reform of the wage tax envisages a re-modulation of the tax brackets and of the tax rates. The number of tax brackets will move up from 3 to 6 and the entry tax-rate will be reduced from 36.5% to 25% up to EUR 18000 of annual income. The tax base for the 50% tax rate will be increased from 60000 to 90000 and a temporary 55% tax rate is envisaged for annual income above EUR 1 million.

The main measures to finance the cost of the reform consist in: i) increasing the reduced-rates of the VAT tax for certain products from 10% and 12% to 13%; ii) increasing the tax rate on capital income from 25% to 27.5%; iii) raising to 30% the real estate gains tax and widening the tax base from unremunerated real estate transfers; iv) introducing a single rate for depreciation of buildings of business property. In addition the government plans to raise additional resources from fighting tax frauds by introducing compulsory cash registers and providing full access to bank accounts to tax authorities in case of tax audits. On the expenditure side the programme reports the aim of achieving savings from reduction in state subsidies and public administration reforms. The measures as indicated in the National Reform Programme are expected to yield to: i) a total of EUR 900 million from the increase of VAT, the introduction of a single depreciation rate for buildings and other changes in tax law; ii) EUR 400 million from the increase of other taxes; iii) EUR 1.9 billion from fighting tax fraud; iv) EUR 1.1 billion from reduction in administrative spending and subsidies; v) EUR 850 million from second-round effects of the reform, in particular referring to higher GDP growth.

In this respect the Commission 2015 spring forecast takes a more cautious view on the financing items. It includes only part of the resources arising from fighting tax fraud. Although the measures that Austria plans to implement to attain this target are quite relevant, an impact of about 0.3% of GDP of additional revenue seems rather optimistic in the short-term. Furthermore, the Commission does not explicitly factor in its forecast any revenue from seconds-rounds effect. The impact of the reform on macroeconomic variables is highly difficult to predict, therefore the materialisation of additional resources should be treated as an upside risks.

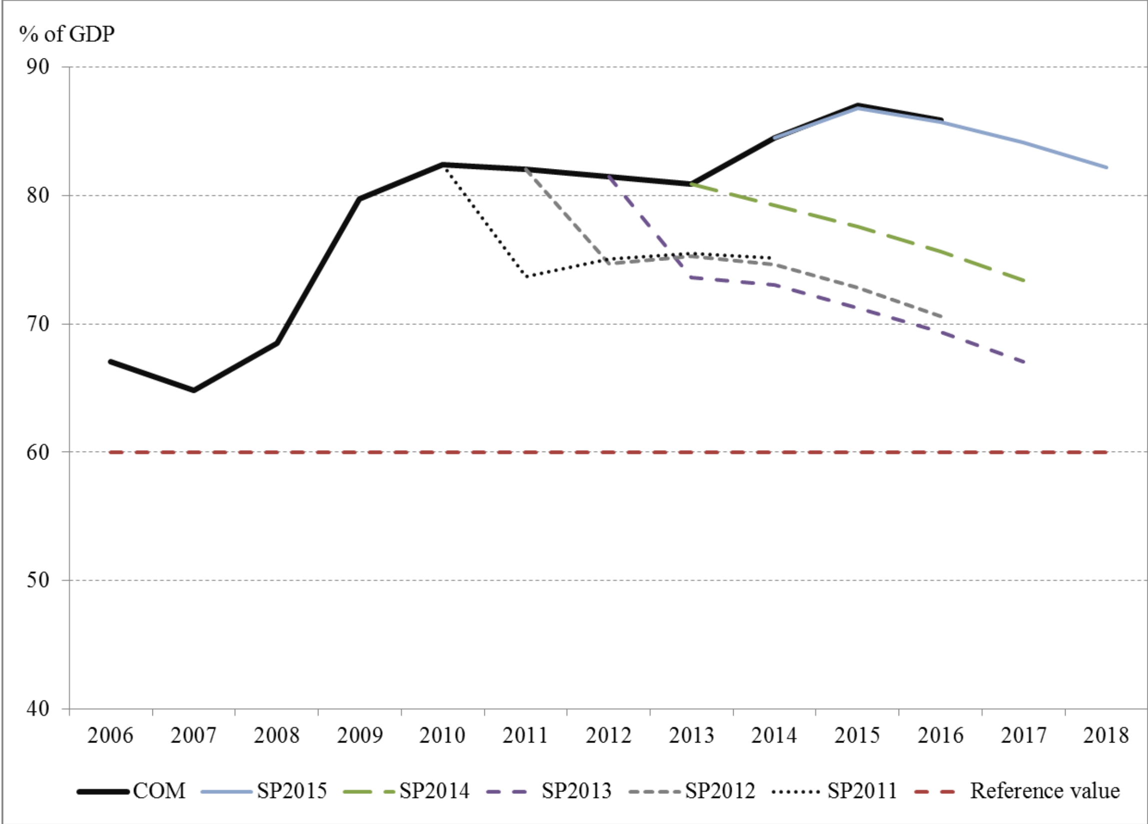
3.3. Debt developments

General government debt increased in 2014 to 84.5% of GDP. The increase in the debt ratio is mainly due to the inclusion under general government debt of the liabilities of HETA Asset Resolution, the wind-down company owned by Austria, established in 2014 to wind-down the impaired assets of the former Hypo Alpe Adria Bank. The size of HETA's liabilities included under general government debt, starting from 2014, accounts for EUR 14 billion. Thus, the overall increase in the debt in 2014 is explained mainly by negative stock flows adjustment for about 2.8% of GDP. This effect is equal to the difference between the total value of liabilities included under general government debt and the deficit impact of HETA (4.5 billion or 1.4% of GDP). The deficit impact is equal to the difference between the transfer value of the assets (corresponding in this case to the outstanding value of liabilities also transferred to HETA) and their economic value. The deficit impact has caused a decrease of the primary balance, which is now in a balanced position and therefore does not contribute to curb the impact of the snowball effect on the debt/GDP ratio.

In 2015 the debt ratio is expected to increase by 2.3% of GDP. This deterioration is mainly caused by a further negative stock-flow adjusment arising from the inclusion into the general

government debt of financial assets worth EUR 6.3 billion, transferred from Kommunal-kredit Austria AG to the balancesheet of KA Finanz, which was already included under general government accounts following the application of the ESA10 methodology. The transfer of these assets is a result of the sale of one pat of Kommunal-kredit to a private group of investors, implying that the assets and liabilities left are merged into the balance sheet of KA Finanz. After peaking in 2015 the general government debt is expected to decrease starting from 2016 up to 79.7% of GDP in 2019.The Commission 2015 spring forecast is broadly in line with the estimate of the programme.

Figure 1: Government debt projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast, Stability Programmes

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018	2019
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**81.3**	**84.5**	**87.0**	**86.8**	**85.8**	**85.7**	**84.1**	**82.2**	**79.7**
Change in the ratio	2.5	3.6	2.5	2.3	-1.2	-1.1	-1.6	-1.9	-2.5
Contributions[2] *:*									
1. Primary balance	**0.4**	**0.0**	**-0.3**	**-0.1**	**-0.3**	**-0.5**	**-0.7**	**-1.0**	**-1.4**
2. "Snow-ball" effect	**1.2**	**0.8**	**0.9**	**0.7**	**-0.3**	**-0.5**	**-0.6**	**-0.8**	**-0.9**
Of which:									
Interest expenditure	2.8	2.4	2.3	2.3	2.3	2.1	2.0	1.9	1.9
Growth effect	-0.4	-0.2	-0.7	-0.4	-1.2	-1.2	-1.2	-1.4	-1.5
Inflation effect	-1.2	-1.3	-0.8	-1.2	-1.4	-1.4	-1.4	-1.3	-1.2
3. Stock-flow adjustment	**1.0**	**2.8**	**1.9**	**1.6**	**-0.6**	**-0.1**	**-0.2**	**-0.1**	**-0.2**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

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 :

Commission 2015 spring forecast (COM); Stability Programme (SP), Comission calculations.

3.4. Risk assessment

Deficit and debt developments

The scenario reported in the Stability Programme is characterised by two main sources of risks. On the one hand, further costs for financial sector repair, concerning in particular the final quantification of the impact of HETA. On the other hand, the effect of the tax reform on public finances.

The deficit impact of HETA in 2014 (1.4% of GDP) is computed according to the most-realistic scenario developed by the independent body which is undertaking the evaluation of the economic value of the impaired assets. However the impact of HETA on Austria's public finances in 2014 and in the coming years is subject to several uncertainties. The independent assessment was not yet finalised at the time when this report is being drafted. In this respect the most realistic scenario does not include the costs which would arise from a negative conclusion of the sale of the South Eastern European network of subsidiaries. In addition the deficit impact resulting from the most-realistic scenario is computed on the basis of the current outstanding value of HETA's liabilities which has been reduced by the law converting Hypo Alpe Adria Bank into HETA. This law provides for the cancelation of 1.6 billion of subordinated liabilities expiring before 30 June 2019. The cancelation involves also the attached guarantee that the State of Carinthia had issued on these bonds. Legal actions have been initiated against these law's provisions. As a consequence, in case the pending lawsuits invalidate the cancelation of this share of subordinated debt, the amount of HETA's liabilities

will increase accordingly, leading to further impact on the general government deficit and on public debt. Other sources of uncertainties arise from the winding-down of HETA, in particular regarding the negotiation with bondholders concerning the size of a possible haircut which might be imposed on outstanding liabilities. A further factor of risk relates to the Carinthia's guarantee which still holds on around 10 billion on HETA's liabilities. The repayment of liabilities is currently under moratorium until 31 May 2016, following a decision taken by the Austria's Financial Market Authorities after that the Austria's government announced that it would not have borne additional costs than previously envisaged, to cope with the winding down of HETA's assets. However, the government has precautionary included a buffer of EUR 1.7 billion of capital transfers in the budgetary plan for 2015, motivated by the existence of a Federal guarantee, worth EUR 1 billion, covering HETA's subordinated debt, which is due in 2015. This buffer will also serve to face further costs which could arise from the ongoing restructuring of other nationalised banks.

Concerning the uncertainty related to the tax reform, estimates produced by Austrian Institute of Economic Research (WIFO) indicate that the reform might have a negative deficit effect of 0.1% of GDP in 2017, while in the medium-term the budget balance is estimated to improve by 0.2% of GDP. The expected deterioration of the budget balance in the short-term is confirmed by the model of the Austrian Institute for Advanced Studies (IHS). Assuming that these estimations take into account a full financing of the reform, the short-term deterioration in the budget balance would be explained by its effect on macroeconomic variables. There is a slight discrepancy between the negative impact computed by these institutes with respect to what can be deduced by analysing the Stability Programme. In fact, the difference between the budgetary prospects underlying the no-policy change scenario and the budgetary plan, points to higher deficit of about 0.3% of GDP emerging in 2016. It is not clear which is the source of this negative deficit impact given that the resources that the government expects to raise to fully finance the tax reform are supposed to materialise already in 2016. The scenario underlying the Commission spring forecast, by including only part of the resources to cover the cost of the tax reform, would suggest that the reform could be underfinanced by around 0.7% of GDP. In addition further downside risks stem from EUR 1.1 billion savings expected in relation to public administration reforms including a reduction of subsidies which appears still unspecified at this stage.

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

Box 1. Council recommendations addressed to Austria

On 8 July 2014, the Council 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 reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5 % of GDP based on the Commission services 2014 Spring forecast and after taking into account additional consolidation measures announced by Austria, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Further streamline fiscal relations between layers of government, for example by simplifying the organisational setting and aligning spending and funding responsibilities. The Council also recommended Austria to a) improve the long-term sustainability of the pension system by bringing forwards the harmonisation of the statutory retirement age for men and women, increasing the effective retirement age and aligning retirement age to life expectancy; b) further improve the cost effectiveness and sustainability of healthcare and long-term care services; c) reduce the high tax wedge on labour for low-income earners by shifting taxation to sources less detrimental to growth such as recurrent taxes on immovable property, including by updating the tax base.

4.1. Compliance with the debt criterion

Since the abrogation of the EDP by the Council on 21 June 2014, Austria is in a transition period under the debt rule as from 2014 and will have to make sufficient progress towards compliance with the debt criterion. According to the Commission's assessment based on notified data, Austria made sufficient progress towards compliance with the debt criterion in 2014 since the structural adjustment of 0.7% of GDP is above that required by the Minimum Linear Structural Adjustment (MLSA) which required to keep the structural balance unchanged.

The estimate for the years 2015 and 2016 indicates that according to national plans Austria will make sufficient progress towards compliance with the debt criterion since in 2015 the change in the structural balance (-0.3%) is in line with MLSA of -0.3% of GDP, while in 2016 it exceeds the MLSA (+0.1% of GDP structural improvement versus MLSA of -0.3% of GDP).

The Commission 2015 spring forecast confirms these results. However, it also indicates that Austria has limited space available to ensure sufficient progress towards compliance with the debt criterion in 2016 since the forecast deterioration in the structural balance (0.6% of GDP) exceeds the 0.4% of GDP deterioration allowed by the MLSA (albeit remaining within the allowed margin of 0.25% for annual deviation).

On the basis of the data of the programme Austria will also meet the debt benchmark in 2017, first year of the full application of the debt benchmark after the transition period.

Table 4: Compliance with the debt criterion

	2014	2015		2016		2017
		SP	COM	SP	COM	SP
Gap to the debt benchmark [1,2]	n.r.	n.r.	n.r.	n.r.	n.r.	-1.9
Structural adjustment [3]	0.7	-0.3	-0.4	0.1	-0.6	-0.1
To be compared to:						
Required adjustment [4]	0.0	-0.3	-0.4	-0.3	-0.4	n.r

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 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 :
Commission 2015 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.2. Compliance with the MTO

Austria is subject to the preventive arm of the SGP as from 2014 and should ensure sufficient progress towards the MTO. With a debt ratio above 60% and "normal" cyclical condition (the output gap is in the interval of -1.5% and 1.5% of GDP) Austria was required to pursue an annual structural adjustment towards the MTO of 0.6% of GDP.

Article 5(1) of Regulation (EC) No 1466/97 stipulates that "sufficient progress towards the medium-term objectives shall be evaluated on the basis of an overall assessment with the structural balance as reference, including the analysis of expenditure net of discretionary revenue measures." Furthermore, the regulation sets thresholds for significant observed deviation based on one-year figures as well as on two-year averages.

The assessment of the Draft Budgetary Plan for 2014 carried out by the Commission, signalled a risk of significant deviation from the requirements of the pact, although the adoption of additional measures worth 0.2% of GDP, announced by the Ministry of Finance on 12 May 2014, reduced this risk. The final 2014 data points to an improvement in the structural balance of 0.7% of GDP in 2014, exceeding the requirement of the Pact of an adjustment of 0.6% of GDP. This structural improvement leads to a structural deficit of 0.5% of GDP, allowing Austria to meet its MTO (-0.45%) in 2014, one year before the date set in the 2014 Country Specific Recommendation. At the same time, the growth rate of government expenditure, net of discretionary revenue measures, exceeded the applicable expenditure benchmark rate (-0.1%) in 2014, contributing to a deviation by around 1.5% in structural balance terms, above the threshold set for identifying a significance deviation. This deviation is mostly due to the effect of one-off expenditure related to HETA's impaired assets accounting for 1.4% of GDP. Hence, following an overall assessment and taking into account the one-off nature of the deviation for the expenditure benchmark, the structural balance is the

leading indicator to evaluate progress towards the MTO, therefore the ex-post analysis concludes that Austria has met its MTO in 2014.

In 2015, the assessment based on the programme and the Commission 2015 spring forecast give a rather similar picture. The structural balance as recalculated on the basis of the information in the programme according to the commonly agreed methodology, indicates a deviation of -0.3% of GDP from the MTO, confirmed by the Commission forecast. The growth rate of government expenditure, net of discretionary revenue measures, is well below the applicable benchmark rate (+1.25%) and contributes to the improvement of the structural balance by 0.8%, in line with the Commission's forecast which points to a positive deviation of about 0.9% of GDP. However, over the years 2014 and 2015 together, the growth rate of expenditure net of discretionary measures shows a deviation from the requirement of 0.4% of GDP, above the threshold for significance assessed on average over two-consecutive years (-0.25%). The Commission forecast points to a similar average deviation of 0.3% of GDP, still above the threshold for significance. At the same time, the deviation over 2014-2015 based on the structural balance pillar is projected at -0.1% of GDP both in the programme and the Commission forecast, pointing to some deviation. As the excess expenditure growth over the benchmark is related to the effect of the one-off measures, the overall assessments point to a risk of some deviation over 2014-2015.

In 2016, the recalculated structural balance of the programme shows a deviation of 0.2% of GDP from the required adjustment of 0.3% of GDP, which is needed to close the projected gap with respect to the MTO. The growth rate of expenditure, net of discretionary measures, exceeds the applicable expenditure benchmark (+0.5%) contributing to a deviation of about -0.1%. Over two years, the recalculated structural balance points to a deviation of about -0.3%, somewhat above the threshold for a significant deviation. Following an overall assessment, given that the profile of expenditure growth is biased due to different one-offs which have materialised or are expected to materialise over 2015-2016, the analysis concludes that the structural balance appears to be the leading indicator, pointing to a risk of significant deviation from the MTO over two years.

The Commission's forecast points to a deterioration in the structural balance of about 0.6% of GDP in 2016 leading to a deviation of 0.9% of GDP from the required adjustment on the one-year assessment. Based on the Commission forecast, the growth rate of expenditure net of discretionary measures exceeds the applicable expenditure benchmark rate contributing to a deviation from the adjustment path of almost 0.5% of GDP. Following an overall assessment, given that the profile of expenditure growth is biased due to different one-offs which have materialised or are expected to materialise over 2015-2016, the analysis concludes that the structural balance appears to be the leading indicator, pointing to a risk of significant deviation from the MTO over two years.

To summarise, following an overall assessment, some deviation from the MTO. is projected for 2015 according to the programme and the Commission 2015 spring forecast. In 2016, the programme points to a risk of significant deviation on the basis of the two-year change of the recalculated structural balance. The risk of significant deviation is higher in the scenario underlying the Commission spring forecast which indicates that a significant deviation could materialise in 2016 on the basis of the assessment over one year based on both the expenditure benchmark and the structural balance pillar.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2014	2015		2016	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.4	-0.8		-1.4	
Structural balance based on freezing (COM)	-0.4	-0.8		-	
Position vis-a -vis the MTO[3]	Not at MTO	At or above the MTO		Not at MTO	
(% of GDP)	**2014**	**2015**		**2016**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.6	0.0		0.3	
Required adjustment corrected[5]	0.6	-0.1		0.3	
Change in structural balance[6]	0.7	-0.3	-0.4	0.1	-0.6
One-year deviation from the required adjustment [7]	0.1	-0.3	-0.3	-0.2	-0.9
Two-year average deviation from the required adjustment [7]	In EDP	-0.1	-0.1	-0.3	-0.6
Expenditure benchmark pillar					
Applicable reference rate[8]	-0.1	1.3		0.5	
One-year deviation [9]	-1.5	0.8	0.9	-0.1	-0.5
Two-year average deviation [9]	In EDP	-0.4	-0.3	0.4	0.2
Conclusion					
Conclusion over one year	Overall assessment	Overall assessment	Overall assessment	Overall assessment	Overall assessment
Conclusion over two years	In EDP	Overall assessment	Overall assessment	Overall assessment	Overall assessment

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 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 28.).

[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.

[7] The difference of the change in the structural balance and the required adjustment corrected.

[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 not at its MTO.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law 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 :

Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.

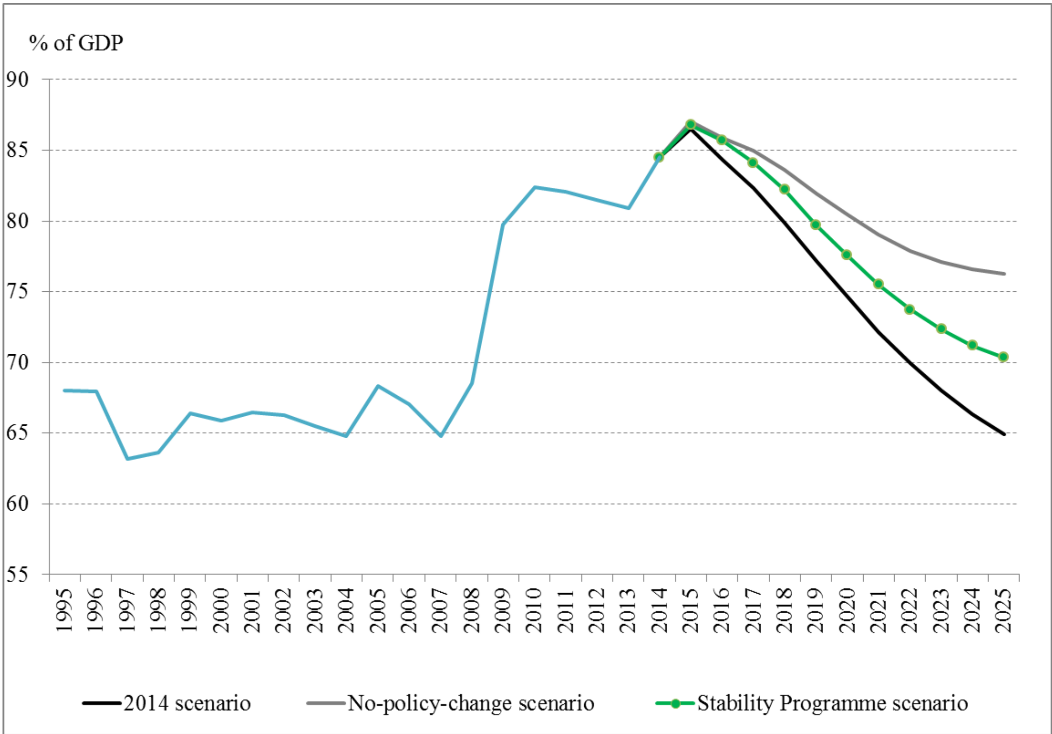
5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report[4] published on 12 May. It therefore updates the assessment made in the Country Reports[5] published on 26 February.

Government debt stood at 84.5% of GDP in 2014. It is expected to decrease (to 76.3% in 2025) remaining above the 60% of GDP Treaty threshold. However, the full implementation of the programme would put debt on a clearly decreasing path decreasing to 70.3% of GDP by 2025, although remaining above the 60% of GDP reference value in 2025.

Austria appears to face medium fiscal sustainability risks. The medium-term sustainability gap (S1 indicator), is at 1.6 % of GDP, according to the Commission 2015 spring forecast, while according to input of the programme the gap would be 1.1 p.p. of GDP. In both cases the gap is mainly due the high level of government debt contributing to the gap by -1.8% of GDP in 2015. The projected ageing costs, contributing with 0.4-0.5 pp. of GDP until 2030.

Figure 2: Gross debt projections (% of GDP)



Source: Commission 2015 spring forecast; Convergence Programme; Commission calculations

In the long-term, Austria appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.4/2.5 pp. of GDP over the very long run. The long-term sustainability gap shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 2.8 % of GDP according to the Commission 2015 spring forecast and at 2.5% of GDP according to the programme's scenario.

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[4] See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

[5] See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past. It is therefore appropriate for Austria to continue to implement measures that address fiscal sustainability risks by reducing government debt. Further containing age-related expenditure growth appears necessary to contribute to the sustainability of public finances in the medium/long term.

Table 6: Sustainability indicators

	Austria			European Union		
	2014 scenario	**No-policy-change scenario**	**Stability Programme scenario**	**2014 scenario**	**No-policy-change scenario**	**Stability/ Convergence Programme scenario**
S2*	1.6	2.8	2.5	1.4	1.7	0.4
of which:						
Initial budgetary position (IBP)	-0.7	0.4	0.0	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	2.3	2.4	2.5	1.0	1.1	1.1
of which:						
pensions	0.4	0.5	0.5	0.0	0.1	0.1
healthcare	1.0	1.0	0.9	0.8	0.7	0.6
long-term care	0.9	0.9	0.9	0.7	0.7	0.6
others	-0.1	0.0	0.2	-0.4	-0.3	-0.2
S1**	0.1	1.6	1.1	1.4	1.8	0.5
of which:						
Initial budgetary position (IBP)	-1.7	-0.7	-1.2	-0.4	-0.3	-1.6
Debt requirement (DR)	1.5	1.8	1.8	1.7	1.9	1.8
Long-term cost of ageing (CoA)	0.3	0.4	0.5	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.08	:		:		
Fiscal subindex	0.10	:		:		
Financial-competitiveness subindex	0.08	:		:		
Debt as % of GDP (2014)	84.5			88.6		
Age-related expenditure as % of GDP (2014)	27.9			25.6		

Source: Commission, 2015 Stability Programme

Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the foercast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

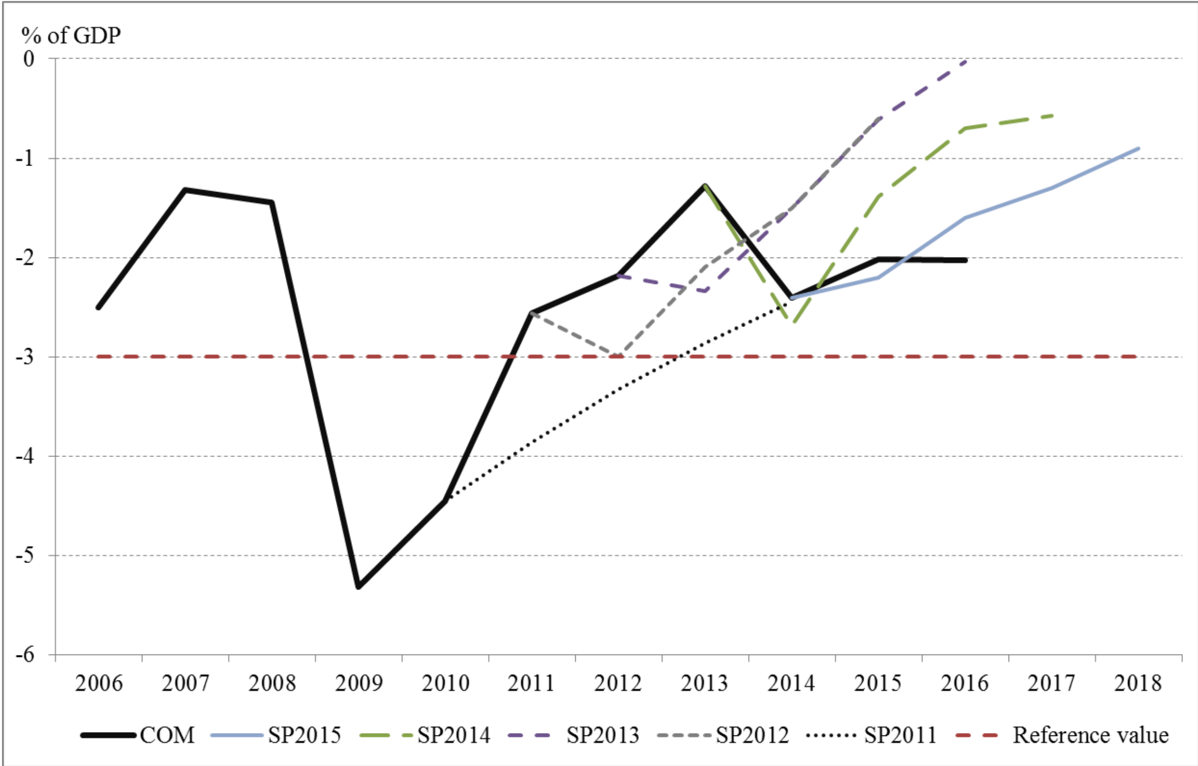
6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES[6]

6.1. Fiscal framework

The Stability Programme mentions explicitly that the budgetary plan included also represents the medium-term fiscal plan required by article 4 (1) of EU Regulation 473/2013. Neither the Stability Programme nor the National Reform Programme appears to provide information on the returns on planned public investment projects.

The Stability Programme states that it is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) in March 2015. WIFO has also been in charge of producing the estimation of the effects of the tax reform. WIFO was founded in 1927 and benefits from a reputation as one of Austria's prominent policy oriented economic research institutes. 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. The main features of WIFO's forecasts are freely available to the public.

Figure 3: Government balance projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast, Stability Programmes

The programme recalls the fiscal rules introduced by the Austrian Stability Pact entered into force on 1 January 2012. However, after the first two years of application of these provisions it is not clear how to assess whether budgetary outcomes have complied with the rules and whether budgetary plans have been set accordingly. The Stability Programme does not

[6]This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme.

include any analysis in this respect. In particular, it is not clear whether the nominal deficit targets included in the 2012 Austrian Stability Pact are still valid. If this is the case, Austria's general government deficit has exceed the target of 1.6% of GDP foreseen for 2014 and nominal budgetary plans are deviating from these targets as from the 2014 Stability Programme (figure 3). In addition, since the details on the implementation criteria of the internal rules seem not to have been specified yet, it is not possible to evaluate the compliance of the budgetary plans with the other rules of the pact, as for instance the rule aimed at capping subnational governments' expenditure growth to potential GDP growth rate.

6.2. Quality of public finances

The Stability Programme refers to different reforms improving the quality of public finances. In the field of public administration, a commission has been set up to examine how to improve public administration efficiency and develop specific proposals in this regard. One important element refers to the government's commitment to initiate a process aimed at exploring ways to improving the distribution of tasks and revising the responsibilities of existing authorities at the state and the federal level. Concerning the issues of tax and spending responsibilities between layers of government, a proposal for a comprehensive overhaul of the financial burden equalisation scheme will be prepared by the end of 2015. This reform, in particular, would go in the direction indicated by the country specific recommendation addressed to Austria in the framework of the 2014 European Semester. However at this stage no details on the extent, the concrete scope and the impact of these reforms are provided.

This document has already discussed in previous sections the estimated macroeconomic and budgetary effects of the tax reform. However, the reform is supposed to have also microeconomic effects on GDP and public finances by reducing distortions to labour supply. In this respect, WIFO estimates that dependent employment would rise by 8400 units in four years. The analysis made by the HIS using a model able to capture microeconomic effects points to a supply side effect on labour of about 22.000 full-time equivalent jobs and to a total effect of the reform on employment by about 29.000 additional person employed in the long-run.

Furthermore, concerning the tax system, some of the announced measures to fight tax evasion such as the introduction of compulsory cash registers, are also expected to improve the efficiency of tax collection, especially for VAT.

7. CONCLUSIONS

In 2014, Austria achieved an improvement of the structural balance of 0.7% of GDP, which is in line with the required adjustment towards the MTO. Following this adjustment, the MTO has been attained in 2014.

Austria's budgetary plans point to a deviation from the MTO by about 0.3% of GDP in 2015. In 2016 the planned structural adjustment of 0.1% of GDP falls short of the required 0.3% structural adjustment to close the gap with respect to the MTO. The Commission 2015 spring forecast points to a further deterioration in the structural balance of 0.3% of GDP, leading to a deviation of 0.9% from the required adjustment. Therefore the assessment of Austria's 2015 Stability Programme indicates a risk of some deviation in 2015 and 2016, while according to the Commission 2015 spring forecast there is a risk of a significant deviation from the requirements of the Stability and Growth Pact in 2016.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	2.8	2.1	1.3	0.9	0.2	0.3	0.8	1.5
Output gap [1]	0.5	-0.7	-0.3	0.0	-0.7	-1.2	-1.3	-0.9
HICP (annual % change)	1.3	1.7	2.2	2.6	2.1	1.5	0.8	1.9
Domestic demand (annual % change) [2]	1.9	1.7	1.1	0.3	-1.0	0.2	0.7	1.4
Unemployment rate (% of labour force) [3]	4.0	5.0	4.7	4.9	5.4	5.6	5.8	5.7
Gross fixed capital formation (% of GDP)	25.3	23.4	22.6	22.6	22.2	22.1	22.1	22.4
Gross national saving (% of GDP)	24.4	26.0	26.6	26.6	25.0	25.1	25.0	25.2
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.1**	**-2.6**	**-3.0**	**-2.2**	**-1.3**	**-2.4**	**-2.0**	**-2.0**
Gross debt	**65.1**	**66.4**	**75.5**	**81.5**	**80.9**	**84.5**	**87.0**	**85.8**
Net financial assets	**-35.0**	**-35.6**	**-37.7**	**-47.9**	**n.a**	**n.a**	**n.a**	**n.a**
Total revenue	49.3	48.7	48.3	48.7	49.6	49.9	50.0	49.1
Total expenditure	51.4	51.3	51.3	50.9	50.9	52.3	52.0	51.2
of which: Interest	3.6	3.2	3.0	2.6	2.5	2.4	2.3	2.3
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.0**	**-0.3**	**1.2**	**1.4**	**1.5**	**2.6**	**1.8**	**1.2**
Net financial assets; non-financial corporations	**-73.0**	**-80.7**	**-86.0**	**-77.5**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-3.5**	**0.5**	**6.0**	**11.7**	**n.a**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.0	15.7	14.7	15.1	13.9	14.0	13.9	14.3
Gross operating surplus	23.5	25.9	25.8	24.3	23.5	23.3	23.0	23.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.4**	**4.7**	**4.7**	**3.3**	**2.1**	**2.1**	**2.7**	**3.2**
Net financial assets	**95.6**	**100.6**	**110.2**	**113.8**	**n.a**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	40.4	38.6	38.7	39.2	39.6	39.7	39.9	39.5
Net property income	9.8	10.2	9.7	8.4	6.9	6.8	6.7	6.5
Current transfers received	22.5	22.6	22.3	22.6	23.1	23.3	23.7	23.6
Gross saving	10.0	9.6	9.8	9.0	7.9	7.8	8.3	8.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.7**	**1.9**	**2.8**	**2.4**	**2.2**	**2.3**	**2.4**	**2.4**
Net financial assets	**17.5**	**16.8**	**10.5**	**4.1**	**n.a**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	0.5	3.2	3.4	2.5	3.6	3.6	3.7	3.6
Net primary income from the rest of the world	-0.8	-0.2	0.4	0.9	-0.1	0.0	0.0	0.0
Net capital transactions	-0.2	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0
Tradable sector	46.4	46.0	45.1	45.0	44.4	43.9	n.a	n.a
Non tradable sector	42.7	43.2	44.0	44.0	44.7	45.2	n.a	n.a
of which: Building and construction sector	6.9	6.3	6.0	5.6	5.6	5.6	n.a	n.a
Real effective exchange rate (index, 2000=100)	102.4	99.5	100.5	99.4	102.5	104.6	101.3	100.8
Terms of trade goods and services (index, 2000=100)	103.1	102.9	100.1	97.7	98.0	99.0	99.3	99.1
Market performance of exports (index, 2000=100)	102.1	104.3	100.6	102.9	101.6	99.2	96.7	95.0

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission 2015 spring forecast (COM); Stability Programme (SP).