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Assessment of the 2016 Stability Programme for

Austria

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Austria's April 2016 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 26 April 2016 and covers the period 2015-2020. The Stability Programme was presented to the Parliament for discussion on 26 April 2016. The Programme is based on the Federal Budgetary Framework Law 2017 to 2020 (BFRG), which sets legally binding expenditure ceilings for the next four years, for the five main spending categories representing the federal government's main expenditure items. A draft BFRG has to be presented by the federal government by 30 April each year at the latest.

Austria is subject to the preventive arm of the the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium term budgetary objective (MTO). As the debt ratio was 84.3% of GDP in 2014 (the year in which Austria corrected its excessive deficit), exceeding the 60% of GDP reference value, Austria is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit. In this period it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2017, 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 2016 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 SGP, 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 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The macroeconomic scenario of the Stability Programme assumes a GDP growth of 1.6% for both 2016 and 2017 with a gradual slow-down to 1.5% towards 2020. Domestic demand is projected to be the key driver of growth, supported by the impact of the tax reform on consumption growth as well as increasing investment. Net external trade is projected to contribute markedly only in the outer years with expectations of improving world trade.

These projections are similar to the ones presented in the 2015 Stability Programme (projecting 1.4% and 1.7% GDP growth for 2016-2017) and the 2016 Draft Budgetary Plan (DBP), having expected a 1.4% GDP growth rate for 2016. For 2016, the improved outlook is driven by better domestic demand resulting from higher private and public consumption besides weaker investment. For 2017-2020 the bulk of the revision is due to a more balanced outlook for investment and net exports showing a stabilising instead of an increasing trend. Private consumption growth is projected to decline slightly, while public consumption stays stable and investment after some acceleration returns to previous levels. The higher base due to the higher 2015 outturn also needs to be taken into consideration.

The output gaps as recalculated by the Commission following the commonly agreed methodology, suggests an improvement of the cyclical position in 2016 and a continuous closure of the output gap until 2020. Over 2015-2017, this profile is largely consistent with the Commission Spring 2016 forecast. The output gap of the programme taken at face value is larger by around 0.1% of GDP compared with the Commission's recalculation, but shows the same trend of closing towards the end of the programme period.

Table 1: Comparison of macroeconomic developments and forecasts

| | 2015 | | 2016 | | 2017 | | 2018 | 2019 | 2020 |
|---|------|------|------|------|------|------|------|------|------|
| | COM | SP | COM | SP | COM | SP | SP | SP | SP |
| Real GDP (% change) | 0.9 | 0.9 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| Private consumption (% change) | 0.4 | 0.4 | 1.5 | 1.8 | 1.4 | 1.4 | 1.4 | 1.3 | 1.2 |
| Gross fixed capital formation (% change) | 0.4 | 0.4 | 1.8 | 1.7 | 1.9 | 1.8 | 2.3 | 2.1 | 1.8 |
| Exports of goods and services (% change) | 1.7 | 1.7 | 2.6 | 2.7 | 3.6 | 4.0 | 4.3 | 3.7 | 3.5 |
| Imports of goods and services (% change) | 1.7 | 1.7 | 2.7 | 2.9 | 3.2 | 3.8 | 4.3 | 3.7 | 3.4 |
| <i>Contributions to real GDP growth:</i> | | | | | | | | | |
| - Final domestic demand | 0.5 | 0.5 | 1.4 | 1.5 | 1.3 | 1.3 | 1.4 | 1.3 | 1.2 |
| - Change in inventories | -0.3 | 0.3 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net exports | 0.1 | 0.1 | 0.1 | 0.0 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 |
| Output gap ¹ | -1.0 | -1.1 | -0.7 | -0.8 | -0.3 | -0.4 | -0.3 | -0.1 | 0.0 |
| Employment (% change) | 0.6 | 0.6 | 0.9 | 1.2 | 0.9 | 1.3 | 0.9 | 1.0 | 1.1 |
| Unemployment rate (%) | 5.7 | 5.7 | 5.9 | 5.9 | 6.1 | 6.1 | 6.3 | 6.3 | 6.3 |
| Labour productivity (% change) | 0.2 | 0.2 | 0.6 | 0.4 | 0.7 | 0.3 | 0.5 | 0.5 | 0.6 |
| HICP inflation (%) | 0.8 | 0.9 | 0.9 | 1.2 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 |
| GDP deflator (% change) | 1.5 | 1.5 | 1.3 | 2.0 | 1.7 | 1.6 | 1.5 | 1.6 | 1.6 |
| Comp. of employees (per head, % change) | 1.6 | 2.1 | 1.4 | 1.4 | 1.6 | 1.5 | 2.1 | 2.0 | 1.9 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 3.0 | 2.7 | 3.1 | 3.1 | 3.3 | 3.2 | n.a. | n.a. | n.a. |
| Note: | | | | | | | | | |
| ¹ In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology. | | | | | | | | | |
| <i>Source:</i> | | | | | | | | | |
| Commission 2016 spring forecast (COM); Stability Programme (SP). | | | | | | | | | |

The real GDP growth projections for 2016-17 are broadly consistent with the Commission spring 2016 forecast. There are minor differences in the composition of growth for 2016, where the Commission forecast foresees a weaker stimulus from the tax reform on private consumption. The Commission forecast also assumes somewhat lower wage growth in 2016 due to lower inflation and weak productivity growth in 2016, and as also noted by the Stability Programme, continued employment growth in the part-time segment. The Stability Programme estimates the macroeconomic effects of the income tax reform to increase yearly GDP growth by 0.4 pps in 2016. These effects are expected to fade out in the following years. Overall the 2016 Austrian Stability Programme is based on plausible macroeconomic assumptions.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2015

The general government deficit stood at 1.2% of GDP in 2015, 0.7% of GDP better than estimated in the Draft Budgetary Plan (DBP) submitted in autumn 2015. This positive outcome is due to several factors.

On the revenue side, the tax reform starting in 2016 produced an anticipatory effect already in 2015. Since tax rates on capital yields and dividends as well as on real estate property transfers were increased as of January 2016, a peak of transactions and dividends' distributions occurred in 2015, resulting in unexpected temporary tax revenue amounting to around 0.4% of GDP.

On the expenditure side, the federal contribution to the statutory pension insurance fund was lower than expected by around 0.2% of GDP, partly as an effect of recent pension reforms aimed at increasing the effective retirement age. Also, lower interest rates on government bonds resulted in unexpected savings on interest expenditure of 0.4% of GDP.

These developments were partly offset by additional expenditure amounting to 0.2% of GDP due to rising unemployment and unexpected extra costs for asylum seekers of 0.1% of GDP.

The improvement of the headline deficit has led to a small structural surplus in 2015, instead of the (recalculated) structural balance of -0.6% of GDP estimated by the 2016 DBP.

3.2. Medium-term strategy and targets

The Stability Programme sets the MTO for Austria at 0.5% of GDP for the period 2017-2019, which reflects the objectives of the Pact. The purpose of the programme is to bring down the headline deficit from 1.2% of GDP to 0.4% of GDP by the end of the programme period, which, according to the authorities, would allow the structural balance to be at the MTO from 2018 onwards. However, based on the structural balance as recalculated by the Commission according to the commonly agreed methodology on the basis of the information contained in the programme, MTO would only be met as from 2019.

The time-profile of the envisaged budgetary adjustment is backloaded, with higher planned fiscal efforts in the outer years of the forecast horizon. For 2016 the Stability Programme projects the headline deficit at 1.6% of GDP, which corresponds to the projections of the 2015 Stability Programme but is slightly higher than what was planned in the 2016 DBP, projecting a deficit of 1.4% of GDP. The revision is mainly due to more conservative assumptions on the amount of collected revenues, which more than offset the additional savings expected from lower pension and interest expenditure. This plan also includes additional resources for national defence. The assumptions related to the tax reform and its financing measures are left unchanged compared to the 2015 Stability Programme and the 2016 DBP. The deterioration of the headline balance in 2016 is mainly driven by a drop in collected revenues caused by the tax relief starting this year and by the contingency of some of the anticipatory revenues in 2015, which represented a pull-forward effect of the tax reform. The general government deficit is due to the deficit of the central government, whereas subnational governments are expected to achieve a small surplus. The deterioration of the headline deficit in 2016 occurs in an economic recovery, reflecting in a smaller (recalculated) output gaps in absolute terms. As a consequence, the (recalculated) structural balance is expected to deteriorate from a small surplus in 2015 to -0.9% of GDP in 2016. The Commission 2016 spring forecast sets the

headline deficit at 1.5% of GDP in 2016, slightly lower than the estimate of the Stability Programme because of different assumptions on the carryover (due to revenue windfalls) from 2015 to 2016.

Table 2: Composition of the budgetary adjustment

| (% of GDP) | 2015 | 2016 | | 2017 | | 2018 | 2019 | 2020 | Change: 2015-2020 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| | COM | COM | SP | COM | SP | SP | SP | SP | SP |
| Revenue | 50.6 | 49.9 | 49.4 | 49.4 | 49.2 | 49.2 | 49.2 | 49.2 | -1.3 |
| <i>of which:</i> | | | | | | | | | |
| - Taxes on production and imports | 14.5 | 14.6 | 14.7 | 14.5 | 14.4 | 14.2 | 14.2 | 14.1 | -0.4 |
| - Current taxes on income, wealth, etc. | 14.3 | 13.4 | 13.2 | 13.3 | 13.2 | 13.5 | 13.6 | 13.8 | -0.5 |
| - Social contributions | 15.5 | 15.6 | 15.5 | 15.3 | 15.5 | 15.5 | 15.5 | 15.6 | 0.0 |
| - Other (residual) | 6.2 | 6.2 | 6.0 | 6.1 | 6.0 | 5.9 | 5.8 | 5.8 | -0.4 |
| Expenditure | 51.7 | 51.4 | 51.0 | 50.7 | 50.6 | 50.1 | 49.8 | 49.6 | -2.1 |
| <i>of which:</i> | | | | | | | | | |
| - Primary expenditure | 49.3 | 49.0 | 48.8 | 48.4 | 48.6 | 48.2 | 48.1 | 48.0 | -1.4 |
| <i>of which:</i> | | | | | | | | | |
| Compensation of employees | 10.7 | 10.6 | 10.6 | 10.5 | 10.5 | 10.4 | 10.4 | 10.3 | -0.3 |
| Intermediate consumption | 6.3 | 6.3 | 6.2 | 6.2 | 6.2 | 6.1 | 6.1 | 6.0 | -0.3 |
| Social payments | 23.5 | 23.7 | 23.8 | 23.6 | 23.7 | 23.6 | 23.7 | 23.7 | 0.2 |
| Subsidies | 1.4 | 1.3 | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 0.0 |
| Gross fixed capital formation | 3.0 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | -0.1 |
| Other (residual) | 4.4 | 4.1 | 4.0 | 3.9 | 3.9 | 3.7 | 3.6 | 3.6 | -1.6 |
| - Interest expenditure | 2.4 | 2.3 | 2.2 | 2.3 | 2.1 | 1.8 | 1.8 | 1.7 | -0.7 |
| General government balance (GGB) | -1.2 | -1.5 | -1.6 | -1.4 | -1.5 | -0.9 | -0.7 | -0.4 | 0.7 |
| Primary balance | 1.2 | 0.9 | 0.6 | 0.9 | 0.6 | 1.0 | 1.1 | 1.2 | 0.0 |
| One-off and other temporary measures | -0.6 | -0.2 | -0.2 | 0.0 | -0.2 | -0.1 | -0.1 | -0.1 | 0.5 |
| GGB excl. one-offs | -0.5 | -1.3 | -1.4 | -1.4 | -1.3 | -0.7 | -0.6 | -0.4 | 0.2 |
| Output gap ¹ | -1.0 | -0.7 | -0.8 | -0.3 | -0.4 | -0.3 | -0.1 | 0.0 | 1.0 |
| Cyclically-adjusted balance ¹ | -0.6 | -1.1 | -1.1 | -1.2 | -1.2 | -0.7 | -0.6 | -0.4 | 0.2 |
| Structural balance² | 0.0 | -0.9 | -0.9 | -1.2 | -1.0 | -0.6 | -0.5 | -0.4 | -0.4 |
| Structural primary balance ² | 2.4 | 1.5 | 1.3 | 1.1 | 1.0 | 1.3 | 1.3 | 1.3 | -1.1 |
| <u>Notes:</u> | | | | | | | | | |
| 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. | | | | | | | | | |
| <u>Source:</u> | | | | | | | | | |
| Stability Programme (SP); Commission 2016 spring forecasts (COM); Commission calculations. | | | | | | | | | |

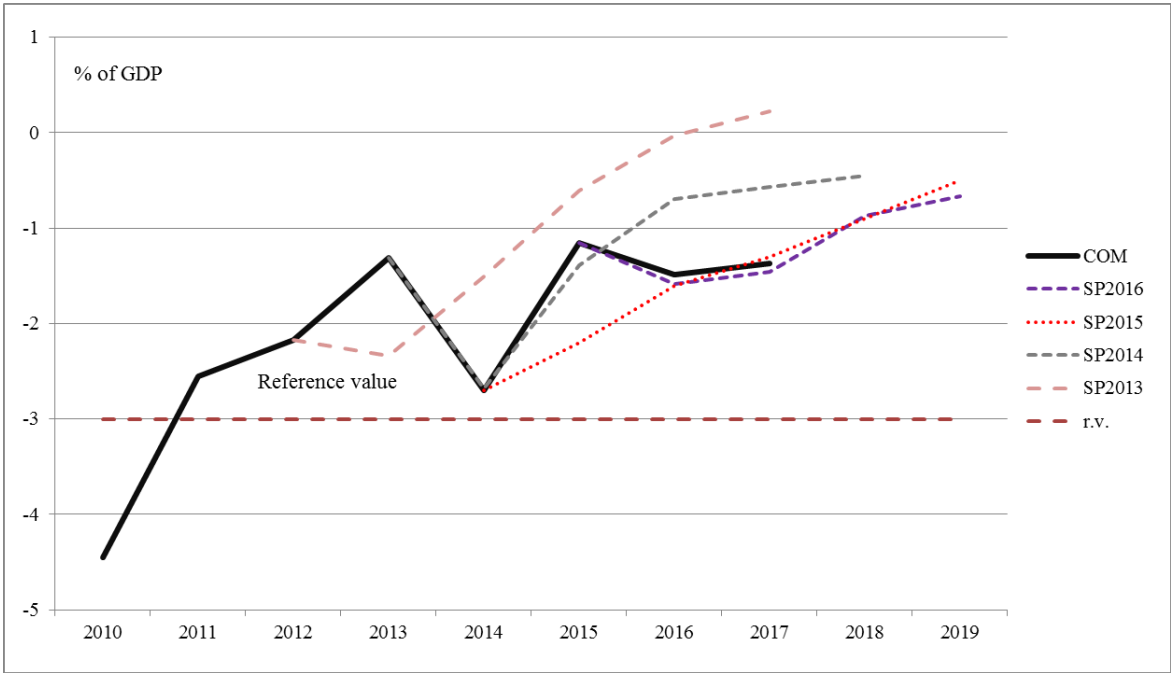
In 2017, the headline balance is expected to improve only slightly to -1.5% of GDP. This adjustment is mainly driven by a slightly lower compensation of employees and social payments as a proportion of GDP. At the same time, revenues are expected to decrease further due to a delayed effect of the 2016 tax reform. The structural balance is expected to slightly deteriorate to -1% of GDP. Differently from the Stability Programme, the Commission 2016 spring forecast on the one hand assumes no further costs for bank support from 2017, while on the other hand expects the delayed effect of the tax reform to have a budgetary impact in 2017. This results in a similar headline balance projection, which is expected to remain broadly stable at -1.4% of GDP. Given these different assumptions, no one-off measures are considered in 2017 and the structural deficit is expected to reach 1.2% of GDP.

Over the rest of the programme period, the Stability Programme expects revenues to remain stable at 49.2% of GDP, while expenditure is projected to gradually decline driven by lower compensation of employees, intermediate consumption and interest expenditure. The measures underpinning these savings are not specified in the Stability Programme, which simply mentions that the expenditure policy will remain restrictive.

The Stability Programme assumes one-off expenditures all over the programme period, amounting to 0.5% of GDP in 2015, 0.2% of GDP in 2016 and 2017, and 0.1% of GDP in the other years. These one-off expenditures are in all cases related to banks supporting measures, which for 2015 represent costs actually incurred while for the other years constitute preventive provisions. These provisions appear justified given the legal uncertainties still remaining in connection with the winding down of distressed financial institutions. The Commission 2016 spring forecast does not include these risk provisions after 2016.

With reference to the last four Stability Programmes, budgetary targets have become less ambitious over time, also reflecting the unexpected impact of bank supporting measures and the rapid increase of refugee-related expenditure.

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



– Source: Commission 2015 spring forecast; Stability Programmes

3.3. Measures underpinning the programme

Compared to the 2016 DBP, the new measures with a significant budgetary impact presented in the 2016 Stability Programme are the allocation of an additional funds for the integration of refugees in 2016 and 2017 and for national defence in 2016. The main budgetary measures underpinning the programme relate to the tax reform taking effect from 1 January 2016, whose details were specified in the 2015 Stability Programme and mentioned in the 2016 DBP. In these documents, the overall size of the tax reform was estimated at 1.5% of GDP (EUR 5.2 billion), mainly consisting of a tax relief on households and of several measures to promote GDP growth. The 2016 Stability Programme presents the tax reform as budgetary neutral and mentions the main financing measures: i) measures against fraud on taxes and social contributions (expected to yield half of the cost of the reform); ii) raises in other taxes, such as capital gains tax and real estate gains tax (expected to yield EUR 1.3 billion); iii) savings in public administration and subsidies (amounting to EUR 1.1 billion); iv) additional revenue from the positive macroeconomic effects of the reform (expected to cover the remaining cost of the reform).

3.4. Debt developments

Table 3: Debt developments

| (% of GDP) | Average 2010-2014 | 2015 | 2016 | | 2017 | | 2018 | 2019 | 2020 |
|--|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | COM | SP | COM | SP | SP | SP | SP |
| Gross debt ratio¹ | 82.3 | 86.2 | 84.9 | 84.3 | 83.0 | 82.6 | 80.8 | 78.7 | 76.6 |
| Change in the ratio | 0.9 | 2.0 | -1.4 | -2.0 | -1.9 | -1.6 | -1.8 | -2.1 | -2.1 |
| <i>Contributions² :</i> | | | | | | | | | |
| 1. Primary balance | -0.1 | -1.2 | -0.9 | -0.6 | -0.9 | -0.6 | -1.0 | -1.1 | -1.2 |
| 2. “Snow-ball” effect | 0.5 | 0.4 | 0.0 | -0.8 | -0.4 | -0.5 | -0.6 | -0.6 | -0.7 |
| <i>Of which:</i> | | | | | | | | | |
| Interest expenditure | 2.7 | 2.4 | 2.3 | 2.2 | 2.3 | 2.1 | 1.8 | 1.8 | 1.7 |
| Growth effect | -1.0 | -0.7 | -1.2 | -1.3 | -1.3 | -1.3 | -1.3 | -1.2 | -1.1 |
| Inflation effect | -1.3 | -1.2 | -1.1 | -1.7 | -1.4 | -1.3 | -1.2 | -1.2 | -1.2 |
| 3. Stock-flow adjustment | 0.5 | 2.8 | -0.5 | -0.5 | -0.5 | -0.5 | -0.2 | -0.3 | -0.2 |
| <i>Of which:</i> | | | | | | | | | |
| 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 2016 spring forecast (COM); Stability Programme (SP), Commission calculations. | | | | | | | | | |

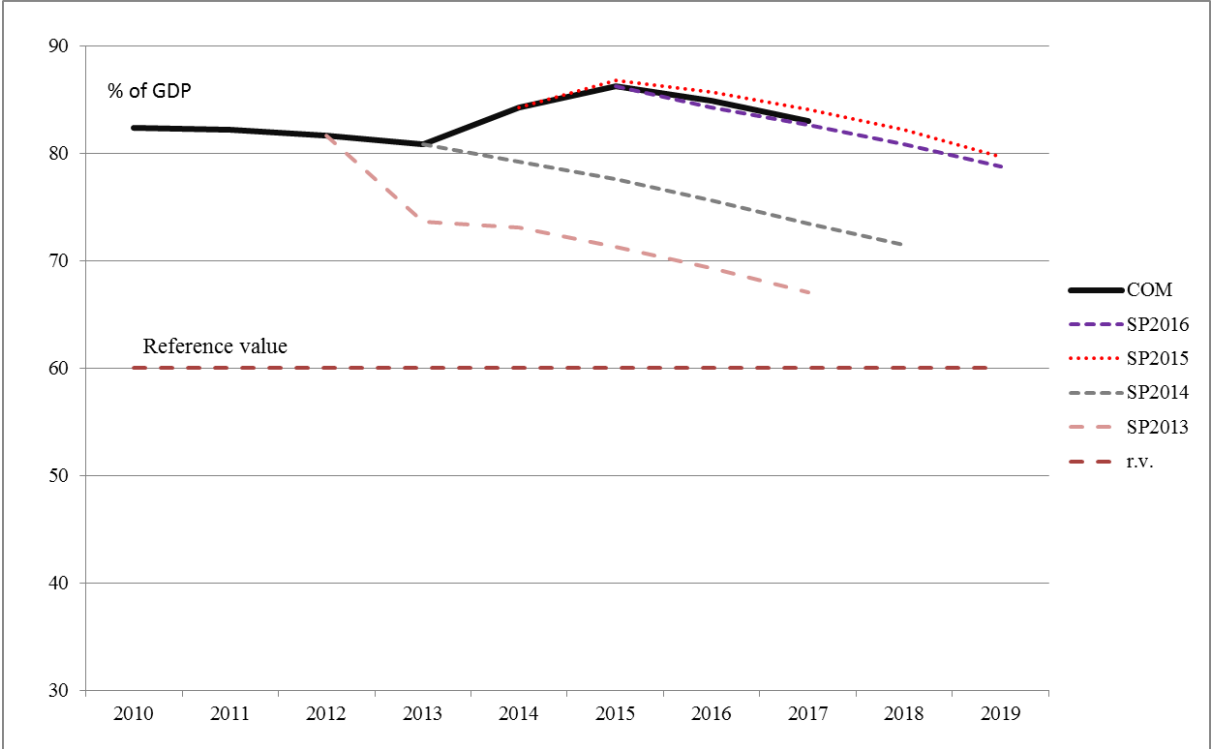
The general government debt is expected to have peaked in 2015 at 86.2% of GDP, rising from 84.3% of GDP in 2014. The increase was caused by several developments relating to nationalised banks included into government accounts, causing a significant stock-flow-

adjustment. These developments include i) the merging of the remaining liabilities of Kommunalkredit AG with the financial defeasance structure KA Finanz AG already recorded as part of the general government debt and ii) the inclusion into government accounts of Immigon, the asset management company of Österreichische Volksbanken AG. From 2016, the general government debt is expected to decline steadily, as a result of the improving primary balance and the progressive divestment of impaired assets from financial defeasance structures included into government accounts, which causes a negative stock-flow adjustment all along the programme period. Interest expenditure is projected to decrease steadily from 2016 onwards, while the effect arising from nominal GDP growth is expected to remain stable at -1.3% of GDP until 2018 and to slightly decrease afterwards. The GDP deflator is expected to peak in 2016 and to remain stable thereafter. The gross debt-to-GDP ratio is projected to reach 76.6% by 2020.

The Commission 2016 spring forecast projects a moderately higher debt-to-GDP ratio in 2016 when compared to the Stability Programme, driven by a smaller GDP deflator and more conservative assumptions on interest expenditure and GDP growth. These factors more than offset the stronger contribution of the primary balance. In 2017, the Commission 2016 spring forecast expects the gross debt-to-GDP ratio to be still above the projection of the Stability Programme, at 83.0%. The difference is smaller than in 2016 thanks to the contribution of the primary balance, while the assumptions on interest expenditure remain more conservative.

Comparing previous vintages of the Stability Programmes it appears that the debt-to-GDP ratio tended to be underestimated, mainly as an effect of the significant amount of impaired assets from financial defeasance structures that had to be recorded as part of the government debt.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast; stability and convergence programmes

3.5. Risk assessment

The scenario reported in the Stability Programme presents several sources of risks.

First of all, there are risks related to the assumed budgetary neutrality of the 2016 tax reform, given that the yields of some of the main financing measures are intrinsically uncertain. In particular, yields from measures against tax fraud are difficult to predict, given uncertainties as to the actual size of the shadow economy and the effectiveness of measures. Similarly, though the reform is expected to increase employment and private consumption in the medium to long term, the size and timing of ensuing additional revenue is difficult to predict. The Commission 2016 forecast takes a more conservative approach and expects the tax reform to produce a negative budgetary impact over 2016 and 2017, resulting in a lower structural balance in 2017.

The resolution of HETA, i.e. the winding down vehicle for the nationalised bank Hypo Alpe Adria, still presents some uncertainties and the possibility of additional costs for public finances cannot be excluded. The resolution plan for HETA announced by the Financial Market Authority on 10 April 2016 confirms the net losses for the general government at the level established by the previous assets evaluation and already factored in previous years. The offer of the federal government to buy back the debt covered by Carinthia's guarantee at 82% of its net present value was officially refused by creditors on 11 March 2016. On 18 May, the federal government announced the signature of a Memorandum of Understanding with several creditors, which could constitute a basis for a new offer. If there is no agreement with creditors, legal proceedings may start on the validity of the guarantee and the size and timing of the repayment. Depending on the outcome of these proceedings, further costs for the general government in the medium to long term cannot be excluded. The Stability Programme has estimated costs for bank supporting measures at around 0.2% of GDP over the programme horizon. The Commission 2016 spring forecast assumes costs for bank supporting measures at 0.2% of GDP in 2016.

Expenditures related to migration flows represent a third risk factor. The expenditures for asylum seekers and refugees expected by the Stability Programme in 2016 are significantly higher than the estimates of the 2016 DBP, even though since January 2016 Austria is implementing measures to limit the number of arrivals. The actual budgetary impact of migrants is difficult to predict and remains as an element of uncertainty over the programme horizon. It is not clear whether the Stability Programme includes also projections of means-tested benefits for asylum seekers recognised as refugees. The 2016 spring forecast considers these costs both for 2016 and 2017.

The Stability Programme seems to assume the persistence of the low interest rate environment until the end of the programme period. The Commission 2016 spring forecast has more conservative assumptions and expects interest expenditure to be higher than the estimates of the Stability Programme both in 2016 and 2017.

Finally, measures behind the progressive reduction in expenditure from 2018 to 2020 are not specified, even though this reduction is the main factor allowing Austria to reach its MTO from 2018. Nevertheless, expenditure for asylum seekers and migrants can reasonably be expected to progressively decrease in the next years. In addition, it should be noted that both in 2014 and 2015 headline deficit resulted to be lower than the estimates of the last DBPs and Stability Programmes.

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

Box 1. Council recommendations addressed to Austria

On 14 July 2015, 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 avoid deviating from the medium-term budgetary objective in 2015 and 2016 and ensure the budget neutrality of the tax reform aimed at reducing the tax burden on labour.

4.1. Compliance with the MTO

Assessment of eligibility to the "unusual events" provision

The Stability Programme reports the details of the costs for asylum seekers and refugees incurred in 2014 and 2015, and the estimates of these costs for 2016. As it was the case for the 2016 DBP, the Stability Programme mentions that these costs should be taken into account in the computation of the structural balance.

The Stability Programme reports costs related to asylum seekers and refugees amounting to 0.13% of GDP in 2014 and 0.22% of GDP in 2015, which corresponds to an additional expenditure of 0.09% of GDP in 2015. The stronger increase in costs is in the category "initial reception costs", which reflects the high number of applications received, increasing from 28 065 in 2014 to 88 175 in 2015, and is therefore plausible. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow catering for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Austria's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. In 2015, as Austria was at its medium-term budgetary objective, it did not make use of the possible temporary deviation. However, in order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015.

The Stability Programme also estimates costs related to asylum seekers and refugees at 0.57% of GDP in 2016, which corresponds to an additional expenditure of 0.34% of GDP in comparison with 2015. The stronger increase in costs is in the categories "initial reception costs", "transport costs" and "other costs". The increase in the category "initial reception costs" is mainly caused by the increased per capita costs for adults and unaccompanied minors. In addition, the length of the application procedure caused a high number of asylum seekers arrived in 2015 to require public assistance still in 2016, generating important "initial reception costs" despite the lower number of applications received. The increase in the category "other costs" is mainly due to integration measures and additional resources for national defence. In view of the final assessment, it will be necessary to clarify to what extent the additional resources for national defence are linked with measures to limit the inflow of asylum seekers, as suggested by the fact that in 2015 the higher number of applications coupled with lower military costs. At the present stage, the Commission does not consider these additional resources for national defence as eligible.. This results in an eligible additional expenditure estimated at 0.26% of GDP in 2016. A final assessment regarding 2016, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Austrian authorities.

The Stability Programme also mentions that the special treatment for refugee-related costs will be advocated also for 2017, but no estimates for costs in 2017 are included.

Adjustment towards the MTO

In 2015, the structural balance has increased by 0.7% of GDP, generating a small surplus. As a result, Austria was above its MTO (set at -0.45% of GDP) by 0.5% of GDP. The expenditure benchmark has also been complied with (positive gap of 1.1% of GDP). Over 2014 and 2015 taken together, the structural balance pillar is expected to have been complied with, while the expenditure benchmark points to a risk of some deviation (average gap of -0.2% of GDP). This calls for an overall assessment. The discrepancy between the two indicators is mostly due to significant one-off costs related to the winding-down of financial defeasance structures in 2014 and 2015, hence contributing to a stronger expenditure growth over the two years. Considering this factor, the structural balance seems to be a better indicator of the fiscal effort at the current juncture. Therefore, the overall assessment points to compliance with the MTO over the years 2014 and 2015 taken together.

According to the information provided in the Stability Programme, the (recalculated) structural balance is expected to deteriorate by 1.0% of GDP in 2016, causing a deviation from the required adjustment of -0.5% of GDP. According to the programme, the (real) growth rate of government expenditure net of discretionary revenue measures in 2016 will be below the applicable expenditure benchmark rate by 0.3% of GDP. Over two years, both the structural balance and the expenditure benchmark point to compliance. This calls for an overall assessment. While one-off costs related to banks support had contributed -0.5% of GDP to the headline balance in 2015, their contribution is expected at -0.2% of GDP in 2016. This evolution does not impact the (recalculated) structural balance but has a positive impact on the expenditure benchmark. At the same time, the (recalculated) structural balance is expected to be impacted by a sizable revenue shortfall (0.7% of GDP) compared to standard elasticities. After correcting for these impacts, both the expenditure benchmark and the structural balance would point to compliance of the plans.

According to the Commission 2016 spring forecast, the structural balance will deteriorate by 0.9% of GDP in 2016, causing a deviation from the required adjustment of -0.3% of GDP. The expenditure benchmark appears to be complied with. Over two years, both the structural balance and the expenditure benchmark point to compliance. This calls for an overall assessment. As mentioned above, compliance with the expenditure benchmark is driven by year-to-year fluctuations in one-off costs for banks support, which in 2016 are expected to be lower by 0.4% of GDP when compared with 2015. At the same time, the structural balance is expected to be impacted by a revenue shortfall (0.1% of GDP) compared to standard elasticities, mainly due to the fact that part of the 2016 revenue shifted to 2015 as an anticipatory effect of the tax reform. After correcting for these impacts, the expenditure benchmark and the structural balance would point towards a deviation from the required adjustment of 0.1% of GDP and 0.2% of GDP respectively. Therefore, the overall assessment points towards a risk of some deviation from the required path towards the MTO in 2016. However, the eligible additional budgetary impact of the exceptional inflow of refugees is expected to amount to 0.26% of GDP in 2016. In case the further allowance linked to the budgetary impact of the exceptional inflow of refugees was considered in the assessment, according to both indicators the adjustment path towards the MTO could be considered as in line with the requirements.

Based on the information provided in the Stability Programme, the (recalculated) structural balance will deteriorate by 0.1% of GDP in 2017, causing a deviation from the required adjustment of -0.4% of GDP. The (real) growth of government expenditure net of

discretionary revenue measures is expected to exceed the applicable benchmark rate (0.5% of GDP) by 0.6% of GDP. This calls for an overall assessment. The difference between the two indicators is mainly caused by a revenue windfall expected in 2017 (0.3% of GDP) compared to standard elasticities. After correcting for this factor, both the expenditure benchmark and the (recalculated) structural balance would point to significant deviation. Thus the overall assessment points to a risk of significant deviation in 2017. However, in case the allowance

Table 4: Compliance with the requirements under the preventive arm

| (% of GDP) | 2015 | 2016 | | | | 2017 | | | |
|---|---------------------|---------------------|------------------------------|--------------------|------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|
| Initial position¹ | | | | | | | | | |
| Medium-term objective (MTO) | -0.45 | -0.45 | | | | -0.5 | | | |
| Structural balance ² (COM) | 0.0 | -0.9 | | | | -1.2 | | | |
| Structural balance based on freezing (COM) | 0.0 | -0.9 | | | | - | | | |
| Position vis-à-vis the MTO³ | At or above the MTO | At or above the MTO | | | | Not at MTO | | | |
| | 2015 | 2016 | | | | 2017 | | | |
| | | SP | | COM | | SP | | COM | |
| (% of GDP) | COM | Vis-à-vis the CSR | Including additional clauses | Vis-à-vis the CSR | Including additional clauses | Vis-à-vis the CSR | Including additional clauses* | Vis-à-vis the CSR | Including additional clauses* |
| Structural balance pillar | | | | | | | | | |
| Required adjustment ⁴ | 0.0 | 0.0 | | | | 0.4 | | | |
| Required adjustment corrected ⁵ | -0.2 | -0.6 | -0.8 | -0.6 | -0.8 | 0.3 | 0.0 | 0.3 | 0.0 |
| Change in structural balance ⁶ | 0.7 | -1.0 | | -0.9 | | -0.1 | | -0.3 | |
| One-year deviation from the required adjustment ⁷ | 0.9 | -0.5 | -0.2 | -0.3 | -0.1 | -0.4 | -0.1 | -0.6 | -0.3 |
| Two-year average deviation from the required adjustment ⁷ | 0.5 | 0.2 | 0.3 | 0.3 | 0.4 | -0.4 | -0.2 | -0.5 | -0.2 |
| Expenditure benchmark pillar | | | | | | | | | |
| Applicable reference rate ⁸ | 1.4 | 2.3 | 2.8 | 2.3 | 2.8 | 0.5 | 1.1 | 0.5 | 1.1 |
| One-year deviation ⁹ | 1.1 | 0.3 | 0.5 | 0.3 | 0.6 | -0.6 | -0.2 | -0.2 | 0.0 |
| Two-year average deviation ⁹ | -0.2 | 0.7 | 0.8 | 0.7 | 0.8 | -0.2 | 0.2 | 0.0 | 0.3 |
| Conclusion | | | | | | | | | |
| Conclusion over one year | Compliance | Overall assessment | Overall assessment | Overall assessment | Overall assessment | Overall assessment | Overall assessment | Overall assessment | Overall assessment |
| Conclusion over two years | Overall assessment | Compliance | Compliance | Compliance | Compliance | Overall assessment | Overall assessment | Overall assessment | Overall assessment |
| Notes | | | | | | | | | |
| * In order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its MTO in 2017 by the amount considered eligible for 2016. | | | | | | | | | |
| 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 2014) is carried out on the basis of Commission 2015 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 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. | | | | | | | | | |
| <i>Source:</i> Stability Programme (SP); Commission 2016 spring forecast (COM); Commission calculations. | | | | | | | | | |

linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016 was considered in the assessment, both indicators would point to some deviation.

Based on the Commission 2016 spring forecast, the structural balance is expected to deteriorate by 0.3% of GDP in 2017, causing a deviation of -0.6% of GDP from the required adjustment. Regards the expenditure benchmark, the Commission 2016 spring forecast points towards a deviation of -0.2% of GDP from the applicable reference rate. This calls again for an overall assessment. As to the Commission 2016 spring forecast, the better outcome of the

expenditure benchmark in 2017 is driven by yearly fluctuations in one-off costs for banks support, which are estimated at 0.2% of GDP in 2016 and are expected to fade out in 2017. As these one-offs costs are not included in the structural balance, this appears as a better indicator of the fiscal effort also in 2017. Thus the overall assessment points towards a risk of significant deviation from the adjustment path towards the MTO in 2017. However, in case the allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016 was considered in the assessment, the structural balance would point to some deviation in 2017.

4.2. Compliance with the debt criterion

Austria is in a transition period and is expected to make sufficient progress towards compliance with the debt reduction benchmark in 2015 and 2016. Austria made sufficient progress in 2015 since the structural adjustment of 0.7% of GDP is above the minimum requirement specified by the Minimum Linear Structural Adjustment (MLSA) which allowed the structural balance to deteriorate by 0.4% of GDP.

The (recalculated) structural balance as planned in the Stability Programme indicates that Austria will make sufficient progress towards compliance with the debt criterion in 2016 since the change in the (recalculated) structural balance (-1.0% of GDP) exceeds the MLSA of -1.4% of GDP. The Commission 2016 spring forecast confirms compliance.

Based on the Stability programme, the debt benchmark is expected to be met in 2017 and 2018, the first two years of the application of the debt benchmark after the transition period.

Table 5: Compliance with the debt criterion*

| | 2015 | 2016 | | 2017 | | 2018 |
|--|-----------|-------------|-------------|-------------|-------------|-------------|
| | | SP | COM | SP | COM | SP |
| Gross debt ratio | 86 | 84.3 | 84.9 | 82.6 | 83.0 | 80.8 |
| Gap to the debt benchmark ^{1,2} | n.r. | n.r. | n.r. | -1.6 | -0.7 | -2.0 |
| Structural adjustment ³ | 0.7 | -1.0 | -0.9 | -0.1 | -0.3 | 0.5 |
| <i>To be compared to:</i> | | | | | | |
| Required adjustment ⁴ | 0.4 | -1.4 | -1.4 | n.r. | n.r. | n.r. |

Notes:

¹ Not relevant for Member States 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 (S/CP) budgetary projections for the previous years are achieved.

Source:

Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.

5. FISCAL SUSTAINABILITY

Austria does not appear to face fiscal sustainability risks in the short run. Based on Commission forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 86.2% of GDP in 2015, is expected to decrease to 72.1% in 2026, thus still remaining above the 60% of GDP Treaty threshold. This highlights medium risks for the country from the debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a clearly decreasing path by 2026, although remaining above the 60% of GDP reference value in 2026.

The medium-term fiscal sustainability risk indicator S1 is at 1.2 pps. of GDP, primarily related to the high level of government debt contributing with 1.7 pp. of GDP, thus indicating medium risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at 0.6 pps. of GDP, leading to similar medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, assessed as medium. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 2.5 pps. of GDP. In the long-term, Austria therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.4 pps. of GDP. Full implementation of the programme would put the S2 indicator at 2.4 pps. of GDP, leading to a similar long-term risk.

Table 6: Sustainability indicators

| <i>Time horizon</i> | No-policy Change Scenario | | Stability / Convergence Programme Scenario | |
|--|----------------------------------|-------------|---|-------------|
| Short Term | LOW risk | | | |
| S0 indicator ^[1] | 0.1 | | | |
| Fiscal subindex (2015) | 0.1 | LOW risk | | |
| Financial & competitiveness subindex (2015) | 0.1 | LOW risk | | |
| Medium Term | MEDIUM risk | | | |
| DSA ^[2] | MEDIUM risk | | | |
| S1 indicator ^[3] | 1.2 | MEDIUM risk | 0.6 | MEDIUM risk |
| <i>of which</i> | | | | |
| IBP | -1.0 | | -1.7 | |
| Debt Requirement | 1.7 | | 1.7 | |
| CoA | 0.5 | | 0.6 | |
| Long Term | MEDIUM risk | | MEDIUM risk | |
| S2 indicator ^[4] | 2.5 | | 2.4 | |
| <i>of which</i> | | | | |
| IBP | 0.1 | | -0.2 | |
| CoA | 2.4 | | 2.5 | |
| <i>of which</i> | | | | |
| Pensions | 0.5 | | 0.6 | |
| HC | 0.9 | | 0.9 | |
| LTC | 0.9 | | 0.9 | |
| Other | 0.1 | | 0.2 | |
| Source: Commission services; 2016 stability/convergence programme. | | | | |
| Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2016 forecast until 2017. The 'stability/convergence 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. | | | | |
| [1] 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. | | | | |
| [2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections. See Fiscal Sustainability Report 2015. | | | | |
| [3] 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 forecast 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 2017) is required (indicating a 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. | | | | |
| [4] 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. | | | | |

6. FISCAL FRAMEWORK

The Stability Programme recalls the fiscal rules introduced by the Austrian Stability Pact entered into force on 1 January 2012. However, after the first three years of application of these provisions, it is difficult to assess whether budgetary outcomes have complied with the rules and whether budgetary plans have been set accordingly. The Stability Programme does not 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 exceeded the target of 0.7% of GDP foreseen for 2015 and nominal budgetary plans are deviating from these targets in 2016. In particular, the deviation is caused by the central government's budget, while federal state governments and local governments have complied with nominal national targets in 2015 and are expected to comply in 2016 as to the budgetary plans. As to the budgetary plans, the national target for the general government structural deficit –set at 0.45% of GDP from 2017- will not be achieved before 2020. The role played by the central government and the federal states governments cannot be distinguished because of inadequate data. Similarly, available data do not allow evaluating compliance with other rules of the pact, as for instance the rule aimed at capping subnational governments' expenditure growth to potential GDP growth rate. This conclusion is shared by the Austrian Fiscal Advisory Council, which since 2013 has the legal mandate to monitor compliance with the domestic and European fiscal rules.

The Stability Programme states that it also constitutes the medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013. Nevertheless, it does not include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact.

This Stability Programme for the period 2015-2020 submitted by Austria states that it is based on the Federal Budgetary Framework Law 2017 to 2020 (BFRG) and the parameters of the Austrian Stability Pact (ÖStP), national accounts data from Statistics Austria (STAT) until 2015, the medium-term economic forecast by the Austrian Institute of Economic Research (WIFO) of March 2016, and calculations and assessments by the Federal Ministry of Finance (BMF).

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.

7. CONCLUSIONS

In 2015, Austria achieved an improvement of the (recalculated) structural balance of 0.7% of GDP, which exceeds the required adjustment towards the MTO. At the same time, the average growth rate of government expenditure in 2015, net of discretionary revenue measures, was below the applicable expenditure benchmark rate by 0.4% of GDP. This points to compliance with the MTO in 2015.

Based on the Stability programme, Austria will make sufficient progress towards compliance with the debt criterion in 2016 while the debt benchmark is expected to be met in 2017, first year of the application of the debt benchmark after the transition period. The Commission 2016 spring forecast confirms compliance both in 2016 and 2017.

Austria foresees a deterioration of the (recalculated) structural balance of 1.0% of GDP in 2016. Based on an overall assessment, this path is in line with the required adjustment path towards the MTO in 2016. In 2017, the (recalculated) structural balance is planned to deteriorate by 0.1% of GDP. On the basis of an overall assessment, this causes a risk of significant deviation from the required adjustment path towards the MTO. However, if the allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016 was taken into account, the assessment would point towards a risk of some deviation from the adjustment path towards the MTO in 2017. According to the Commission 2016 spring forecast, there is a risk of some deviation in 2016 and of significant deviation in 2017. Nevertheless, if the allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016 was taken into account, the adjustment path towards the MTO could be considered as in line with the provisions of the Pact in 2016 on the basis of an overall assessment, while the deviation to be expected in 2017 would no longer be significant.

8. ANNEX

Table I. Macroeconomic indicators

| | 1998-2002 | 2003-2007 | 2008-2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
| Core indicators | | | | | | | | |
| GDP growth rate | 2.7 | 2.5 | 0.6 | 0.3 | 0.4 | 0.9 | 1.5 | 1.6 |
| Output gap ¹ | 0.7 | -0.1 | -0.3 | -0.6 | -0.9 | -1.0 | -0.7 | -0.3 |
| HICP (annual % change) | 1.5 | 1.8 | 2.3 | 2.1 | 1.5 | 0.8 | 0.9 | 1.7 |
| Domestic demand (annual % change) ² | 1.6 | 2.3 | 0.6 | -0.4 | -0.2 | 0.2 | 1.4 | 1.4 |
| Unemployment rate (% of labour force) ³ | 4.2 | 5.2 | 4.7 | 5.4 | 5.6 | 5.7 | 5.9 | 6.1 |
| Gross fixed capital formation (% of GDP) | 24.9 | 23.3 | 22.5 | 22.5 | 22.4 | 22.1 | 22.1 | 22.1 |
| Gross national saving (% of GDP) | 24.8 | 26.4 | 26.2 | 25.5 | 24.6 | 25.3 | 25.3 | 25.4 |
| General Government (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -1.9 | -2.6 | -3.2 | -1.3 | -2.7 | -1.2 | -1.5 | -1.4 |
| Gross debt | 65.7 | 66.1 | 78.9 | 80.8 | 84.3 | 86.2 | 84.9 | 83.0 |
| Net financial assets | -35.6 | -40.1 | -50.8 | -54.9 | -59.3 | n.a | n.a | n.a |
| Total revenue | 49.3 | 48.4 | 48.5 | 49.5 | 49.9 | 50.6 | 49.9 | 49.4 |
| Total expenditure | 51.1 | 51.0 | 51.7 | 50.8 | 52.6 | 51.7 | 51.4 | 50.7 |
| <i>of which: Interest</i> | 3.5 | 3.1 | 2.9 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 |
| Corporations (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -3.5 | -0.4 | 1.6 | 1.3 | 2.0 | 1.2 | 0.9 | 1.4 |
| Net financial assets; non-financial corporations | -82.7 | -84.0 | -74.2 | -75.6 | -73.7 | n.a | n.a | n.a |
| Net financial assets; financial corporations | -5.2 | -4.5 | -0.3 | 5.0 | 6.1 | n.a | n.a | n.a |
| Gross capital formation | 16.0 | 15.9 | 14.5 | 14.5 | 13.9 | 14.0 | 14.1 | 14.2 |
| Gross operating surplus | 24.0 | 26.4 | 25.1 | 23.5 | 23.1 | 22.9 | 22.8 | 23.4 |
| Households and NPISH (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | 4.5 | 5.1 | 4.1 | 1.9 | 2.6 | 3.1 | 3.8 | 3.3 |
| Net financial assets | 106.7 | 115.4 | 120.3 | 126.8 | 129.1 | n.a | n.a | n.a |
| Gross wages and salaries | 40.1 | 38.3 | 39.0 | 39.5 | 39.7 | 39.8 | 39.7 | 39.4 |
| Net property income | 9.5 | 10.7 | 8.8 | 6.9 | 7.1 | 6.9 | 6.7 | 6.5 |
| Current transfers received | 22.6 | 22.3 | 22.6 | 23.1 | 23.4 | 23.5 | 23.5 | 23.3 |
| Gross saving | 9.8 | 9.9 | 9.5 | 7.9 | 8.3 | 8.2 | 8.8 | 8.3 |
| Rest of the world (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -0.8 | 2.1 | 2.5 | 2.0 | 2.0 | 3.0 | 3.1 | 3.3 |
| Net financial assets | 18.3 | 14.8 | 8.0 | 1.1 | 0.5 | n.a | n.a | n.a |
| Net exports of goods and services | 1.4 | 3.3 | 3.1 | 3.0 | 3.8 | 4.5 | 4.6 | 4.8 |
| Net primary income from the rest of the world | -0.9 | -0.1 | 0.4 | 0.3 | -0.6 | -0.6 | -0.6 | -0.6 |
| Net capital transactions | -0.2 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| Tradable sector | 46.5 | 45.8 | 44.9 | 44.4 | 43.9 | 43.7 | n.a | n.a |
| Non tradable sector | 42.6 | 43.3 | 44.2 | 44.7 | 45.2 | 45.3 | n.a | n.a |
| <i>of which: Building and construction sector</i> | 6.7 | 6.3 | 5.9 | 5.7 | 5.7 | 5.6 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 99.3 | 98.9 | 100.4 | 102.4 | 104.3 | 102.0 | 102.0 | 101.2 |
| Terms of trade goods and services (index, 2000=100) | 102.9 | 102.4 | 99.5 | 98.0 | 98.7 | 100.1 | 100.5 | 100.4 |
| Market performance of exports (index, 2000=100) | 102.5 | 102.0 | 100.4 | 100.7 | 99.0 | 95.2 | 93.6 | 91.9 |
| 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. | | | | | | | | |
| <i>Source:</i> AMECO data, Commission 2016 spring forecast | | | | | | | | |