Brussels, 18.11.2020
SWD(2020) 870 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of Austria

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Austria

{C(2020) 8500 final}

EN EN

Table of Contents

Executive summary 2
1. Introduction 3
2. Macroeconomic developments underlying the draft budgetary plan 4
3. Recent and planned fiscal developments 6
3.1. Deficit developments 6
3.2. Debt developments 9
4. Measures underpinning the draft budgetary plan 11
4.1. Measures in 2020 11
4.2. Measures in 2021 13
5. Annex 16

EXECUTIVE SUMMARY

- While real GDP grew by 1.4% in 2019, economic activity is set to contract sharply in 2020, by 6.8% according to the Draft Budgetary Plan and by 7.1% according to the Commission autumn forecast. For 2021, real GDP is projected to grow by 4.4% according to the Draft Budgetary Plan and by 4.1% according to the Commission forecast.
- The Draft Budgetary Plan projects the headline balance to deteriorate to a deficit of 9.5% of GDP, which is set to fall to 6.3% of GDP in 2021.[1] In 2021, this includes assumed grants from the Recovery and Resilience Facility (RRF) in the order of 0.05% of GDP, which are included in the revenue projections. According to the Commission forecast, the headline deficit is projected to reach 9.6% of GDP in 2020 and 6.4% of GDP in 2021. For the time being, since the submission of the RRF and subsequent approval are only expected to take place in 2021, the Commission forecast includes 0.08% of GDP pre-financing of Recovery and Resilience Facility grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.
- Deficit-increasing measures adopted in 2020 to fight the pandemic and to mitigate the adverse socio-economic effects of the economic downturn amount to 6.2% of GDP in 2020 and to 4.0% of GDP in 2021. The budgetary impact stems from the immediate policy response following the outbreak of the pandemic in March, measures from the economic stimulus package adopted in June, other more recently adopted measures and those introduced by the Draft Budgetary Plan. Overall, the measures taken by Austria in 2020 were in line with the guidelines of the Commission Communication of 30 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- Having fallen to a 10-year low of 70.5% of GDP in 2019, public debt is expected to deviate from its recent downward path. The Draft Budgetary Plan projects an increase of public debt to 84.0% of GDP in 2020 and to 84.8% of GDP in 2021. Based on the Commission forecast, government debt is expected to follow similar dynamics, increasing to 84.2% of GDP in 2020 and 85.2% of GDP in 2021.
- On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether Austria was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in

[1] Following a significant rise in the number of infections, the Austrian government imposed a month-long second lockdown on 3 November and adopted enhanced fiscal support for those sectors that are particularly affected. In light of these developments, the Austrian Institute of Economic Research has significantly revised downwards its macroeconomic projections, which has considerable implications for the budgetary projections. As a result, on 6 November, the Austrian government presented an amendment to the Budget Law for 2020, which revises downwards the fiscal targets for 2020 and 2021. In particular, in 2020, real GDP is now set to contract by 7.7% (instead of 6.8%) and the headline deficit is projected to reach 9.8% of GDP (instead of 9.5%). In 2021, real GDP is now forecast to grow only by 2.8% (instead of 4.4%) and the headline deficit is projected to decrease only to 7.1% of GDP (instead of 6.3%).

the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

- Overall, most of the measures in the Draft Budgetary Plan of Austria are supporting economic activity against the background of considerable uncertainty. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Austria (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[2] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[3], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027 RRF is envisaged to provide a total envelope of EUR 672.5 bn in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Austria does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the Recovery and Resilience Facility (RRF).

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

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

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Austria's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Austrian economy is deeply impacted by the COVID-19 pandemic. To contain it, the government introduced a generalised lockdown and travel restrictions on 16 March for 4 weeks. Given the relatively quick decline in infection rates, those measures started being gradually relaxed as of 14 April. The lockdown and the ensuing health protocols after the lifting of restrictions have entailed a large impact on economic activity. After expanding by 1.4% in 2019, the 2021 macroeconomic forecast underpinning the Draft Budgetary Plan forecasts a GDP contraction of 6.8% in 2020. These projections embed a 1.6 percentage points downward revision to GDP growth compared to the 2020 Stability Programme. For 2021, the macroeconomic forecast underpinning the Plan projects GDP to expand by 4.4%, in spite of which real GDP in 2021 is set to remain below the level attained in 2019. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic and its economic consequences.

The abrupt drop in economic activity over the first two quarters of 2020 was followed by a brisk recovery in the third quarter. However, rising infection rates and a renewed tightening of containment measures are expected to lead to an economic slowdown in the fourth quarter. According to Austrian Institute of Economic Research (WIFO) forecast that underlies the macroeconomic projections of the Plan, the rebound can be mostly attributed to the unwinding of the consumption backlog accumulated during the lockdown and the economic policy support provided by the government. In turn, investment, which fell to a lesser extend during the lockdown, but also net exports recovered more slowly. Tourism is expected to remain subdued in the winter of 2020 and spring of 2021, dampening growth expectations. For 2021, domestic demand is projected to remain the main contributor to the economic recovery. According to the Plan, the fiscal measures adopted by the government to boost consumption and investment and alleviate the balance sheet impact of COVID-19-related company losses will be key to support the rebound.

The Plan projects a sharp increase in the unemployment rate in 2020, in line with the macroeconomic contraction. In parallel, employment is expected to drop strongly. Nevertheless, the impact of the economic downturn on the labour market is dampened by the effective use of short-time working schemes, leading to a strong drop in hours worked. In line with the expected economic rebound in 2021, the unemployment rate is set to decrease somewhat while employment is expected to partially recover. The partial recovery is explained by an expected acceleration of structural change in the industrial sector by the recession, leading to a cut in jobs in

2020 and 2021, as well as a slow recovery in the tourism sector, as overnight stays in the winter and spring are expected to remain subdued.

The macroeconomic forecast underpinning the Plan does not fundamentally differ from the Commission's projection. According to the Commission autumn 2020 forecast, GDP is projected to decline by 7.1% in 2020, before rebounding by around 4.1% in 2021. Private consumption is projected to take the lead in the recovery in 2021, with the support of investment and net exports. The main differences are the somewhat larger contraction in domestic demand and the lower contribution of net exports in the 2020 Commission projection, followed by a smaller rebound in 2021. Additionally, the Commission expects lower growth in the compensation of employees in 2020, and especially 2021.

The Draft Budgetary Plan is based on the macroeconomic forecast published by the WIFO on 9 October 2020. WIFO is a non-profit association under Austrian law, recognised for high-quality economic research and realistic and unbiased forecasts. It is a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast that WIFO produces four times a year following an established, pre-announced calendar.

On 5 November, the WIFO has updated its macroeconomic projections against the background of new health and fiscal measures implemented by the Austrian government to contain the second wave of COVID-19 infections.[4] According to this update, the economy is expected to shrink by 7.7% in 2020, instead of 6.8% as forecast in October. Roughly two thirds of this additional slump can be attributed to the hotel and gastronomy sector, while one third is mainly due to consumption cuts in other sectors.

In 2021, real GDP is expected to expand by only 2.8% instead of 4.4% as forecast in October. All demand components with the exception of public consumption are assumed to be less dynamic. A more pessimistic assessment is also given for the labour market: according to the updated forecast, the wage and salary bill will only grow by 2.2% instead of 3.2%.

[4] Baumgartner J., Hyll W., Pitlik H., Schiman S., 'Makroökonomische Effekte des zweiten Lockdown in Österreich' (Effects of the Second Lockdown in Austria), WIFO research briefs 17/2020, November 2020, WIFO institute for economic research, Vienna, 2020. https://www.wifo.ac.at/en/news/effects_of_the_second_lockdown_in_austria.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.4	-5.2	-6.8	-7.1	3.5	4.4	4.1
Private consumption (% change)	0.8	-2.9	-6.8	-7.2	3.1	5.5	5.0
Gross fixed capital formation (% change)	4.0	-8.7	-5.6	-6.0	4.5	3.7	3.2
Exports of goods and services (% change)	2.9	-12.0	-12.4	-11.5	8.8	6.1	5.5
Imports of goods and services (% change)	2.4	-9.7	-10.6	-9.4	6.9	5.6	4.8
Contributions to real GDP growth:							
- Final domestic demand	1.7	-2.6	-4.7	-4.8	2.5	3.9	3.6
- Change in inventories	-0.8	-1.0	-0.8	-0.7	0.0	0.0	0.0
- Net exports	0.4	-1.6	-1.3	-1.5	1.1	0.4	0.4
Output gap[1]	2.5	-4.4	-5.1	-5.4	-2.0	-1.6	-2.2
Employment (% change)	1.1	-1.7	-2.2	-2.5	1.2	1.3	1.5
Unemployment rate (%)	4.5	5.5	5.4	5.5	5.0	5.0	5.1
Labour productivity (% change)	0.3	-3.6	-4.7	-4.6	2.4	3.0	2.6
HICP inflation (%)	1.5	0.9	1.3	1.5	1.3	1.5	1.7
GDP deflator (% change)	1.7	1.2	1.9	2.0	0.6	1.7	1.9
Comp. of employees (per head, % change)	2.8	0.9	1.5	1.1	2.4	1.4	0.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.9	0.0	2.3	2.2	0.0	2.8	2.9

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:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020 the Council addressed recommendations to Austria in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Austria to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Austria should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

The COVID-19 crisis has put an abrupt end to the favourable development of Austria's public finances in recent years. The Draft Budgetary Plan projects a headline deficit of 9.5% of GDP in 2020. This constitutes a downward revision of 1.5 percentage points with respect to the Stability Programme of May 2020, which projected the deficit to reach 8.0% of GDP. While additional measures adopted since spring add to deficit and the projected economic contraction is deeper than expected since then, the budgetary execution has actually a dampening effect on current expenditures. The Commission 2020 autumn forecast projects the general government deficit at 9.6% of GDP. The somewhat lower GDP projection and, related

to this, less favourable expectations for total government revenues and expenditures compared to the Draft Budgetary Plan roughly balance each other.

The revenue-to-GDP ratio projected by the Plan as well as its individual components are identical to the ones in the Commission forecast. The reason for this is that the denominator effect stemming from a somewhat lower projection of nominal GDP and the numerator effect caused by slightly more conservative projections of individual tax revenues cancel each other out. The slightly higher deficit projected by the Commission forecast is due to somewhat higher projections of expenditures for the compensation of employees and gross fixed capital formation.

For 2021, the Plan projects a significant deficit of 6.3% of GDP. This includes assumed Recovery and Resilience Facility (RRF) grants of 0.05% of GDP, which are included in the revenue projections.[5] While the expected economic recovery will have a positive impact on tax revenues, prolonged emergency measures on the expenditure side (short-time work, fixed cost subsidies) as well as temporary (loss carryback, declining-balance depreciation, VAT reductions in the gastronomy) and permanent (retroactive decrease of the personal income tax) relief measures stemming from the economic stimulus package and other recent measures prevent the headline balance from recovering more markedly. Overall, the Plan projects total revenues to rise by 4.3%, leading to a revenue ratio of 47.1% of GDP. Total expenditures are set to decline only by 1.3%, leading to an expenditure ratio of 53.4% of GDP.

The Commission 2020 autumn forecast projects the headline deficit to reach 6.4% of GDP. The expenditure and revenue ratios are almost identical to the ones presented in the Plan. As for 2020, the numerator (slightly less favourable projections for expenditures and revenues) and the denominator (lower GDP) effect cancel each other out. The only visible difference stems from a marginally higher projection of subsidies.

For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 10% pre-financing of Recovery and Resilience Facility grants[6] as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact. On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[7]

---

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

[6] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[7] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans.

For 2021, the Plan expects the (recalculated) structural balance[8] to improve to -5.4% of potential GDP. This improvement with respect to 2020 is due to a lower output gap, which is in turn the result of a higher estimate of potential growth. The Commission 2020 autumn forecast projects the structural balance at -5.2% of potential GDP. The difference with respect to the (recalculated) structural balance is largely the result of the higher estimate for the output gap.[9]

However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.[10]

The evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

Some risks to the budgetary targets in the Plan for 2021 have already materialised. According to the Amendment to the Budget Law for 2021, the deficit is now projected to deteriorate by additional 0.3 percentage points to 9.8% instead of 6.3% of GDP in 2020. For 2021, the deficit is set to improve to only 7.1% of GDP, 0.8 percentage points less than expected in October, where the deficit target was 6.3% of GDP. The new deficit projections primarily reflect the effect of the automatic stabilisers in a worsening macroeconomic environment: payroll and assessed personal income taxes as well as value-added taxes are set to further decrease while cyclical expenditure for unemployment insurance benefits is expected to increase.

No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

8 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

9 The Commission has not classified COVID-19-related measures as one-off in its autumn 2020 forecast because the one-off classification does not appear to be the best suited for several of the measures taken in response to the COVID-19 pandemic. The Commission has a well-developed set of principles for defining what is a one-off measure for the purpose of fiscal surveillance. That methodology is relatively restrictive, for example excluding compensatory payments to households or businesses not directly triggered by the pandemic and for which the government has a larger degree of discretion. Moreover, given the large uncertainties on the duration and the impact of certain measures, most measures would not qualify as one-off in an ex ante assessment. The Commission favours taking into account such measures as part of its application of the Stability and Growth Pact under the activation of the General Escape Clause.

10 The measure of the output gap is complicated in the face of a sharp economic turnaround and very high level of economic uncertainty.

Additionally, new support measures in the order of approximately ½% of GDP contribute to the downward revision of the fiscal targets (see section 4.1 below).

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**49.1**	**49.1**	**49.2**	***47.9***	**47.9**	**49.4**	***47.1***	**47.0**	**-2.0**
of which:									
- Taxes on production and	13.9	13.9	13.9	*13.5*	13.5	13.8	*13.3*	13.3	-0.6
- Current taxes on income,	13.7	13.7	13.1	*12.2*	12.2	13.4	*12.1*	12.1	-1.6
- Capital taxes	0.0	0.0	0.0	*0.0*	0.0	0.0	*0.0*	0.0	0.0
- Social contributions	15.4	15.4	16.0	*16.1*	16.1	15.9	*15.6*	15.6	0.2
- Other (residual)	6.1	6.1	6.2	*6.1*	6.1	6.3	*6.1*	6.0	0.0
Expenditure	**48.4**	**48.4**	**57.2**	**57.4**	**57.5**	**51.4**	**53.4**	**53.4**	**5.0**
of which:									
- Primary expenditure	47.0	47.0	55.8	56.0	56.1	50.1	52.1	52.2	5.2
of which:									
Compensation of employees	10.5	10.5	11.2	11.20	11.26	11.0	10.9	10.9	0.4
Intermediate consumption	6.2	6.2	7.0	6.9	6.9	6.6	6.8	6.8	0.6
Social payments	21.9	21.9	24.0	24.9	24.9	23.6	23.7	23.8	1.8
Subsidies	1.5	1.5	5.9	5.1	5.1	1.6	2.5	2.6	1.0
Gross fixed capital formation	3.0	3.0	3.1	3.20	3.27	3.2	3.4	3.4	0.4
Other (residual)	3.9	3.9	4.6	4.69	4.65	4.1	4.8	4.7	1.0
- Interest expenditure	1.4	1.4	1.4	1.4	1.4	1.3	1.2	1.2	-0.2
General government balance (GGB)	**0.7**	**0.7**	**-8.0**	**-9.5**	**-9.6**	**-1.9**	**-6.3**	**-6.4**	**-7.0**
Primary balance	**2.1**	**2.1**	**-6.5**	**-8.1**	**-8.2**	**-0.7**	**-5.1**	**-5.2**	**-7.2**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**0.7**	**0.7**	**-8.0**	**-9.5**	**-9.6**	**-1.9**	**-6.3**	**-6.4**	**-7.0**
Output gap[1]	2.5	2.5	-4.4	-5.1	-5.4	-2.0	-1.6	-2.2	-4.1
Cyclically-adjusted balance[1]	-0.8	-0.7	-5.5	-6.6	-6.6	-0.8	-5.4	-5.2	-4.6
Structural balance (SB)[2]	**-0.8**	**-0.7**	**-5.5**	**-6.6**	**-6.6**	**-0.8**	**-5.4**	**-5.2**	**-4.6**
Structural primary balance[2]	0.7	0.7	-4.1	-5.2	-5.2	0.5	-4.2	-3.9	-4.8

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

Having fallen to a 10-year-low of 70.5% of GDP in 2019, the Draft Budgetary Plan projects the public debt-to-GDP ratio to rise by 13.5 percentage points to reach 84.0% of GDP at the end 2020. This increase is mainly driven by the snow-ball effect stemming from the slump in GDP growth and the deterioration of the primary balance, which in turn reflects the sizeable budgetary impact of the measures taken to mitigate the socio-economic consequences of the COVID-19 pandemic. In contrast

to recent years, stock-flow adjustments will also contribute to a small extent to the increase in debt. The reason is that the negative adjustment stemming from the divestment of impaired assets from bad banks included into government accounts is smaller than the positive adjustment stemming from tax deferrals as well as funds for public guarantees to the corporate sector. These transactions are not registered in the deficit accounts given their financial nature. For 2021, the Plan projects the debt ratio to further increase by roughly 1 percentage point, to 84.8% of GDP. Not only is the debt-increasing effect of the primary deficit smaller compared to 2020, but also the economic rebound and negative stock-flow-adjustments prevent a stronger increase in debt. The debt-increasing contribution by interest payments is projected to slightly decrease with respect to 2020.

The debt projections in the Plan are somewhat higher than in the Stability Programme due to the higher primary deficits projected in the Draft Budgetary Plan, the downward revision to the macroeconomic scenario and the less favourable contribution of stock-flow-adjustments.

Based on the Commission 2020 autumn forecast, the debt ratio is expected to follow rather similar dynamics, increasing to 84.2% of GDP in 2020 and to 85.2% of GDP in 2021. Differences mostly stem from the lower primary deficit planned by the Austrian authorities in both 2020 and 2021 as well as the somewhat lower projections for GDP growth.

Based on the information provided by the Amendment to the Budget Law for 2021, the debt ratio is expected to increase by 3.1 percentage points to 87.9% of GDP in 2021.

Table 3. Debt developments

(% of GDP)	t	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**70.5**	**81.4**	**84.0**	**84.2**	**79.3**	**84.8**	**85.2**
Change in the ratio	-3.5	10.9	13.4	13.7	-2.1	0.8	1.0
Contributions[2]:							
1. Primary balance	**-2.1**	**6.5**	**8.1**	**8.2**	**0.7**	**5.1**	**5.2**
2. "Snow-ball" effect	**-0.8**	**4.5**	**5.0**	**5.2**	**-2.1**	**-3.6**	**-3.5**
Of which:							
Interest expenditure	1.4	1.4	1.4	1.4	1.3	1.2	1.2
Real growth effect	-1.0	3.8	5.1	5.2	-2.7	-3.5	-3.3
Inflation effect	-1.2	-0.9	-1.4	-1.5	-0.5	-1.3	-1.5
3. Stock-flow adjustment	**-0.6**	**-0.1**	**0.2**	**0.2**	**-0.7**	**-0.6**	**-0.6**
Of which:							
Cash/accruals difference		0.0	0.0		0.0	0.0	
Net accumulation of financial		0.0	0.0		0.0	0.0	
of which privatisation		0.0	0.0		0.0	0.0	
Valuation effect & residual		0.0	0.0		0.0	0.0	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

In both 2020 and 2021, Austrian public finances will be dominated by the budgetary effects of the policy response taken in the context of the outbreak of the COVID-19 pandemic and the measures adopted to sustain the recovery from the related recession. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the Austrian national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Austria adopted timely measures to increase the capacity of its healthcare system, contain the spread of the virus, and provide support to those individuals and economic sectors that have been particularly affected by the economic inactivity and downturn.

The EUR 28 bn (7.4% of GDP) strong COVID-19 crisis management fund (*COVID-19 Krisenbewältigungsfond*) launched in March provides *inter alia* for extraordinary healthcare expenditure, fixed cost subsidies for distressed companies, short-time work arrangements, non-repayable transfers to non-profit organisations and sport leagues as well as a hardship fund for self-employed, small businesses and micro-entrepreneurs. Social hardship is addressed through the Corona family hardship compensation and a one-time children bonus of EUR 360, among others, while the Municipal Investment Act 2020 provides earmarked grants in support of additional investment, maintenance and renovation projects at the municipal level. Both the Draft Budgetary Plan and the Commission 2020 autumn forecast include discretionary measures from the crisis management fund in the order of 4.6% and 1.8% of GDP in 2020 and 2021, respectively.[11] Additional budgetary frameworks have been made available for tax deferrals and reduced advance payments (up to 2.7% of GDP) as well as public guarantees for loans (approximately 2.8% of GDP) to help companies avoid liquidity constraints, but without having a direct deficit-increasing impact.

The economic stimulus package adopted in June shifts the focus from the preservation of the production potential to support for the economic recovery from the COVID-19 pandemic recession. It comprises a combination of temporary and permanent measures to boost private consumption and investment and alleviate the balance sheet impact of COVID-19-related company losses. Private consumption is supported by a permanent reduction of the personal income tax rate in the first tax bracket, increased tax credit as well as temporary tax exemptions and VAT reductions for the gastronomy, culture and arts sectors. Unemployed people receive a one-time payment. Businesses benefit among others from the possibility of loss carryback and declining-balance depreciation as well as grants for additional investments in the future-relevant areas of digitalisation, green transition, life science and health. Both the Draft Budgetary Plan and the Commission 2020 autumn forecast include discretionary measures of the economic stimulus package in the order of 1.3% and 2.0% of GDP in 2020 and 2021, respectively.

On 3 November, the Austrian government imposed a month-long second lockdown in view of strongly increasing COVID-19 infection rates. While shops and personal services remain open, restaurants and hotels are closed (restaurants may only offer take-away) and events for recreation, sports and culture are forbidden (including wedding and birthday celebrations).[12] Accordingly, the amendment to the Budget Law for 2021 presented on 6 November contains two new measures that are targeted to the above-mentioned sectors: a new short-time work arrangement as well as an eighty per cent compensation for foregone sales. The new measures shall replace previous arrangements and the fixed cost subsidy in the aforementioned sectors.

---

[11] Using the 2020 and 2021 nominal GDP projected by the Commission 2020 autumn forecast as a reference.

[12] A further tightening of the containment rules is expected in case the rise of new infections does not slow down visibly by mid-November.

Overall, the measures taken by Austria in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

4.2. Measures in 2021

For 2021, the Plan includes a series of new and other recently adopted expenditure-side measures that can only partly be linked to the COVID-19 pandemic. These measures affect mainly the compensation of employees, transfers in the areas of disaster control, environment and research, intermediate consumption for digitalisation projects and IT infrastructure as well as public investments to strengthen the federal army (terror and disaster control, cyber security). An exception is the newly created Corona Labour Foundation, which shall provide targeted support to re-integrate unemployed people into the labour market and address the medium and long-term demand for skilled labour. Other measures adopted since the economic stimulus package include an extraordinary pension increase or the financing of the deposit insurance fund. The budgetary impact of those new and other recently adopted measures amounts to 0.3% of GDP in both 2020 and 2021.

The Draft Budgetary Plan includes a qualitative description of economic policy measures and their effects. The Commission 2020 autumn forecast includes the same measures as the Plan, with no difference concerning the size of their expected budgetary impact.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures set out in the Draft Budgetary Plan of Austria are supporting economic activity against the background of considerable uncertainty.

At the same time, it would be useful to regularly review the use of and effectiveness of the support measures and stand ready to adapt them to changing circumstances. It is anticipated that Austria will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures included in the Commission 2020 autumn forecast

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year – positive sign for deficit-increasing measures)		
					2020	**2021**
1	Fixed cost subsidies	D.39	adopted		1.6	-1.0
2	Short-time work arrangements	D.39	adopted		1.8	-1.3
3	Childrens bonus of EUR 360	D.62	adopted		0.2	-0.2
4	Transfers to NPOs and sports leagues	D.7	adopted		0.2	0.0
5	VAT cut to 5% for gastronomy, culture and arts	D.21	adopted		0.2	0.2
6	Loss carryback	D.5	adopted		0.5	0.0
7	Decrease of initial marginal tax rate from 25% to 20% retrospectively since January 2020, increase of negative tax	D.5	adopted		0.4	0.1
8	Investment premia	D.92	adopted		0.0	0.1
9	Extraordinary pension increase and corona bonus	D.62	adopted		0.0	0.1
10	Other measures	mixed	adopted		1.4	0.2
				Total	**6.2**	**-1.8**

Table 4.1.b. Guarantees adopted in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum guarantee framework available* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
1	ÖHT	Adopted		0.4	0.2
2	aws KMU FG	Adopted		1.0	0.5
3	aws GG	Adopted		0.5	0.1
4	OeKB - pecial framework KRR	Adopted		0.8	0.5
5	OeKB 90% 1)	Adopted		-	0.2
			Total	2.8	1.5

1) Financed by the Corona Help Fund.

* Information extracted from Tables 9 and 10, https://www.bmf.gv.at/themen/budget/das-budget/budget-2020.html.

* Any budgetary impact related to expected losses or actual calls should be provided in the standard table 5.1 Description of discretionary measures included in the draft budget.

5. ANNEX

Mandatory variables not included in the Draft Budgetary Plan

The following mandatory data were not explicitly provided:

- Table 1a. Levels of changes in inventories and net acquisition of values (% of GDP) for 2019, and levels of contributions to real GDP growth for 2019.
- Table 1c. Labour market developments: 2019 levels of unemployment rate (%).
- Table 3. General government expenditure and revenue projections at unchanged policies: Tax burden and unemployment benefits.
- Table 4a. General government expenditure and revenue targets: unemployment benefits.
- Table 7. Divergence from latest SP: percentage of GDP in 2019 of targeted general government net lending/borrowing and net lending projection at unchanged policies in the draft budgetary plan.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.