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Assessment of the 2019 Stability Programme for

Austria

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

Austria is subject to the preventive arm of the SGP. Since Austria's public debt is above the 60% of GDP reference value of the Treaty, it also needs to comply with the debt reduction benchmark.

The Austrian economy expanded by 2.7% in 2018 in real terms, but economic growth is expected to decline to 1.5% in 2019 and 1.6% in 2020, according to the Commission 2019 spring forecast. With a short-term growth outlook around the level of potential growth, the output gap is forecast to narrow accordingly from 0.7% of potential GDP in 2019 to 0.4% in 2020. While the external outlook has weakened, growth is expected to be mainly driven by private consumption, which is borne by higher wage settlements under collective bargaining agreements in 2018 and the tax relief provided by the new 'Family Bonus plus'. Employment growth is expected to moderate, leading unemployment to stabilise at 4.7% in both 2019 and 2020. The macroeconomic scenario included in the Stability Programme is favourable.

From a deficit of 0.8% of GDP in 2017, the government headline balance has improved markedly over the course of 2018, resulting in a surplus of 0.1% of GDP. This favourable development is largely due to the strong economic growth in 2018, which generated higher-than-expected tax revenues and lower expenditure on unemployment benefits. Interest payments also fell thanks to lower financing costs. According to the Stability Programme, the general government budget surplus is set to edge up to 0.3% of GDP in 2019 before turning to a balanced position by 2023, following the implementation of a comprehensive tax relief reform (see Section 3.3). The (recalculated) positive output gap is set to narrow over the forecast horizon before turning slightly negative in 2023. The (recalculated) structural budget balance improved to -0.5% of potential GDP in 2018 and hence meets the medium-term budgetary objective (set at -0.5%). The (recalculated) structural balance is expected to improve to -0.1% of potential GDP in 2019, where it stabilises in 2020, before turning into a surplus of 0.1% of potential GDP in 2023.

Risks to the short-term fiscal outlook appear to be moderate and mainly concern the announced implementation of cost savings in the public administration that are to be used to partly finance the planned reform of the personal and corporate income tax. In the long-term, the projected increase in public expenditure for pensions, health and long-term care points to a medium risk for fiscal sustainability in long-term.

Overall, Austria is expected to remain compliant with the MTO in 2019 and 2020. The fiscal stance (defined as the change in the structural balance between 2019 and 2020) is slightly expansionary due to the implementation of first measures of the tax relief reform.

1. INTRODUCTION

On 24 April 2019, Austria submitted its 2019 Stability Programme (hereafter called Stability Programme), covering the period 2018-2023.[1] The government approved the programme on 24 April and it was submitted to the Parliament on 25 April 2019.[2] The programme is based on the Federal Budgetary Framework Law (BFRG) 2018 to 2021, which sets legally binding

[1] The English translation of the Stability Programme was submitted on 30 April 2019.

[2] On 18 May, following a request by the Chancellor, the Austrian President pled for snap elections in September. The implementation of the measures underlying the projections of the Stability Programme is therefore uncertain at the current juncture. The present assessment is based on the Commission 2019 spring forecast with the cut-off date on 24 April 2019.

expenditure ceilings for the next four years, for the federal government's five main spending categories.

Austria is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should ensure to preserve a sound fiscal position which also ensures compliance with the medium-term budgetary objective (MTO). As the debt ratio was 73.8% of GDP in 2018, exceeding the 60% of GDP reference value, Austria is also subject to the debt reduction benchmark.

This document complements the Country Report published on 27 February 2019 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 2019 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. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

In 2018, the Austrian economy expanded markedly, by 2.7%. The macroeconomic scenario of the Stability Programme assumes real GDP growth to moderate in 2019 to 1.7% and remain roughly stable until 2022. In 2023, it is expected to ease to 1.4%. Growth is expected to remain broad-based, with domestic demand as the key driver. It is supported by strong private consumption, fuelled by increases in wages and employment, but also the tax relief from the 'Family Bonus plus', while investment growth is expected to decrease gradually. After contributing strongly in 2018, the impact of net external trade on growth is projected to remain positive but to slowly diminish. The unemployment rate is expected to fall to 4.6% in 2019 and remain roughly stable, edging slightly up to 4.7% in 2022-2023.

These projections are less favourable than those presented in the 2018 Stability Programme, which projected GDP growth at 2.2% in 2019. They are also less favourable than the macroeconomic scenario underlying the 2018 Draft Budgetary Plan (DBP), which projected 2.0% growth in 2019. The less favourable outlook for 2019 as compared to the DBP is mostly driven by a negative contribution of inventories, but also lower expectations for investment growth, while the contribution of net exports to GDP growth has been revised upwards, despite a less favourable external environment. For 2020-2023, the expectations for real growth have been revised only slightly downwards, which can be mainly linked to the lower expectations for 2019.

The output gaps as (recalculated) by the Commission based on the information in the Programme, following the commonly agreed methodology, was positive at 0.9% in 2018, pointing to a slight overutilisation of productive capacity. The (recalculated) output gap is set to gradually close over 2019-2023 as GDP growth is converging to its potential, and it is set to turn only slightly negative in 2023. The (recalculated) output gap matches with that of the Commission 2019 spring forecast, while it is slightly more favourable in 2020.

Overall, the Stability Programme presents more favourable macroeconomic assumptions than the Commission 2019 spring forecast. This is largely the result of higher expectations concerning the growth prospects of Austria's main trading partners, which translate into more favourable assumptions for foreign demand, investment growth, compared to the Commission 2019 spring forecast. As a result, for 2019-2020, the Commission expects slightly weaker dynamics in investments and higher import than export growth, leading to a neutral contribution of net exports to GDP growth. The Commission forecast also assumes somewhat lower private consumption and employment growth, as well as a slightly higher unemployment rate. For 2020, the Commission expects slightly higher growth in wages. Headline inflation as projected by the Commission is slightly above the levels reported in Stability Programme, but both expect inflation to drop below 2%.

Table 1: Comparison of macroeconomic developments and forecasts

	2018		2019		2020		2021	2022	2023
	COM	**SP**	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**	**SP**
Real GDP (% change)	2.7	2.7	1.5	1.7	1.6	1.8	1.7	1.6	1.4
Private consumption (% change)	1.6	1.6	1.6	1.7	1.6	1.7	1.6	1.6	1.5
Gross fixed capital formation (% change)	3.3	3.3	2.0	2.3	1.6	1.8	1.5	1.4	1.3
Exports of goods and services (% change)	4.4	4.4	2.8	3.1	3.2	3.6	3.5	3.3	3.1
Imports of goods and services (% change)	2.8	2.8	2.9	2.5	2.8	3.0	3.3	3.2	3.1
Contributions to real GDP growth:									
- Final domestic demand	1.7	1.7	1.5	1.6	1.3	1.4	1.3	1.3	1.2
- Change in inventories	0.0	0.1	0.0	-0.3	0.0	-0.1	0.0	0.1	0.1
- Net exports	0.9	0.9	0.0	0.4	0.3	0.4	0.3	0.2	0.1
Output gap[1]	1.0	0.9	0.7	0.7	0.4	0.6	0.2	0.1	-0.1
Employment (% change)	1.7	1.6	1.0	1.2	0.5	0.8	0.9	0.6	0.5
Unemployment rate (%)	4.9	4.9	4.7	4.6	4.7	4.6	4.6	4.7	4.7
Labour productivity (% change)	1.0	1.1	0.5	0.4	1.1	0.9	0.8	1.0	0.9
HICP inflation (%)	2.1	2.0	1.8	1.7	1.9	1.8	1.8	1.8	1.8
GDP deflator (% change)	1.6	1.6	2.0	2.0	1.9	1.9	1.7	1.7	1.7
Comp. of employees (per head, % change)	2.5	3.1	2.6	2.6	2.5	2.3	2.2	2.4	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.4	2.0	2.4	1.9	2.5	1.8			

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.

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP).

3. Recent and planned budgetary developments

3.1. Deficit developments in 2018 and 2019

On the back of the economic boom, the general government headline balance improved significantly over the course of 2018, resulting in a surplus of 0.1% of GDP compared to a deficit of 0.8% of GDP in 2017. This represents also a considerable improvement compared to the projections of both the Stability Porgramme (-0.4%) and the Draft Budgetary Plan (-0.3% of GDP) presented in 2018. This favourable development is largely due to the strong economic growth, and the positive development of the labour market in particular, which generated higher-than-expected tax revenues (+5.4% compared to 2017) and lower cyclical expenditures. Also the suspension and lower take-up of expansionary measures such as the

'Employment Bonus' and the favourable interest rate environment had a dampening effect on the expenditure side. As a result, while the revenue ratio has been revised upwards with respect to the 2018 Stability Programme (48.6% instead of 48.1% of GDP), the expenditure ratio reports 48.5% of GDP, in line with the projection. Overall, general government revenue grew by 4.8% compared to 2017. Strong employment (+1.7%) and payroll developments (+2.5%) increased the taxable base of personal income taxes and social security contributions, which grew dynamically by 7.7%[3] and 5.2%, respectively, compared to 2017. In the corporate sector, taxes on capital gains and corporate income increased substantially by 17.4% and 14.7%, respectively, whereas receipts from value-added taxes grew by 3.6% compared to 2017. With 2.9%, general government expenditure grew at a lower pace than revenue compared to 2017. The numerator (lower than projected expenditure) and denominator (lower than projected GDP) effect balance each other for most of the positions. Only interest payments, subsidies and other expenditure conclude slightly higher than projected by the 2018 Stability Programme, whereas expenditure for social benefits decreased somewhat more visibly by 0.4 pps of GDP.

For 2019, the Stability Programme projects the general government surplus to expand to 0.3% of GDP compared to a balanced budget position expected by the 2018 Programme. The lowered expectations for nominal GDP are the main driver behind the development of the revenue and expenditure ratio (denominator effect) and more than compensate for slightly lower projections in absolute terms (which are more pronounced on the expenditure side). At 3.1%[4], revenue growth is projected to remain robust although tax revenues and excise duties are expected to develop slightly less dynamically compared to the 2018 Stability Programme, in line with the expected economic slow-down. In addition, the 'Family Bonus plus', the first of several planned tax relief measures, came into force in January and is projected to reduce personal income tax receips by about EUR 0.7 billion in 2019. At 2.6%[5], the 2019 Stability Programme projects expenditure growth to remain visibly below revenue and nominal GDP growth (3.8%). Especially expenditure for social benefits is revised downwards compared to last year's projections, whereas other expenditure is expected to be slightly higher.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The stated objective of the Stability Programme is to retain a fiscal position that is compliant with the Austrian Stability Pact, the national debt brake, as well as the provisions of the SGP. The medium-term budgetary objective, a structural deficit of at most 0.5% of GDP, reflects the objectives of the Pact and is projected to be met throughout the programme horizon. More specifically, the general government headline balance is projected to remain in surplus as of 2018 and is set to edge up to 0.3% of GDP in 2019 before turning to a balanced position by 2023.[6] The (recalculated) structural balance is therefore expected to over-achieve the MTO in all years, supported by a slowly closing output gap. Public debt is forecast to decline further and to fall below the Treaty reference value of 60% of GDP by 2023.

The centrepiece of the budgetary strategy underlying the Stability Programme is a substantial tax relief reform ('*Entlastung Österreich*') in the order of EUR 5.5 billion (equivalent to 1.3% of GDP), which will be implemented step-wise between 2020 and 2023. The package foresees

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[3] Taking together assessed income tax (+10.8%) and wage tax (+7.1%).

[4] The 2018 Stability Programme forecast revenue growth of 3.2%.

[5] The 2018 Stability Programme forecast expenditure growth of 3.4%.

[6] Under the assumption of unchanged policies, the Stability Programme projects the headline balance to expand further from 0.3% of GDP in 2019 to 0.9% of GDP in 2023.

reductions of social contributions as well as personal and corporate income taxes with the aim to reduce the tax burden on labour and improve Austria's attractiveness as a business location. The package shall be partly financed by general expenditure restraint, including an announced spending cut of 1% in the federal administration, reduced spending for extra budgetary units and subsidies. In addition, the fiscal buffers generated during the boom and the introduction of a new digital tax shall contribute to the financing. The Programme emphasises the priority of a positive or at least balanced budget position notwithstanding the implementation of the tax relief mesaures.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2018	2019		2020		2021	2022	2023	Change: 2018-2023
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**48.6**	**48.4**	**48.3**	**47.9**	**47.7**	**47.1**	**46.6**	**46.3**	**-2.3**
of which:									
- Taxes on production and imports	13.8	13.7	13.7	13.6	13.6	13.4	13.4	13.3	-0.6
- Current taxes on income, wealth, etc.	13.5	13.5	13.5	13.5	13.5	13.2	12.9	12.8	-0.7
- Social contributions	15.2	15.1	15.1	14.8	14.8	14.7	14.6	14.5	-0.7
- Other (residual)	6.0	6.0	5.9	6.0	5.9	5.8	5.7	5.7	-0.3
Expenditure	**48.5**	**48.0**	**47.9**	**47.7**	**47.5**	**46.9**	**46.6**	**46.3**	**-2.2**
of which:									
- Primary expenditure	46.8	46.5	46.5	46.3	46.1	45.7	45.4	45.2	-1.6
of which:									
Compensation of employees	10.4	10.4	10.4	10.3	10.2	10.1	10.0	9.8	-0.6
Intermediate consumption	6.1	6.0	6.0	6.0	5.9	5.8	5.8	5.7	-0.4
Social payments	21.8	21.7	21.7	21.6	21.6	21.6	21.6	21.7	-0.2
Subsidies	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	-0.1
Gross fixed capital formation	3.0	3.0	2.9	3.0	3.0	3.0	3.0	2.9	0.0
Other (residual)	4.1	4.0	4.0	3.9	3.9	3.8	3.7	3.7	-0.4
- Interest expenditure	1.7	1.5	1.5	1.4	1.4	1.3	1.2	1.1	-0.6
General government balance (GGB)	**0.1**	**0.3**	**0.3**	**0.2**	**0.2**	**0.2**	**0.0**	**0.0**	**-0.1**
Primary balance	**1.8**	**1.8**	**1.8**	**1.6**	**1.6**	**1.5**	**1.2**	**1.1**	**-0.7**
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	**0.1**	**0.3**	**0.3**	**0.2**	**0.2**	**0.2**	**0.0**	**0.0**	**-0.1**
Output gap[1]	1.0	0.7	0.7	0.4	0.6	0.2	0.1	-0.1	-1.1
Cyclically-adjusted balance[1]	-0.5	-0.1	-0.1	0.0	-0.1	0.1	0.0	0.1	0.6
Structural balance[2]	**-0.5**	**-0.1**	**-0.1**	**0.0**	**-0.1**	**0.1**	**0.0**	**0.1**	**0.5**
Structural primary balance[2]	1.2	1.4	1.4	1.4	1.3	1.3	1.1	1.2	0.0

Notes:

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

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

Source :

Stability Programme (SP); Commission 2019 spring forecasts (COM); Commission calculations.

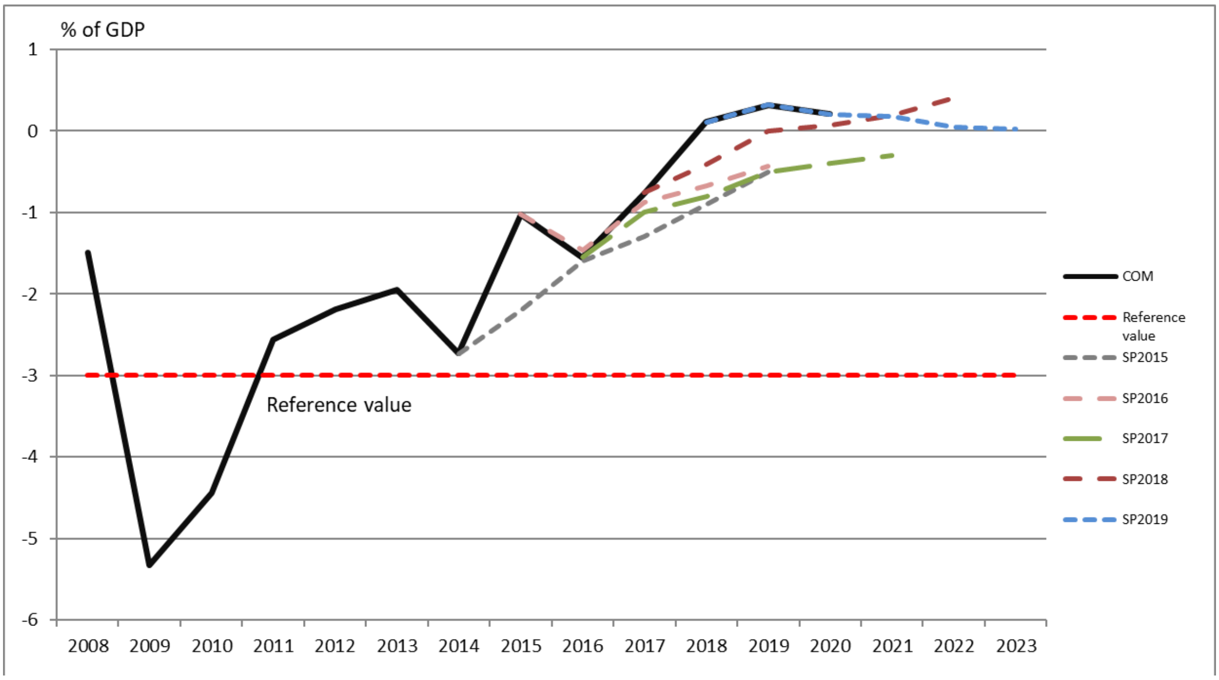
In 2019, the budget evolves under largely unchanged policies with respect to the 2018 Stability Programme.[7] Public expenditure is set to grow at 2.6%. Lower expenditure for

[7] Based on the preliminary budget execution (Vorläufiger Gebarungserfolg 2018), the budgetary impact of several discontinued or reduced measures on the expenditure side has been updated.

unemployment benefits and interest payments contribute to dampen expenditure growth. Revenues are projected to grow stronger at 3.1%, thanks to the continuously robust labour market situation, and despite the revenue forgone due to the 'Family Bonus plus' and other minor relief measures introduced over the course of 2018. The headline balance is projected to improve from 0.1% of GDP in 2018 to 0.3% of GDP, while the (recalculated) structural balance is projected to improve from -0.4% to -0.1% of GDP. The Commission 2019 spring forecast is in line with the projections referred to in the Stability Programme.

In 2020, the Stability Programme projects the headline balance to narrow to 0.2% of GDP, which is due to the first stage of implementation of the new tax relief measures. For 2020, the package envisages a substantial reduction of health insurance contributions for low-income earners, simplified tax rules for small businesses as well as environmentally beneficial tax incentives. On the expenditure side, intermediary consumption and the compensation of employees are projected to decrease by 0.1 and 0.2 pps of GDP, respectively, whereas gross-fixed capital formation is set to increase by 0.1 ppt of GDP, compared to 2019. The (recalculated) balance is projected to stabilise at -0.1% of potential output as the narrowing of the headline balance balance each other. The Commission 2019 spring forecast is broadly in line with the projections referred to in the Stability Programme. The slightly more favourable projection of the structural balance in the Commission forecast is due to the combined effect of a slightly higher projection of the headline balance, a lower GDP projection, and a lower output gap estimate compared to the Stability Programme.
Over the rest of the programme horizon, the Stability Programme expects the headline balance to narrow gradually before turning into a balanced position in 2023. Both the revenue and expenditure ratio decrease gradually in the order of -2.3 and -2.2 percentage points, respectively. On the revenue side, the development is underpinned by the implementation of the second and third stage of tax relief measures. Taking into account the projected narrowing of the headline balance, the improvement of the (recalculated) structural balance is supported by the slowly closing output gap.

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



Source: Commission 2019 spring forecast; Stability and Convergence Programmes

From a sectoral perspective, the general government headline deficit is composed of a balanced position of the federal and the municipal level throughout the programme period, while the Federal States excluding Vienna are projected to report a surplus until 2021, before turning into a balanced position until 2023.

3.3. MEASURES UNDERPINNING THE PROGRAMME

The Stability Programme does not provide an overview of the main budgetary measures and their quantitative effect on the general governmet balance, as laid down in the Code of Conduct.

The self-declared purpose of the Stability Programme is to use the budgetary leeway resulting from expenditure restraint, savings in the public administration and fiscal buffers accumulated during the boom to finance a massive tax relief reform that reduces the comparatively high tax ratio towards 40%. The package of measures referred to as '*Entlastung Österreich*' shall be implemented in different steps from 2020 onwards and provides a cumulated tax reflief in the order of EUR 5.5 billion (1.3% of GDP).[8]

Several relief measures with a total budgetary impact of EUR 1.5 billion (0.4% of GDP) have already been introduced in 2018 and beginning of 2019, among them the tax credit 'Family Bonus plus'.

As of 2020, deductions from contributions to the health insurance ('Sozialversicherungsbonus') will relief employees, pensioners, self-employed and farmers especially at lower-income levels. Small businesses will be relieved from taxes and bureaucratic burden through an increased threshold of the VAT exemption and higher lump-sum amounts for deductible expenses. Morever, the preferential tax treatment of low-emission cars, photovoltaic and biogas shall reward environmentally beneficial consumer choices. As of 2021, personal and corporate income taxes shall be reduced in the order of EUR 4.3 billion (1.0% of GDP). The main elements of this package are lower rates in the personal income tax schedule, increased thresholds for deductible expenses, simplifications in the determination of taxable income, and a reduction of the corporate income tax.

Besides the expenditure restraint, a new digital tax will provide additional revenues as of 2020. The package consists of three individual measures, among them a tax of 5% on online advertising sales of large companies with a worldwide turnover of EUR 750 million, of which at least EUR 25 million generated in Austria.

The Commission 2019 spring forecast includes all of the above described measures as referred to in the Stability Programme. The announced expenditure restraint is not yet suffiently detailed to be included in the Commission forecast.

[8] On 1 May 2019, the government provided more detailed information on the design of the tax reform. According to the cabinet decision, the cumulated budgetary impact is now estimated at EUR 6.5 billion, one billion more than included in the projections underlying the Stability Programme. https://www.bundeskanzleramt.gv.at/documents/131008/1333231/55_15_mrv.pdf/95c79e2d-74c9-4a2e-9650-7363b1bfb880. In what follows refers solely to the measures included in the Stability Programme.

Main budgetary measures included in the Programme

Revenue
Mid-2018 and 2019
• Introduction of several relief measures, such as reduced contributions to the unemployment insurance for low-income earners, reduced VAT on overnight stays, reduced employer contributions to the accident insurance, and the 'Family Bonus plus' (-0.26% of GDP)
2020
• Introduction of the Family Bonus plus – continued (net effect -0.11% of GDP)[9] • Reduced contributions to the health insurance for low-income earners, pensioners, and farmers and self-employed (-0.23% of GDP) • Simplified tax rules for small businesses and environmentally beneficial tax incentives (-0.02% of GDP) • Introduction of 'digital tax package' (+0.01% of GDP)
2021
• Reduced contributions to the health insurance - continued (-0.06% of GDP) • Simplified tax rules for small businesses – continued (-0.01% of GDP) • Introduction of 'digital tax package' – continued (+0.04% of GDP) • Reform of personal income tax (-0.44% of GDP)
2022 and 2023
• Reform of personal and corporate income tax (-0.56% of GDP)
Note: The table refers to the main measures included in the 2019 Stability Programme that have an incremental budgetary impact over the programme period. The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

3.4. DEBT DEVELOPMENTS

Following the financial crisis, public assistance to the banking sector caused government debt to increase substantially. According to the 2019 Stability Programme, Austrian banks were granted capital- and liquidity-supporting funds in the order of EUR 30 billion, half of which have been repaied until to date. Three distressed systemic banks –Kommunalkredit, Volksbanken and Hypo Alpe Adria – have been nationalised or partly nationalised for an

9 The 'Family Bonus plus' can be requested via payroll accounting or when filing the tax return. As a result, the budgetary impact of the 'Family Bonus plus' is assumed to accrue both in 2019 and 2020. Net effect adds up the revenue forgone by the introduction of the Bonus and the revenue gained by abolishing the deductibility of child care costs and the child tax allowance.

orderly wind-down. Liabilities and impaired assets of these banks were subsequently shifted into three bad banks – KA Finanz, Immigon and HETA – and recorded as part of government accounts, causing a step-wise increase in government debt up to 2015. Since then, government debt is on a declining path, supported by the progressive divestment of impaired assets of these financial institutions, which is recorded as negative stock-flow adjustment.

The 2019 Stability Programme expects negative albeit diminishing stock-flow adjustments for these banks over the entire programme horizon, contributing to the fast reduction of government debt from 73.8% of GDP in 2018 to 59.8% of GDP in 2023, which is below the Masstricht threshold of 60% of GDP.

Based on the projections of the Stability Programme, the decline in the gross debt ratio mostly benefits from the contributions of the primary balance, economic growth and inflation. The contribution of the primary balance is expected to decrease over time in line with the deficit projections. Also the contribution of economic growth is expected to decline over the programme horizon after its strong impact in 2018. Both the positive effect of inflation and the negative effect of interest payments are expected to diminish over time.

The Commission 2019 spring forecast is in line with the projections of the Stability Programme. The slightly higher projection of the debt ratio is due to different underlying growth projections.

Table 3: Debt developments

(% of GDP)	Average 2013-2017	2018	2019		2020		2021	2022	2023
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**82.2**	**73.8**	**69.7**	**69.6**	**66.8**	**66.5**	**64.0**	**61.8**	**59.8**
Change in the ratio	-0.7	-4.4	-4.0	-4.1	-3.0	-3.1	-2.5	-2.2	-2.0
Contributions[2] *:*									
1. Primary balance	**-0.7**	**-1.8**	**-1.8**	**-1.8**	**-1.6**	**-1.6**	**-1.5**	**-1.2**	**-1.1**
2. “Snow-ball” effect	**-0.2**	**-1.6**	**-1.0**	**-1.2**	**-0.9**	**-1.1**	**-0.9**	**-0.9**	**-0.8**
Of which:									
Interest expenditure	2.3	1.7	1.5	1.5	1.4	1.4	1.3	1.2	1.1
Growth effect	-1.0	-2.0	-1.1	-1.2	-1.1	-1.2	-1.1	-1.0	-0.8
Inflation effect	-1.4	-1.2	-1.4	-1.5	-1.2	-1.3	-1.1	-1.0	-1.0
3. Stock-flow adjustment	**0.1**	**-1.1**	**-1.1**	**-1.1**	**-0.4**	**-0.4**	**-0.1**	**-0.1**	**-0.1**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

Notes:

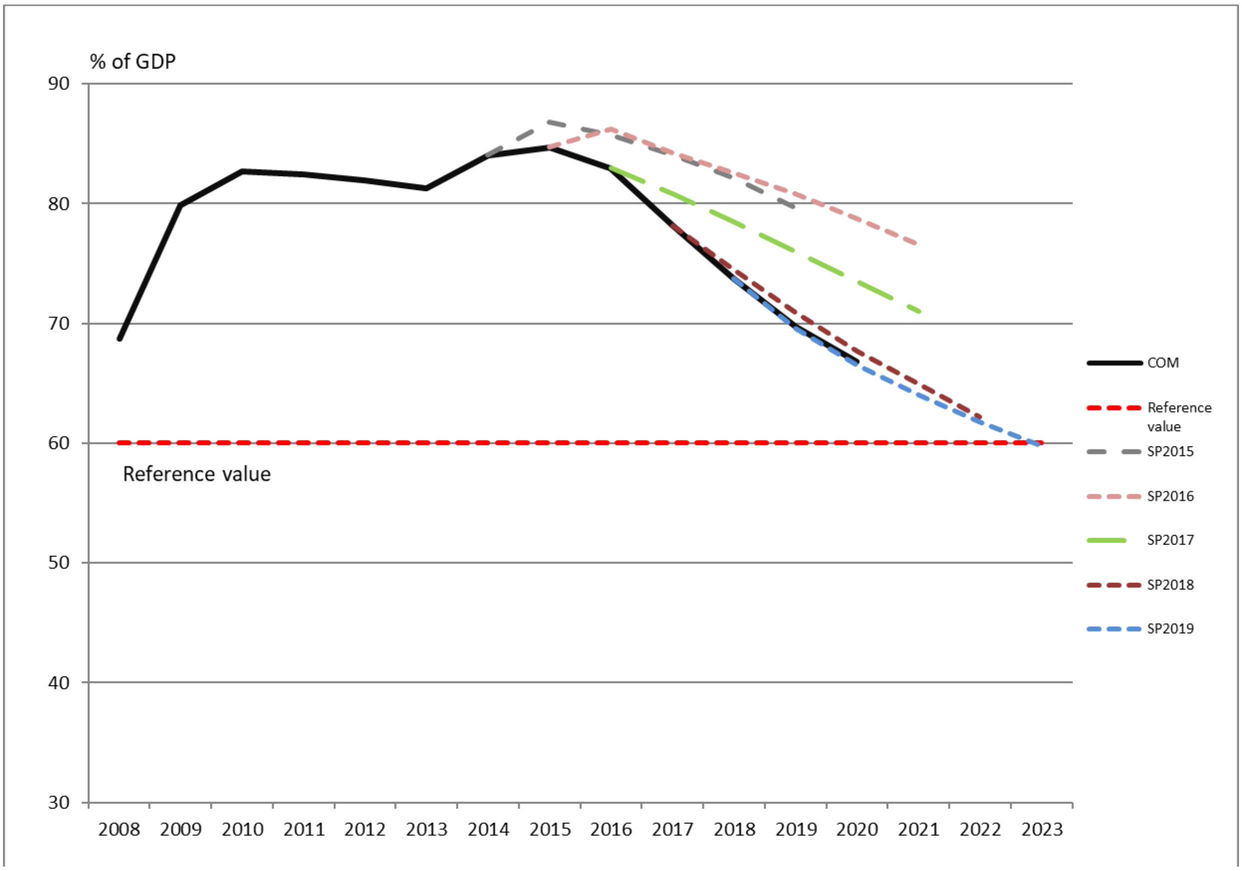
[1] End of period.

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

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

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



Source: Commission 2019 spring forecast; Stability Programmes.

3.5. RISK ASSESSMENT

The risks underlying the medium-term budgetary planning presented in the Stability Programme appear to be moderate.

The main downside risk underlying both the Commission 2019 spring forecast and the macroeconimic projections underpinning the Stability Programme concern the growth prospects of Austria's main trading partners.

On the fiscal side, some uncertainty relates to the announced expenditure restraint, including the intended cost savings in the public administration, which foresee a 1%-spending cut across all federal ministries as well as additional savings in so-called extra budgetary units. The fiscal space gained by the restrictive expenditure path shall be used to partly finance the planned tax relief measures. The budgetary impact of the latter has been revised upwards shortly after the publication of the Stability Programme. However, in view of recently called snap elections, the implementation of announced relief measures is uncertain.

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

Austria is subject to the preventive arm of the Pact and also subject to the debt reduction benchmark. Box 1 reports the latest country specific recommendations in the area of public finances.

Box 1. Council Recommendations addressed to Austria

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

The Council noted that in 2019, based on the Commission 2018 spring forecast, Austria should ensure that the nominal growth rate of net primary government expenditure does not exceed 2.9%, corresponding to an improvement in the structural balance by 0.3 % of GDP.

4.1. Compliance with the debt criterion

As its public debt exceeds the 60% of GDP reference of the Treaty, Austria needs to comply with the debt reduction benchmark. Based on notified data, the debt ratio amounts to 73.8% of GDP, thus Austria complied with the debt reduction benchmark in 2018. According to the information provided by the Stability Programme, Austria is expected to comply with the debt reduction benchmark in 2019 and 2020. The debt-to-GDP ratio is expected to be visibly below the debt reduction benchmark with gaps of 6.8% and 5.8% of GDP in 2019 and 2020, respectively. This result is in line with the Commission 2019 spring forecast, which however projects a higher gap of 6.7% and 5.6% of GDP, due to a denominator effect.

Table 4. Compliance with the debt criterion

	2018	2019		2020	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**73.8**	**69.6**	**69.7**	**66.5**	**66.8**
Gap to the debt benchmark [1,2]	-6.0	-6.8	-6.7	-5.8	-5.6

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

Source:
Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

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

In spring 2018, based on notified outturn data for 2017, Austria was granted a temporary deviation from the adjustment path towards the MTO amounting to 0.03% of GDP, in relation to costs incurred du to the exceptional inflow of refugees.

The MTO for Austria for the period 2018-2020 corresponds to a structural balance of -0.5% of GDP.

In 2018, Austria achieved its MTO corresponding with a structural balance of -0.5% of GDP.

In 2019, Austria is required to achieve its MTO, taking into account the allowance linked to unusual events for which a temporary deviation is granted. According to both the Stability

Programme and the Commission 2019 spring forecast, Austria is projected to respect its MTO. Thus, the current assessment for 2019 points to compliance.[10]

In 2020, Austria is projected to respect its MTO according to both the information provided in the Stability Programme and the Commission forecast.

[10] There is no need to consider the deviation over 2018 and 2019 together as Austria was assessed to be at its MTO in 2018 and therefore compliant.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2018	2019		2020	
Background budgetary indicators[1]					
Medium-term budgetary objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.5	-0.1		0.0	
Setting the required adjustment to the MTO					
Structural balance based on freezing (COM)	-0.8	-0.1		-	
Position vis-à-vis the MTO[3]	At or above the MTO	Not at MTO		At or above the MTO	
Required adjustment[4]	0.0	0.3		0.0	
Required adjustment corrected[5]	-0.2	0.3		-0.4	
Corresponding expenditure benchmark[6]	3.3	2.9		4.4	
Compliance with the required adjustment to the MTO					
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Change in structural balance[7]	0.3	0.3	0.4	0.0	0.1
One-year deviation from the required adjustment[8]	0.6	0.1	0.1	compliance	
Two-year average deviation from the required adjustment[8]	0.4	0.3	0.3		
Expenditure benchmark pillar					
Net public expenditure annual growth corrected for one-offs[9]	4.0	3.6	3.6	3.6	3.6
One-year deviation adjusted for one-offs[10]	-0.3	-0.4	-0.3	compliance	
Two-year deviation adjusted for one-offs[10]	0.0	-0.3	-0.3		
Finding of the overall assessment	compliance	compliance		compliance	

Legend

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

Irrelevant for the Significant Deviation Procedure' - a SDP would not be opened only based on the two-year deviation if the MTO has reached (at the time of the freezing or on the base of the last storage) in one of the two years.

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage point 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, 2018 edition, p.38.). In case of a SDP, the requirement corresponds to the Council recommendation when available; otherwise it refers to the Commission recommendation to the Council.

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] 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.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) is carried out on the basis of Commission 2019 spring forecast.

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

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source:

Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.

5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Austria does not appear to face fiscal sustainability risks in the short run.[11]

Based on Commission forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 73.8% of GDP in 2018, is expected to decrease to 49.2% in 2029, thus falling below the 60% of GDP Treaty threshold. Sensitivity analysis invites for a similar risk assessment.[12] Overall, this highlights low risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a similar path, falling below the 60% reference value in 2023.

The medium-term fiscal sustainability risk indicator S1 stands at -1.1 percentage points of GDP[13], thanks to the initial budgetary position (contributing -2.3 percentage points of GDP), thus indicating low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -1.3 percentage points of GDP. Based on the debt sustainability analysis and the S1 indicator, risks to fiscal sustainability over the medium term are, therefore, assessed as low. Fully implementing the fiscal plans in the Stability Programme would further decrease those risks.

The long-term fiscal sustainability risk indicator S2 is at 2.4 percentage points of GDP. In the long term, Austria therefore appears to face medium fiscal sustainability risks, due to the projected increase in ageing costs, which contribute 3.1 percentage points of GDP and are primarily related to health and long-term care expenditure. Full implementation of the Programme would put the S2 indicator at 2.8 percentage points of GDP.[14] While the debt sustainability analysis discussed higher points to low risks, the S2 indicator leads to the overall conclusion that long-term fiscal sustainability risks are medium for Austria.

[11] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 6 for a definition of the indicator.

[12] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Debt Fiscal Sustainability Report 2018 for more details).

[13] See the note to Table 6 for a definition of the indicator.

[14] The projected costs of ageing that are used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the projections of the 2018 Ageing Report.

Table 6: Debt sustainability analysis and sustainability indicators

Time horizon			Commission Scenario		Stability / Convergence Programme Scenario	
Short-term			**LOW risk**			
S0 indicator [1]			0.0			
Fiscal subindex			0.1	LOW risk		
Financial & competitiveness subindex			0.0	LOW risk		
Medium-term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-1.1	LOW risk	-1.3	LOW risk
of which	Initial Budgetary Position		-2.3		-2.0	
	Debt Requirement		0.5		0.0	
	Cost of Ageing		0.6		0.8	
	of which	Pensions	0.3		0.4	
		Health care	0.2		0.2	
		Long-term care	0.2		0.2	
		Other	-0.1		0.0	
Long-term			**MEDIUM risk**			
DSA [2]			LOW risk			
S2 indicator [4]			2.4	MEDIUM risk	2.8	MEDIUM risk
of which	Initial Budgetary Position		-0.6		-0.4	
	Cost of Ageing		3.1		3.2	
	of which	Pensions	0.6		0.6	
		Health care	1.0		1.0	
		Long-term care	1.4		1.4	
		Other	0.1		0.2	

Source: Commission services; 2019 stability/convergence programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2019 forecast until 2020. 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 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[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*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2033. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2021 for Commission scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2018.

6. FISCAL FRAMEWORK

In Austria, the Fiscal Advisory Council is an independent body with the legally assigned role of monitoring government compliance with national and EU fiscal rules.[15] The Council analyses the sustainability and the quality of budgetary policies of all public authorities (central government, Federal States, municipalities and Social Security Funds), gives recommendations, and assesses the plausibility and conformity of Austria's Stability Programmes and Draft Budgegary Plans based on fully-fledged budgetary forecasts.

With the adoption of the 2012 Austrian Stability Pact (ÖStP), Austria fulfilled its obligation pursuant to the European Fiscal Compact, to enshrine a maximum general government structural deficit of at least 0.5% together with an automatic correction mechanism in national law. According to the ÖStP, as of 2017, the structural general government deficit shall not exceed 0.45%.[16] This overall target has been translated into a multi-dimensional fiscal framework for all levels of government, including nominal and structural budget rules, expenditure limits, a debt brake as well as ceilings for guarantees, which are designed to add up to a position of the general government that is compliant with the provisions of the SGP. Deviations from the structural targets are to be recorded in control accounts, which may trigger automatic adjustment requirements. In the case of substantial breach of the budgetary targets or the violation of information requirements, financial sanctions may be imposed by an arbitration panel on the basis of a Report presented by Statistik Austria and an Opinion of the Austrian Court of Auditors. As of 2015, the rules of the ÖStP are to be fully implemented.

Table 7 National fiscal rules according to the 2012 Austrian Stability Pact

Maastricht budget deficit
In sum, the nominal budgetary deficits of all levels of government must not exceed 3% of GDP.
Structural budget balance
The general government structural deficit must not exceed 0.45% of GDP with the following limits for different subsectors: • 0.35% of GDP for the central government and social security funds • 0.1% of GDP for the Federal States and municipalities Sanctionable exceedances according to the control accounts occur when[17]: • the control account of the central government reports an accumulated deficit of more than 1.25% of GDP • the control accounts of the Federal States and municipalities taken together report an accumulated deficit of more than 0.367 % of GDP
Expenditure rule
Annual expenditure growth of each entity should not exceed the reference rate in line with the provisions by the SGP.[18]
Debt rule
If national debt exceeds the Maastricht reference of 60% of GDP, the central government, the States and the municipalities (within each Land) must reduce their debt by 1/20 on average over the past three years based on their shares in public debt.[19]

[15] https://fiskalrat.at/en/
[16] https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20008232
[17] The limits for structural deficits are above the medium-term objective defined by the SGP.
[18] According to the reporting of Statistik Austria, non-compliance with the national expenditure benchmark occurs only in case both a one-year and a two-year deviation are registered.

Based on the reporting of Statistik Austria[20], with the exception of the central government, the Federal State of Styria and the municipalities of the Federal State of Tyrol, all entities complied with the structural budget rule of the ÖStP in 2017. The reported deviations are, however not sanctionable.[21] According to Statistik Austria, the structural budget deficit of the central government was at 0.37% of GDP in 2017 and hence only slightly above the threshold of 0.35%. Taking into account prior deviations as of 2015, the threshold of -1.25% of GDP in the control account does not exceed sanctionable limits. Deviations at the subnational level are compensated by over-achievements of other States.[22] Based on the reporting of Statistik Austria the central government and the Federal States have complied with the expenditure rule. Reported deviations at the municipal level are not sanctionable as they are balanced by the over-achievement of the Federal States. According to Statistik Austria, the national debt rule, which defines a fixed debt reduction benchmark for all levels of government, was not complied with but did not trigger any sanctions.

Taking the information provided in the Stability Programme at face value, in 2018, the general government headline balance complied with the Treaty-threshold throughout the programme horizon. However, since the Stability Programme does not provide information on the structural balances (including the balances of control accounts), expenditure and debt developments at the level of the Länder and municipalities, an assessment of compliance with the national fiscal rules for 2018 cannot be undertaken.

In the Austrian Report on Public Finances 2017-2019, the Fiscal Council identifies several challenges that impede the assessment of compliance with the 2012 Austrian Stability Pact. The current focus on ex-post evaluation impedes timely adjustments in the budget process. Furthermore, the translation of EU fiscal rules into requirements for all levels of government leads to partly stricter (debt) and partly weaker (structural balance) national rules compared to the EU assessment framework. Overall, the Fiscal Council call for a streamlining of the ÖStP that is consistent with the EU fiscal rules and agreed "fiscal sharing arrangements" across different levels of government.[23]

The Stability Programme reports on policy measures to improve the quality of public finances in the areas of public administration, efficiency and impact analysis as well as measures against tax fraud. In the area of public administration, the re-organisation of social insurance institutions and an improved alignment of task, expenditure, and financing responsibilities across levels of government constitute main reform projects. Spending reviews and benchmarking are shall become regular instruments of the budgetary process in order to

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[19] According to the Fiscal Council, the national debt rule results in the formulation of a fixed debt reduction benchmark, which does not take into account future debt developments. As a result, the national debt rule results in the definition of a stricter adjustment path than the debt criterion of the SGP, which takes also a forward-looking perspective.

[20] Report under the agreement referred to in Article 18 Paragraph 12 of the Austrian Stability Pact 2012 between the Federal Ministry of Finance and the Federal Institute of Statistics Austria regarding the participation of the Federal Statistics Austria.

[21] Austrian Report on Public Finances 2017-2019, p. 90.

[22] For 2018, the Fiscal Council will provide an assessment of compliance with the structural budget rule on the basis of the published control accounts in the Fiscal Rules Compliance Report to be released in June.

[23] Austria's 2017 to 2019 fiscal stance and key results of the Austrian Fiscal Advisory Council's 2018 Report on Public Finances, p. 10.

improve the efficiency and effectiveness. Finally, a new Anti-Fraud Office shall become active as of 2020.

The Stability Programme for the period 2018-2023 submitted by Austria states that it constitutes the medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013. 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 2018, the medium-term economic forecast by the Austrian Institute of Economic Research (WIFO) of March 2019, 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. SUMMARY

In 2018, Austria achieved its MTO. Based on both the information contained in the Stability Programme and the Commission 2019 spring forecast, the structural balance is expected to overachieve the medium-term budgetary objective in 2019 taking into account the allowance granted for unusual events. If such achievement of the medium-term objective is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council. Similarly, in 2020, on the basis of the Stability Programme, Austria is expected to overachieve its MTO, in line with the Commission forecast.

Austria complied with the debt reduction benchmark in 2018 and, based on both the Stability Programme and the Commission forecast, Austria is expected to meet the debt reduction benchmark also in 2019 and 2020.

8. ANNEXES

Table I. Macroeconomic indicators

	2001-2005	2006-2010	2011-2015	2016	2017	2018	2019	2020
Core indicators								
GDP growth rate	1.8	1.3	1.1	2.0	2.6	2.7	1.5	1.6
Output gap [1]	-0.5	0.1	-0.6	-0.8	0.1	1.0	0.7	0.4
HICP (annual % change)	1.9	1.8	2.1	1.0	2.2	2.1	1.8	1.9
Domestic demand (annual % change) [2]	1.3	1.0	0.9	2.2	2.5	1.7	1.6	1.4
Unemployment rate (% of labour force) [3]	4.9	4.9	5.2	6.0	5.5	4.9	4.7	4.7
Gross fixed capital formation (% of GDP)	23.8	22.6	22.7	23.2	23.6	23.9	24.1	24.1
Gross national saving (% of GDP)	25.6	26.9	25.8	26.9	27.4	28.0	28.1	28.2
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-2.2	-3.0	-2.1	-1.6	-0.8	0.1	0.3	0.2
Gross debt	66.6	72.7	82.9	83.0	78.2	73.8	69.7	66.8
Net financial assets	-38.4	-45.5	-56.5	-56.8	-53.0	n.a	n.a	n.a
Total revenue	49.5	48.3	49.4	48.7	48.4	48.6	48.4	47.9
Total expenditure	51.7	51.3	51.5	50.3	49.2	48.5	48.0	47.7
of which: Interest	3.3	3.1	2.6	2.1	1.8	1.7	1.5	1.4
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-0.9	0.9	1.5	1.4	1.0	0.7	0.5	0.7
Net financial assets; non-financial corporations	-82.9	-78.9	-70.9	-70.3	-74.3	n.a	n.a	n.a
Net financial assets; financial corporations	-4.6	-2.8	2.4	0.8	1.6	n.a	n.a	n.a
Gross capital formation	15.8	14.8	15.0	15.7	16.5	16.7	16.8	16.7
Gross operating surplus	25.4	26.4	24.3	24.2	24.6	24.7	24.7	24.9
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	4.3	5.2	2.4	2.6	1.8	1.4	1.3	1.4
Net financial assets	110.6	118.6	125.3	129.9	129.4	n.a	n.a	n.a
Gross wages and salaries	38.9	38.3	39.0	39.2	39.1	39.4	39.5	39.4
Net property income	10.0	10.5	7.8	6.1	6.0	5.8	5.7	5.8
Current transfers received	22.8	22.5	23.3	23.4	22.9	22.6	22.4	22.3
Gross saving	9.4	10.4	8.0	8.0	7.3	7.1	7.1	7.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	1.2	3.1	1.9	2.5	2.0	2.4	2.4	2.5
Net financial assets	16.8	10.8	2.6	-0.9	-1.1	n.a	n.a	n.a
Net exports of goods and services	2.9	3.9	3.1	3.7	3.1	3.6	3.6	3.8
Net primary income from the rest of the world	-0.5	0.4	0.0	-0.1	-0.3	-0.4	-0.4	-0.5
Net capital transactions	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Tradable sector	46.2	45.4	44.7	44.4	44.4	44.4	n.a	n.a
Non tradable sector	43.0	43.8	44.4	44.8	44.8	44.9	n.a	n.a
of which: Building and construction sector	6.4	6.0	5.7	5.6	5.7	5.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	98.2	100.3	101.7	103.3	103.4	104.0	102.9	102.1
Terms of trade goods and services (index, 2000=100)	103.1	100.8	98.6	100.6	99.7	99.0	99.2	99.2
Market performance of exports (index, 2000=100)	104.4	100.2	99.6	95.3	94.9	95.9	95.4	95.0

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2015 market prices.

[2] The indicator on domestic demand includes stocks.

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

Source :
AMECO data, Commission 2019 spring forecast

Mandatory variables not included in the Stability Programme

The Stability Programme does not include several mandatory variables for final domestic demand, the external balance of goods and services, and price developments, basic assumptions concerning world import volumes (excluding EU) and expenditure and revenue data concerning long-term sustainability. Not included mandatory variables do not impede the Commission's ability to assess the Stability Programme on the basis of the Programme's assumptions.