EUROPEAN
COMMISSION

Brussels, 12.4.2018
C(2018) 2224 final

COMMISSION OPINION

of 12.4.2018

on the updated Draft Budgetary Plan of Austria

EN EN

COMMISSION OPINION

of 12.4.2018

on the updated Draft Budgetary Plan of Austria

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING AUSTRIA

3. On the basis of the updated Draft Budgetary Plan for 2018 submitted on 21 March 2018 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Following the general elections on 15 October 2017, a Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies on 17 October 2017. On 21 March 2018, the new government submitted an updated Draft Budgetary Plan in compliance with Regulation (EU) No 473/2013.

5. Austria is subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium term budgetary objective (MTO) of -0.5% of GDP. On 11 July 2017, the Council recommended that Austria achieve its medium-term budgetary objective in 2018, taking into account the allowance linked to unusual events.[1] As its public debt exceeds the 60% of GDP reference value of the Treaty, Austria also needs to comply with the debt reduction benchmark.

6. Overall, the macroeconomic assumptions underlying the updated Draft Budgetary Plan are favourable in 2018. In 2017 and 2018, the macroeconomic scenario is more positive compared to the 2017 Stability Programme. The updated Draft Budgetary Plan states that real GDP grew by 2.9% in 2017 and that growth is set to increase further to 3.2% in 2018. Such growth projection is somewhat more optimistic than the Commission ad-hoc forecast, which expects a deceleration of GDP growth to 2.8% in 2018. Compared to the updated Draft Budgetary Plan, the Commission expects slightly weaker growth of private consumption in 2018.

7. Austria complies with the requirement of Regulation EU No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the updated Budgetary Plan have been produced by the Austrian Institute of Economic Research.

[1] OJ C 261, 9.8.2017, p. 83.

8. The updated Draft Budgetary Plan projects the general government headline balance at -0.7% of GDP in 2017 and -0.4% of GDP in 2018. The structural balance[2] is expected to improve to -0.5% of GDP in 2017 and to deterioate to -0.9% of GDP in 2018. The current low interest rate environment is expected to support significantly the structural balance, as the costs for servicing debt are projected to decline strongly both in 2017 and 2018, by 0.3% and 0.2% of GDP respectively. Against the background of falling interest expenditure, the projected improvement and deterioration in the structural balance in 2017 and 2018 (+0.4% of GDP and -0.4%, respectively) is accompanied by a smaller improvement and a larger deterioration of the structural primary balance (+0.1% of GDP and -0.6%, respectively). General government debt is expected to decline significantly, from 83.6% of GDP in 2016 to 78.1% of GDP in 2017 and then to 74.5% of GDP in 2018. The fast decline is supported by the divestment of impaired assets from bad banks, which are included in government accounts, as well as by the positive contribution of the primary balance, declining interest spending and the sustained nominal GDP growth.

9. In its 2017 Stability Programme, Austria indicated that the budgetary impact of the additional costs related to the exceptional inflow of refugees and the terrorist threat is significant and should be considered as an unusual event outside the control of the government, as defined in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97. Specifically, Austria requested a temporary deviation from the adjustment path towards the MTO of 0.01% of GDP in 2017 in relation to the incremental costs for exceptional security measures. In the updated Draft Budgetary Plan the government has slightly revised the projected costs of the inflow of refugees, which are now estimated at 0.5% of GDP. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for that additional expenditure, in that the threat of terrorism and the inflow of refugees are exceptional events, their impact on the country's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the MTO. The Commission provisionally assessed Austria to be eligible for an allowance of 0.02% of GDP in 2017 in relation to the incremental costs considered by the Commission to have a clear and direct link to the exceptional inflow of refugees and to security measures related to the threat of terrorism. The Commission will make a final assessment, including on the eligible amounts, in the course of the assessment of the 2018 Stability Programme on the basis of Eurostat validated EDP data.[3]

10. The Commission ad-hoc forecast projects the headline balance at -0.7% of GDP in 2017 and -0.5% of GDP in 2018. In 2018, the small difference from the projections of the updated Draft Budgetary Plan is largely due to base effects. The structural balance is projected at -0.6% of GDP in 2017 and -0.8% of GDP in 2018. The difference with respect to the (recalculated) structural balance from the updated Draft Budgetary Plan is explained by more conservative macroeconomic projections resulting in a smaller output gap estimate in 2018 according to the Commission ad-hoc forecast. Government debt is expected to decline to 78.5% of GDP in 2017 and to 75.3% of GDP in 2018, slightly slower than assumed by the updated Draft

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[3] The outturn data underlying the updated DBP have been notified by Statistik Austria on 27 March and thus too late to be taken into account in the assessment of the updated DBP. An ex-post assessment regarding the additional request for flexibility will be provided in the course of the assessment of the 2018 Stability Programme according to the applicable procedures and taking into account final EDP data to be validated by Eurostat and be released on 23 April 2018.

Budgetary Plan due to the different projections of headline deficit and nominal GDP growth. On the expenditure side, some of the recently implemented active labour market policy measures have been discontinued and will result in lower than previously estimated budgetary costs. On the revenue side, a reduction of social security contributions for low-income earners is exected to have a slightly negative impact on the budget balance. The main risks to the updated Draft Budgetary Plan's budgetary projections relate to the favourable economic outlook underlying the revenue forecasts.

11. The updated Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission ad-hoc forecast, the debt reduction benchmark is projected to be met in 2017 and 2018.

12. Since 2015, Austria was granted a temporary deviation from the adjustment path towards the MTO correponding to the additional expenses incurred due to the exceptional inflow of refugees and security measures against the terrorist threat on a year-to-year basis. The granted deviation is carried forward for two years, and amounts to 0.38% of GDP in 2017 and 0.29% of GDP in 2018, as an allowed distance to the MTO.

According to the information provided in the updated Draft Budgetary Plan, in 2017 the expenditure benchmark points to compliance with the applicable real reference rate of 1.1% (deviation of +0.3% of GDP). The (recalculated) structural balance also points to compliance. Over 2016 and 2017 together, the expenditure benchmark points to a risk of some deviation (deviation of -0.1% of GDP), while the (recalculated) structural balance points to compliance (gap of 0.2% of GDP). The difference between the two indicators is largely driven by the different underlying estimates of potential growth. While the 10-year average of potential growth underpinning the expenditure benchmark appears more robust, the structural balance is flattered by a more favourable reading of economic potential and supported by the declining interest expenditure, although negatively affected by a small revenue shortfall. The expenditure benchmark appears to more adequately reflect the fiscal effort. Therefore, the overall assessment points to compliance in 2017 and to some deviation for 2016 and 2017 together. This conclusion is confirmed based on the Commission ad-hoc forecast, and would not change if the additional budgetary impact of the inflow of refugees and the exceptional security measures in 2017 were excluded from the assessment.

In 2018, based on the information provided in the updated Draft Budgetary Plan, the expenditure benchmark points to a risk of some deviation from the applicable nominal reference rate of 3.2% (gap of -0.3% of GDP). Similarly, the (recalculated) structural balance points to a risk of some deviation from the required adjustment of -0.2% of GDP (deviation of -0.1% of GDP). Thus, the overall assessment points to some deviation in 2018. Based on the Commission ad-hoc forecast, the overall assessment points to a risk of some deviation both in 2018 and for 2017 and 2018 together. This conclusion would not change if the carry-over of the additional budgetary impact of the inflow of refugees and the exceptional security measures in 2017 were excluded from the assessment for 2018.

13. The decline in the general government balance projected by the updated Draft Budgetary Plan for 2018 is driven by a stronger decline of expenditure as a share of GDP compared to revenues as a share of GDP. The updated Draft Budgetary Plan projects public investment to remain broadly constant as a percentage of GDP in

2017 and 2018. The no-policy-change Draft Budgetary Plan reported several measures implemented since the Stability Programme, which relate to the fiscal-structural part of the country-specific recommendations contained in the Council Recommendation of 11 July 2017. Concerning streamlining competencies across the various layers of government and aligning their financing and spending responsibilities, some steps have been taken to increase the tax autonomy of federal states. While they are positive steps, spending powers of federal states remain far above their revenue raising responsibilities, and the 2017 Financial Equalisation Law includes several positive initiatives that still need to be implemented. The no-policy-change Draft Budgetary Plan also mentioned the ratified plan to strengthen primary care services, which could contribute to improve the sustainability of the healthcare sector in the medium term. Neither the no-policy-change Draft Budgetary Plan nor the updated Draft Budgetary Plan includes new measures concerning the sustainability of the pension system.

14. Overall, the Commission is of the opinion that the updated Draft Budgetary Plan of Austria, which is currently under the preventive arm and subject to the debt reduction benchmark, is broadly compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to stand ready to take further measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP.

The Commission is also of the opinion that Austria has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017 in the context of the European Semester and thus invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations was made in the 2018 Country Reports and will be made in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

Done at Brussels, 12.4.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission