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Assessment of the 2017 stability programme for

Austria

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

On 2 May 2017, Austria submitted its 2017 stability programme (hereafter called stability programme), covering the period 2016-2021. The Council of Ministers adopted the programme on 19 April and it was debated in the parliamentary budget committee on 28 April. The programme is based on the Federal Budgetary Framework Law 2017 to 2020 (BFRG), which sets legally binding expenditure ceilings for the next four years, for the federal government's five main spending categories.

Austria is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its MTO. As the debt ratio was 81.3% of GDP in 2013 (the year in which Austria corrected its excessive deficit), exceeding the 60% of GDP reference value, Austria was also subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit. In this period it needed to ensure sufficient progress towards compliance. After the transition period, as of 2017 Austria should comply with the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 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 2017 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

The macroeconomic scenario of the stability programme assumes a GDP growth of 2.0% for 2017 and 1.8% for 2018, gradually slowing down to 1.6% in 2021. Domestic demand is expected to be the key driver of growth, supported by stable growth in private consumption as well as decreasing but sustained investment growth. Net external trade, after a negative contribution in 2016, is projected to contribute steadily and positively to GDP growth in the coming years with exports growing slightly stronger than imports.

These projections are slightly more favourable than those presented in the 2016 stability programme (which projected GDP growth at 1.6% in 2017 and 2018) and the 2017 Draft Budgetary Plan (DBP) (which expected GDP growth at 1.5% in 2017). For 2017, the improved outlook is driven by stronger investment and exports. For 2018-2021 the revision is mainly due to a more balanced outlook for investment and exports, which are now expected to stabilise rather than peak in the outer years of the programme period. Private and public consumption growth is projected to develop stably, while investment shows a strong albeit softly easing trend.

The output gaps as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, suggest an improvement of the cyclical position in 2017 and a gradual closure of the negative output gap in 2018. Austria's

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.5	1.5	1.7	2.0	1.7	1.8	1.7	1.6	1.6
Private consumption (% change)	1.5	1.5	1.3	1.3	1.2	1.2	1.2	1.2	1.3
Gross fixed capital formation (% change)	2.9	2.9	2.5	2.6	2.1	2.4	2.2	2.1	1.9
Exports of goods and services (% change)	1.7	1.7	3.2	3.6	3.1	3.4	3.4	3.2	3.1
Imports of goods and services (% change)	2.8	2.8	3.0	3.3	2.7	3.0	3.1	3.0	3.0
Contributions to real GDP growth:									
- Final domestic demand	1.7	1.7	1.5	1.5	1.3	1.4	1.4	1.3	1.3
- Change in inventories	-0.1	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
- Net exports	-0.4	-0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Output gap[1]	-0.8	-0.9	-0.4	-0.4	-0.2	0.0	0.1	0.0	-0.2
Employment (% change)	1.3	1.3	1.0	1.3	0.9	1.1	0.9	1.1	1.1
Unemployment rate (%)	6.0	6.0	5.9	5.9	5.9	5.9	5.9	6.0	6.0
Labour productivity (% change)	0.1	0.1	0.7	0.6	0.8	0.7	0.6	0.6	0.6
HICP inflation (%)	1.0	1.0	1.8	1.8	1.6	1.7			
GDP deflator (% change)	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.7	1.8
Comp. of employees (per head, % change)	1.3	1.5	1.9	1.9	1.9	2.0	2.1	2.0	1.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.1	1.6	2.0	1.6	2.2	1.6			

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 2017 spring forecast (COM); Stability Programme (SP).

economy is then expected to remain around its potential until 2022. The output gap of the programme taken at face value is smaller by around 0.1% of GDP compared with the Commission's recalculation, but shows the same trend of closing towards the end of the programme period. Over 2016-2018, this profile is largely consistent with the Commission 2017 spring forecast. The plausibility tool developed by the Commission in consultation with Member States points to a high degree of uncertainty of the output gaps estimates for Austria provided by the commonly agreed methodology.[1]

The real GDP growth projections for 2017-18 are slightly more favourable than the Commission 2017 spring forecast. There are minor differences in the composition of growth for 2017, as the Commission forecast expects weaker dynamics in investment and exports. The Commission forecast also assumes comparable wage growth in 2017, however slightly lower wage growth in 2018 due to lower inflation projections. The government's work programme, adopted in January 2017, is not considered in the macroeconomic scenario of the stability programme nor in the Commission 2017 spring forecast. Overall the 2017 Austrian Stability Programme is based on favourable macroeconomic assumptions in 2017 and 2018 and on plausible assumptions thereafter.

[1] The analysis based on the constrained judgement approach can be found in box 2 in section 4.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, the general government headline deficit stood at 1.6% of GDP, slightly above the estimates of the Draft Budgetary Plan (DBP) which projected 1.4% of GDP. In particular, expenditure was higher than expected by 0.4 pps of GDP, due to higher spending in intermediate consumption and compensation of employees. Due to positive economic developments, revenues were also higher than expected by 0.2 pps of GDP, although some of the measures against tax fraud did not yield the expected amounts.

Despite the higher-than-expected deficit in 2016, the stability programme revises downwards the deficit projections for 2017 to 1% of GDP, from 1.2% of GDP expected by the DBP. Two main factors explain this revision. First, given that the amount budgeted in 2016 for bank support was only partially used, the stability programme does not include any provision in this regard for 2017, while the DBP included a preventive buffer of 0.2% of GDP. Second, the macroeconomic projections underlining the stability programme are more positive compared to the DBP, resulting in higher revenues by around 0.2 pps of GDP.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The stability programme confirms the MTO for Austria at -0.5% of GDP for the period 2017-2019, which reflects the objectives of the Pact. The purpose of the programme is to bring down the headline deficit from 1.6% of GDP to 0.3% of GDP by the end of the programme period, which, according to the authorities, would allow the structural balance to be at the MTO from 2019 onwards.

The time-profile of the envisaged budgetary adjustment is frontloaded, with a strong adjustment envisaged in the first year and lower fiscal efforts in the outer years of the programme period. As mentioned, the stability programme expects the headline deficit to decrease from 1.6% of GDP in 2016 to 1% of GDP in 2017. This improvement is driven by government expenditure, which is projected to decline by 0.5 pps of GDP. The spending categories affected are compensation of employees, intermediate consumption as well as social and interest spending, which are all expected to decline by 0.1% of GDP, reflecting the moderate salary increase for public servants, the reduced need for federal transfers to the pension insurance scheme and the low interest rates respectively. In addition, while in 2016 costs for bank support amounted to around 0.1% of GDP, no additional costs in this area are expected in 2017. Government revenues are expected to remain broadly constant as a percentage of GDP, with revenues from taxes on income and wealth recovering by 0.2 pps of GDP following the 2016 income tax relief. Social security contributions are expected to decline by 0.1 pp of GDP, due to some of the measures included in the 2016 tax reform. Revenues from production and imports are expected to develop favourably, remaining constant as a percentage of GDP despite the legislated cuts in employer contributions to the Family Burden Equalisation Fund (*Familienlastenausgleichsfonds*)[2].

[2] The Family Burden Equalisation Fund (*Familienlastenausgleichsfonds*) provides financial support to families, including child allowances. Employer contributions to the fund were reduced by 0.4 pps from 2017, and will be further reduced by additional 0.2 pps from 2018.

The general government headline deficit in 2017 is due to the deficit of the central government, whereas subnational governments' budgets are expected to be balanced. For local governments, this represents a fiscal effort of 0.1% of GDP. No additional effort is expected by federal states governments, as their deficit of 0.3% of GDP in 2016 was due to a one-off transfer from the federal state of Carinthia to the central government, connected with the liquidation of HETA, the financial defeasance structure related to the former bank Hypo Alpe Adria.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	2021	Change: 2016-2021
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**49.5**	**49.4**	**49.5**	**49.4**	**49.4**	**49.4**	**49.4**	**49.3**	**-0.2**
of which:									
- Taxes on production and imports	14.5	14.4	14.5	14.2	14.2	14.1	14.0	13.9	-0.6
- Current taxes on income, wealth, etc.	13.1	13.2	13.3	13.5	13.5	13.7	13.9	14.0	0.9
- Social contributions	15.5	15.4	15.4	15.4	15.4	15.4	15.3	15.3	-0.2
- Other (residual)	6.4	6.4	6.3	6.3	6.3	6.2	6.2	6.1	-0.3
Expenditure	**51.1**	**50.7**	**50.6**	**50.4**	**50.3**	**49.9**	**49.8**	**49.7**	**-1.4**
of which:									
- Primary expenditure	49.0	48.7	48.6	48.5	48.5	48.2	48.2	48.1	-0.9
of which:									
Compensation of employees	10.8	10.7	10.7	10.6	10.6	10.5	10.5	10.4	-0.4
Intermediate consumption	6.5	6.5	6.4	6.4	6.4	6.3	6.3	6.3	-0.2
Social payments	23.3	23.4	23.2	23.4	23.3	23.3	23.3	23.3	0.0
Subsidies	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	0.0
Gross fixed capital formation	3.0	3.0	3.0	2.9	3.0	3.0	2.9	2.9	-0.1
Other (residual)	4.0	3.8	3.9	3.7	3.8	3.7	3.7	3.7	-0.3
- Interest expenditure	2.1	2.0	2.0	1.9	1.8	1.7	1.6	1.6	-0.5
General government balance (GGB)	**-1.6**	**-1.3**	**-1.0**	**-1.0**	**-0.8**	**-0.5**	**-0.4**	**-0.3**	**1.3**
Primary balance	**0.5**	**0.7**	**0.9**	**0.9**	**1.0**	**1.2**	**1.3**	**1.2**	**0.7**
One-off and other temporary measures	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	**-1.5**	**-1.3**	**-1.0**	**-1.0**	**-0.8**	**-0.5**	**-0.4**	**-0.3**	**1.2**
Output gap[1]	-0.8	-0.4	-0.4	-0.2	0.0	0.1	0.0	-0.2	0.6
Cyclically-adjusted balance[1]	-1.1	-1.1	-0.8	-0.9	-0.8	-0.5	-0.4	-0.2	0.9
Structural balance[2]	**-1.0**	**-1.1**	**-0.8**	**-0.9**	**-0.8**	**-0.5**	**-0.4**	**-0.2**	**0.8**
Structural primary balance[2]	1.1	0.9	1.2	1.0	1.0	1.2	1.2	1.4	**0.3**

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:

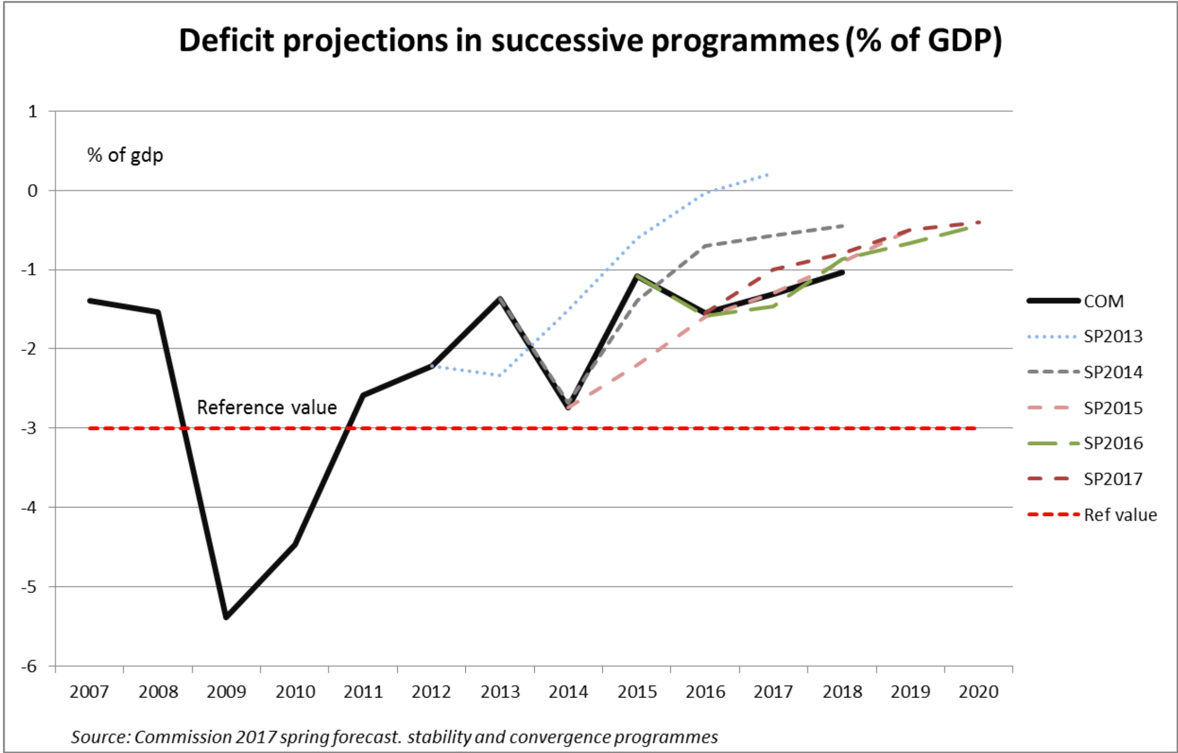
Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

As the projected improvement of the headline balance largely reflects the positive economic cycle, the structural balance – as recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology – is expected to improve only marginally, from -1.0% of GDP in 2016 to -0.8% of GDP in 2017.

The Commission 2017 spring forecast projects the headline balance at -1.3% of GDP in 2017, due to more conservative revenue forecasts and higher projections for social spending and intermediate consumption. Compared to the projections of the stability programme, the structural balance is expected to be lower in 2017, at -1.1% of GDP, due to the different projections for the headline balance.

In 2018, the stability programme expects the headline balance to improve to -0.8% of GDP, driven by a further decline in government expenditure as a percentage of GDP by 0.3 pps. Compensation of employees is expected to further decrease as a percentage of GDP by 0.1 pp, as well as interest expenditure which is expected to decline by 0.2 pps of GDP. Revenues are expected to slightly decrease as a percentage of GDP, also due to the additional reduction in non-wage employer contributions, curbing revenues from taxes on production and imports. Revenues from taxes on income and wealth are expected to continue recovering. According to the information contained in the stability programme, the (recalculated) structural balance is expected to remain stable at -0.8% of GDP in 2018. Differently from the stability programme, the Commission 2017 spring forecast expects the headline balance at -1% of GDP in 2018, due to more conservative assumptions on social and interest spending. Coherently, the structural balance is projected to be lower compared to the stability programme, at -0.9% of GDP.

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



Over the rest of the programme period, the stability programme expects the headline balance to continuously improve from -0.8% of GDP in 2018 to -0.3% of GDP in 2021. Revenues are forecast to remain broadly stable at 49.4% of GDP, while expenditure is projected to gradually decline from 50.3% of GDP in 2018 to 49.7% of GDP in 2021, driven by lower compensation of employees, intermediate consumption and interest expenditure. The stability programme explains the assumptions underlying these projections, pointing to moderate increases in salaries of civil servants, declining number of refugees and persistent low interest rates. In general, the budgetary targets of the stability programme are not underpinned by

specific measures, but rest on the overall aim to undertake expenditure discipline. The implementation of the legal basis and pilot projects for regular spending reviews confirms this general objective. Coherently with the projected evolution of the headline balance, the stability programme expects the (recalculated) structural balance to progressively improve from -0.8% of GDP in 2018 to -0.2% of GDP in 2021. Overall, according to the information provided in the stability programme, differences between the projected headline and structural balance are minor all along the programme period, as the Austrian economy is expected to remain around its potential (with a recalculated output gap close to zero) and no one-off measures are planned.

3.3. MEASURES UNDERPINNING THE PROGRAMME

Since spring 2015, Austria's budgetary documents (stability programmes and DBPs) do not contain the usual table quantifying in detail the expected budgetary effect of each discretionary measure. The current stability programme omits also the customary table showing the no-policy-change budgetary projections, which would allow reconstructing the expected effect of budgetary measures for each revenue and spending category.

The measures described in the stability programme can be classified in three main categories. First, the stability programme summarises many of the measures that were already included in the DBP, mainly aimed at reducing non-wage labour costs as well as supporting investment and research. Second, the stability programme reports the main aspects of the 2017 financial equalisation law, which will govern financial relations among the different layers of government up to 2021. The 2017 financial equalisation law contains several measures which will contribute to contain expenditure in the medium and long term, such as the legal basis for regular spending reviews and a benchmarking system at the federal states level, as well as lower caps for healthcare spending from 2021. Nevertheless, their details are not yet specified, and these measures are not included in the budgetary projections of the stability programme or in the Commission 2017 spring forecast. Third, the stability programme mentions many of the measures included in the government work programme, the medium-term agenda agreed by the government coalition and presented in January 2017. The government work programme includes a wide range of measures, some of which have a potentially significant budgetary effect, such as the indexation of the two lowest tax brackets to inflation and the temporary reduction for new working places of social security contributions paid by employers. While the overall cost of the government work programme is estimated at EUR 4 billion, the stability programme does not include these measures in its budgetary projections and reports that they will be considered in the annual budget for 2018. Similarly, the government work programme is not considered in the Commission 2017 spring forecast, as not enough details are available yet.

Overall, while the stability programme indicates the general aim and direction of the budgetary policy, it does not include new discretionary measures with relevant and quantifiable budgetary effects.

3.4. DEBT DEVELOPMENTS

Following the financial crisis, public support to the banking sector caused government debt to increase substantially, with outstanding liabilities related to bank support amounting to around 10% of GDP at the end of 2016. In particular, since 2009 three distressed and systemic banks –Kommunalkredit, Volksbanken and Hypo Alpe Adria – have been nationalised or partly nationalised for an orderly wind-down. Liabilities and impaired assets of the three distressed

banks were thus included into three bad banks – KA Finanz, Immigon and HETA respectively – and recorded as part of government accounts, causing government debt to increase in subsequent steps up to 2015. Since then, government debt is on a declining path, supported by the progressive divestment of the impaired assets of the three financial institutions, which is recorded as negative stock-flow adjustment.

The stability programme thus assumes substantial negative stock-flow adjustments over the programme period, based on the resolution plans of the Financial Market Authority for the three bad banks. Negative stock-flow adjustments contribute to a fast reduction of government debt, which is expected to decline from 84.6% of GDP in 2016 to 71.0% of GDP in 2021. Based on the projections of the stability programme, this decline will also be supported by the contributions of the primary balance, economic growth and inflation. While the contributions of primary balance and inflation are expected to be stronger in the outer years in line with the inflation and deficit projections, the contribution of economic growth is forecast to be stronger in 2017 and then progressively fade. The negative contribution of interest spending is also projected to decrease over time.

The Commission 2017 spring forecast assumes similar trends, but expects a slower decline in government debt in 2017 and 2018, due to more conservative assumptions concerning the primary balance, interest expenditure, economic growth and stock-flow adjustments.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020	2021
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**83.2**	**84.6**	**82.8**	**80.8**	**81.2**	**78.5**	**76.0**	**73.5**	**71.0**
Change in the ratio	0.5	-0.8	-1.8	-3.8	-1.6	-2.3	-2.5	-2.5	-2.5
Contributions[2]:									
1. Primary balance	**-0.6**	**-0.5**	**-0.7**	**-0.9**	**-0.9**	**-1.0**	**-1.2**	**-1.3**	**-1.2**
2. "Snow-ball" effect	**0.3**	**-0.2**	**-0.5**	**-0.8**	**-0.6**	**-0.8**	**-0.8**	**-0.8**	**-0.9**
Of which:									
Interest expenditure	2.6	2.1	2.0	1.9	1.9	1.8	1.7	1.7	1.5
Growth effect	-0.8	-1.2	-1.4	-1.6	-1.3	-1.4	-1.3	-1.2	-1.1
Inflation effect	-1.5	-1.1	-1.1	-1.0	-1.2	-1.2	-1.2	-1.3	-1.3
3. Stock-flow adjustment	**0.9**	**-0.1**	**-0.6**	**-2.1**	**-0.1**	**-0.5**	**-0.5**	**-0.4**	**-0.4**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

Notes:

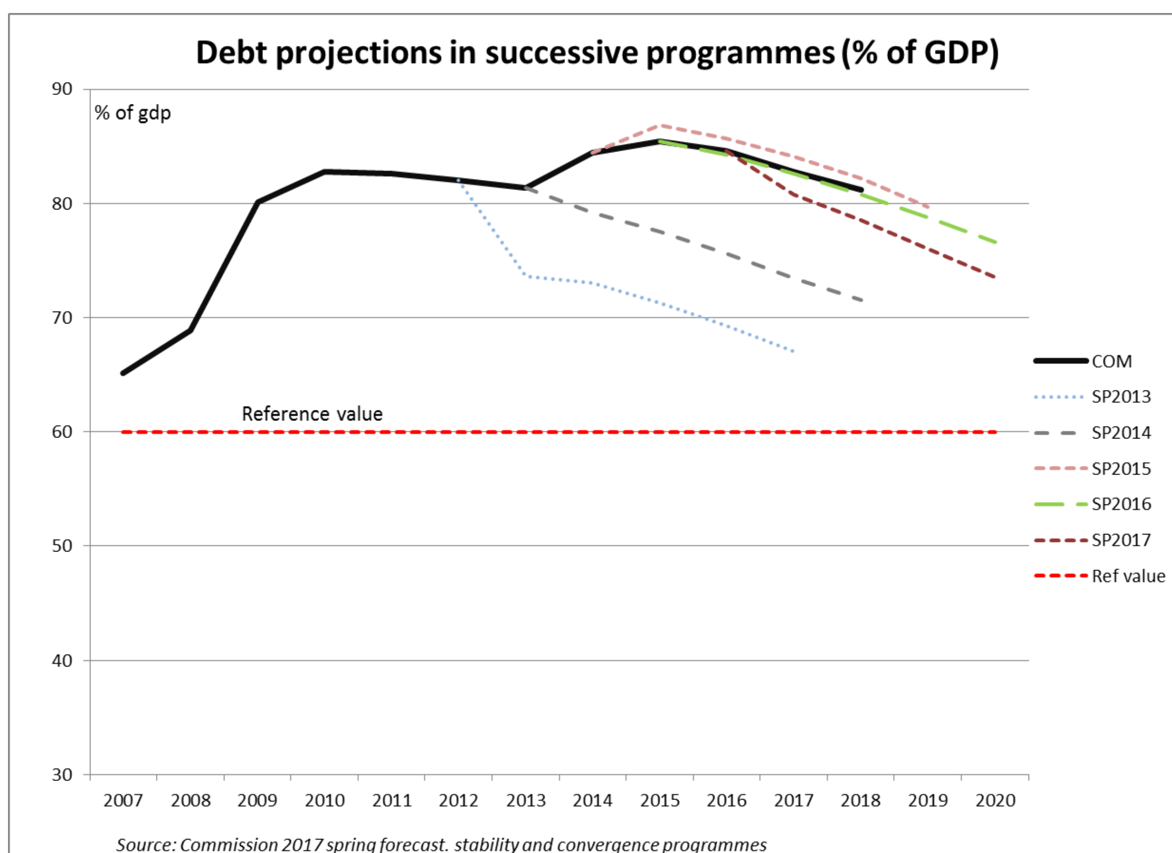
[1] End of period.

[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 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

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



3.5. RISK ASSESSMENT

The budgetary targets of the stability programme are subject to several risks. The macroeconomic scenario underpinning the stability programme is favourable, assuming a strong GDP growth in 2017. In particular, exports and investment are expected to grow slightly stronger compared to the Commission 2017 spring forecast. Although these components are not the most revenue-intensive, they also contribute to higher projections in employment growth, which is relevant for revenues from taxes on income and wealth.

The stability programme also assumes buoyant growth of revenues from taxes on production and imports in 2017. Insofar as these projections assume additional VAT revenues from the 2016 anti-fraud measures, they include a risk-factor, as revenue from this kind of measures is intrinsically uncertain.

On the expenditure side, the compensation of employees and interest expenditure are expected to decrease by 0.4 and 0.5 pps of GDP respectively by 2021. However, concerning the compensation of employees, it could prove difficult to maintain moderate salary increases over the programme period, also given that inflation is projected to remain substantial. The stability programme also assumes a favourable scenario for interest rates.

Concerning 2017 and 2018, the Commission 2017 spring forecast takes more conservative assumptions on several of these elements, resulting in slightly higher deficit projections in both years.

Although it is not included in the projections of the stability programme, the government work programme announced in January 2017 represents a downward risk for public finances.

While the measures included in the work programme and their financing will be considered in the annual budget for 2018, the stability programme already indicates that the programme will be financed for 70% through savings and expenditure cuts and for 30% via secondary effects arising from enhanced growth. The effectiveness of savings and expenditure cuts will also depend on the level of detail in which they are specified during the budgetary planning. Secondary effects on revenues represent an element of uncertainty, as their size and timing is difficult to predict.

Finally, it should be noted that, a few weeks after the submission of the stability programme and following the resignation of the Vice Chancellor (leader of one of the coalition partners), government elections in Austria have been anticipated by one year, and are expected to take place in autumn 2017. The present stability programme assessment relies on the overall assumption of policy continuity, and considers the budgetary targets of the programme to broadly hold beyond the present electoral cycle.

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

Box 1. Council recommendations addressed to Austria

On 12 July 2016, 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 "ensure that the deviation from the medium-term budgetary objective is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees, and to that effect achieve an annual fiscal adjustment of 0.3% of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort".

Following the abrogation of the excessive deficit procedure in 2013, Austria was subject to a three-year transition period to comply with the debt reduction benchmark as its debt-to-GDP ratio is above the 60% reference value. This transition period started in 2014 and ended in 2016. In 2016, Austria made sufficient progress as the structural adjustment of -0.8% of GDP is above the minimum requirement specified by the MLSA of -1.1% of GDP.

From 2017 onwards, Austria should comply with the debt reduction benchmark. Based on the stability programme, Austria is expected to meet the debt reduction benchmark both in 2017 and 2018, as its debt-to-GDP ratio is expected to be below the debt benchmark on a no-policy-change basis, with a gap to the debt benchmark of -3.1% of GDP in both years. The Commission 2017 spring forecast confirms compliance with the debt benchmark in both years.

4.1. Compliance with the debt criterion

Table 4. Compliance with the debt criterion

	2016	**2017**		**2018**		**2019**
		SP	**COM**	**SP**	**COM**	**SP**
Gross debt ratio	**85**	**80.8**	**82.8**	**78.5**	**81.2**	**76.0**
Gap to the debt benchmark [1,2]		-3.1	-1.1	-3.1	-1.4	-3.4
Structural adjustment [3]	-0.8	0.2	0.0	0.0	0.1	0.3
To be compared to:						
Required adjustment [4]	-1.1					

Notes:

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

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

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.2. Compliance with the required adjustment path towards the MTO

Eligibility to the 'unusual events' provision

The 2017 stability programme indicated that the budgetary impact in 2016 of the exceptional inflow of refugees and the security-related measures is significant and provided adequate evidence of the scope and nature of these additional budgetary costs. Concerning refugee-related costs, the stronger increase recorded in 2016 concerns the category "initial reception costs", due to the higher number of persons requiring public assistance in 2016. Despite the lower number of arrivals in 2016, this increase is plausible, given the duration of the application procedures and the fact that a large number of asylum seekers arrived at the end of 2015. The second largest increase is in the category "other costs and measures", reflecting the increased spending for integration measures such as labour market policies and education, as well as means-tested benefits for recognised refugees still unemployed. The additional costs for security related measures correspond to the stepping up of anti-terror personnel and equipment.

According to the Commission, the eligible additional expenditure in 2016 is estimated at 0.25% of GDP concerning the exceptional inflow of refugees and 0.04% of GDP concerning security-related measures. In 2017, the additional impact compared to 2016 of the security-related measures is currently estimated at 0.01% of GDP. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are unusual events,

their impact on Austria's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. In 2015, Austria was granted a temporary deviation for the exceptional inflow of refugees. In analogy to the implementation of the structural reform and investment clauses, the granted deviations for 2015 and 2016 are carried forward as a distance from its MTO for a total of three years each by the amounts considered eligible. This is to ensure that Austria benefits from the granted temporary deviations in the same way as countries neither at nor in reach of their MTO. As Austria is in reach of its MTO in 2016 and beyond, additional budgetary impacts related to the exceptional inflow of refugees and security-related measures incurred in 2015 and 2016 are still considered up to 2017 and 2018 respectively. Regarding the additional impact of the security-related measures expected in 2017, a final assessment, including on eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Austrian authorities.

Adjustment towards the MTO

As mentioned in section 3.2, for the period 2017-2019 the MTO for Austria corresponds to a structural balance of -0.5% of GDP. In 2016, the structural balance deteriorated by 0.8% of GDP (to -1.0% of GDP), in compliance with the allowed structural adjustment of -0.9% of GDP (deviation of 0.1% of GDP). The growth of government expenditure, net of discretionary revenue measures and one-offs, is above the applicable expenditure benchmark (deviation of -0.4% of GDP), pointing to a risk of some deviation. This calls for an overall assessment. The structural balance is supported by revenue windfalls and by a significant decline in interest expenditure. Therefore, the expenditure benchmark appears as a better indicator. The overall assessment thus points to a risk of some deviation from the requirements in 2016.

According to the information provided in the stability programme, the (recalculated) structural balance is expected to improve by 0.2% of GDP (to -0.8% of GDP) in 2017, in compliance with the required adjustment (gap of 0.2% of GDP). According to the programme, the growth of government expenditure, net of discretionary revenue measures and one-offs, is below the applicable expenditure benchmark in 2017 (gap of 0.2% of GDP), pointing as well to compliance. Over 2016 and 2017 taken together, the structural balance points to compliance (gap of 0.1% of GDP) while the expenditure benchmark points to a risk of some deviation (gap of -0.1% of GDP). This calls for an overall assessment. Both in 2016 and 2017, the structural balance is supported by declining interest expenditure. Therefore, the overall assessment points to a risk of some deviation from the requirements in 2016 and 2017 taken together.

Based on the Commission 2017 spring forecast, in 2017 the structural balance is expected to marginally deteriorate to -1.1% of GDP, still in compliance with the recommended structural adjustment of 0.0% of GDP (no deviation). The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark (deviation of -0.1% of GDP), pointing to a risk of some deviation. This calls for an overall assessment. The small difference between the two indicators is explained by a slight decline in interest expenditure expected in 2017, which supports the structural balance. Therefore, the expenditure benchmark appears as a better indicator, pointing to a risk of some deviation. Over 2016 and 2017 taken together, the structural balance points to compliance (no deviation) while the expenditure benchmark points to a risk of some deviation (deviation of -0.2% of GDP). This calls for an overall assessment. In line with the assessment of 2016 and 2017 taken separately, also over 2016 and 2017 taken together the structural balance is expected to be supported by revenue windfalls and declining interest expenditure. The

expenditure benchmark thus appears as a better indicator, pointing to a risk of some deviation. Therefore, the overall assessment points to a risk of some deviation from the requirements in 2017.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-1.0	-1.1		-0.9	
Structural balance based on freezing (COM)	-0.9	-1.1		-	
Position vis-a -vis the MTO[3]	At or above the MTO	Not at MTO		Not at MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.4		0.6	
Required adjustment corrected[5]	-0.9	0.0		0.3	
Change in structural balance[6]	-0.8	0.2	0.0	0.0	0.1
One-year deviation from the required adjustment [7]	0.1	0.2	0.0	-0.5	-0.1
Two-year average deviation from the required adjustment [7]	0.5	0.1	0.0	-0.1	-0.1
Expenditure benchmark pillar					
Applicable reference rate[8]	2.9	1.1		2.2	
One-year deviation adjusted for one-offs[9]	-0.4	0.2	-0.11	-0.5	-0.3
Two-year deviation adjusted for one-offs[9]	0.0	-0.1	-0.2	-0.1	-0.2
PER MEMORIAM: One-year deviation [10]	-0.1	0.2	-0.1	-0.5	-0.3
PER MEMORIAM: Two-year average deviation [10]	0.5	0.3	-0.1	-0.1	-0.2
Conclusion					
Conclusion over one year	Overall assessment	Compliance	Overall assessment	Overall assessment	Overall assessment
Conclusion over two years	Compliance	Overall assessment	Overall assessment	Overall assessment	Overall assessment

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

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

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

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

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, 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.

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

Source :
Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

Based on the information provided in the stability programme, the (recalculated) structural balance is expected to remain stable at -0.8% of GDP in 2018, causing a risk of some deviation from the required adjustment (deviation of -0.3% of GDP). The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to be above the applicable expenditure benchmark in 2018 (deviation of -0.5% of GDP), pointing to a risk of significant deviation. This calls for an overall assessment. In 2018, the structural balance is supported by a decline in interest spending of 0.2%, which does not affect the expenditure benchmark. Therefore, the overall assessment points to a risk of significant deviation in 2018. However, in case the current estimate of the budgetary impact in 2017 of the additional security measures is considered for 2017 and subsequently carried forward as an allowed distance from the MTO, the overall assessment would point to a risk of some deviation in 2018.

Based on the Commission 2017 spring forecast, the structural balance is expected to improve by 0.1% of GDP (to -0.9% of GDP) in 2018, pointing to a risk of some deviation from the recommended structural adjustment of 0.3% of GDP (deviation of -0.1% of GDP). The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark (deviation of -0.3% of GDP), pointing as well to a risk of some deviation. Similarly, over 2017 and 2018 taken together both indicators point to some deviation (deviation of -0.1% of GDP for the structural balance and -0.2% of GDP for the expenditure benchmark). Both in 2018 and over 2017 and 2018 taken together, differences between the two indicators are explained by a small revenue windfall expected in 2018 and a slight decline in interest expenditure expected in both years –two factors supporting the structural balance and not considered in the expenditure benchmark. Therefore, the overall assessment points to a risk of some deviation from the requirements in 2018.

Box 2. Implementation of the "constrained judgement" approach and its impact in the context of the fiscal surveillance

The April 2016 Amsterdam Informal ECOFIN Council requested that improvements be made to the commonly agreed methodology for the estimation of potential growth and the output gap. In response to this mandate from the Council, two concrete decisions were taken in agreement with the Member States in October 2016.

First, it was agreed that a revised methodology for the estimation of the non-accelerating wage rate of unemployment (NAWRU) would be introduced in the commonly agreed methodology. Second, it was agreed to introduce a "constrained judgement" approach for cases where the commonly agreed methodology appears to produce "counterintuitive" output gap results for individual Member States. Both changes have already been implemented in the assessment of 2017 Draft Budgetary Plans.

The objective of the "constrained judgement" approach is to have a transparent and economically grounded tool to statistically test the plausibility of the output gap estimates for individual Member States estimated on the basis of the common method. To this end, the Commission developed, in agreement with the Output Gap Working Group, an objective screening tool - based on a set of cyclically relevant indicators as well as thresholds/ranges - to signal cases when the outcomes of the commonly agreed methodology could be interpreted as being subject to a large degree of uncertainty and therefore deserving of further investigation on the part of the Commission. If this plausibility tool identifies possibly "counterintuitive" results from the common methodology, the Commission carries out an "in depth" analysis which could lead to the application of a "constrained" degree of judgement in conducting Member States' budgetary assessments.

The plausibility tool provided indications that the output gap estimated on the basis of the common methodology for Austria may be counterintuitive. In particular, the plausibility tool indicates for 2016 an output gap of -1.6% of potential output, while the value obtained through the common methodology is -0.8% of potential output, i.e. just at the threshold signalling a counterintuitive estimate. Nevertheless, in the case of Austria the output gap indicated by the plausibility tool appears unreliable for several reasons. First, the main driving factor as to why the plausibility tool suggests such a low value of the output gap is the short term unemployment rate. Despite the fact that this indicator for Austria did not deviate from its historical average in recent years and is very close to it in 2016, its negative contribution is sizeable (-0.28). This relates to the fact that the estimation of the plausibility tool attributes to this indicator a high coefficient, which appears strongly influenced by the dynamics in short term unemployment in other Member States, and does not fully reflect the Austrian situation. Second, concerning the cyclical indicator for wage inflation, the plausibility indicator uses nominal wages, instead of a real wage inflation indicator, which would adjust for expected inflation. In the case of Austria, using a real wage inflation indicator would suggest a faster closing of the output gap, thus reducing the difference from the value estimated on the basis of the common methodology.

In the light of the uncertainty surrounding the estimation of the level of the output gap for Austria, the Commission does not see sufficient ground to deviate from the output gap estimated on the basis of the commonly agreed methodology.

5. LONG-TERM SUSTAINABILITY

Austria does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-fiscal policy change scenario beyond forecasts, government debt, at 84.6% of GDP in 2016, is expected to decrease to 67.3% in 2027, thus remaining above the 60% of GDP Treaty threshold. This highlights medium risks for the country from debt sustainability analysis in the medium term. The full implementation of the stability programme would nonetheless put debt on a clearly decreasing path by 2027, although remaining above the 60% of GDP reference value in 2027.

The medium-term fiscal sustainability risk indicator S1 is at 0.7 pps of GDP, primarily related to the high level of government debt contributing with 1.6 pps of GDP, thus indicating medium risks in the medium term. The full implementation of the stability programme would put the sustainability risk indicator S1 at -0.1 pps of GDP, leading to lower medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, medium. Fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 2.5 pps of GDP. In the long-term, Austria therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.5 pps of GDP. Full implementation of the programme would nonetheless put the S2 indicator at 2.2 pps of GDP, leading to a similar long-term risk.

Table 6: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
	S0 indicator [1]			0.1			
	Fiscal subindex			0.1	LOW risk		
	Financial & competitiveness subindex			0.1	LOW risk		
Medium Term				**MEDIUM risk**			
	DSA [2]			MEDIUM risk			
	S1 indicator [3]			0.7	MEDIUM risk	-0.1	LOW risk
	of which						
		Initial Budgetary Position		-1.5		-1.9	
		Debt Requirement		1.6		1.1	
		Cost of Ageing		0.6		0.7	
		of which					
			Pensions	0.2		0.3	
			Health-care	0.3		0.2	
			Long-term care	0.1		0.1	
			Other	0.0		0.1	
Long Term				**MEDIUM risk**		**MEDIUM risk**	
	S2 indicator [4]			2.5		2.2	
	of which						
		Initial Budgetary Position		0.0		-0.4	
		Cost of Ageing		2.5		2.6	
		of which					
			Pensions	0.5		0.6	
			Health-care	0.9		0.9	
			Long-term care	0.9		0.9	
			Other	0.1		0.2	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator 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 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change 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 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

The stability programme summarises the national fiscal rules introduced by the Austrian Stability Pact in 2012, but does not contain any indication about compliance of the budgetary targets with these rules. Concerning the general government, the national fiscal rules broadly reflect the EU fiscal rules, and a similar assessment of compliance can be assumed. Concerning government subsectors, the stability programme does not contain sufficient information to assess compliance of each government subsector with its respective targets as regards the structural budget, expenditure growth and public debt reduction. In this sense, the national fiscal rules for subnational governments appear overly complex given the data available at the level of federal states and municipalities. The Stability Programme recalls that accounting standards will be harmonised across government subsectors from 2019, which will increase transparency and improve budgetary planning and monitoring. Simplifying fiscal rules for subnational governments would be a further step in that direction. The 2017 financial equalisation law introduced also several positive elements in the Austrian fiscal framework, which will contribute to increase transparency and contain spending at the subnational level. These elements include the simplification of transfers across subsectors, the task orientation of certain spending categories and the legal basis for benchmarks and spending reviews. Nevertheless, the law also increased yearly transfers from the central to the regional level by around EUR 400 million, which appears questionable in light of the better past compliance of federal states with their nominal targets compared to the central government. These conclusions are broadly in line with the recommendations issued by the National Fiscal Advisory Council in July and December 2016.

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

This stability programme for the period 2016-2021 submitted by Austria states that it is based on the Federal Budgetary Framework Law 2017 to 2020 (BFRG) and the parameters of the Austrian Stability Pact (ÖStP), national accounts data from Statistics Austria (STAT) until 2016, the medium-term economic forecast by the Austrian Institute of Economic Research (WIFO) of March 2017, 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 2016, Austria made sufficient progress towards compliance with the debt criterion as defined by the minimum linear structural adjustment (MLSA). The structural balance deteriorated by 0.8 pps of GDP to -1% of GDP. At the same time, the growth rate of government expenditure in 2016, net of discretionary revenue measures and one-offs, was above the applicable expenditure benchmark rate by -0.4% of GDP. On the basis of an overall assessment, this points to a risk of some deviation from the adjustment path towards the MTO in 2016.

Based on the stability programme, Austria is expected to meet the debt reduction benchmark both in 2017 and 2018, the first two years of the application of the debt benchmark after the transition period. The Commission 2017 spring forecast confirms compliance both in 2017 and 2018.

Austria expects in the stability programme the (recalculated) structural balance to improve by 0.2 pps of GDP to -0.8% of GDP in 2017. Based on an overall assessment, this path is at risk of some deviation from the required adjustment path towards the MTO in 2016 and 2017 taken together. In 2018, the (recalculated) structural balance is expected to remain stable, at -0.8% of GDP, while the growth rate of government expenditure in 2016, net of discretionary revenue measures and one-offs, is expected to be above the applicable expenditure benchmark rate by -0.5% of GDP. On the basis of an overall assessment, this causes a risk of significant deviation from the required adjustment path towards the MTO. Nevertheless, in case the current estimate of the budgetary impact in 2017 of the additional security measures is considered for 2017 and subsequently carried forward as an allowed distance from the MTO, the overall assessment would point to a risk of some deviation in 2018. According to the Commission 2017 spring forecast, there is a risk of some deviation from the adjustment path towards the MTO in 2017 and 2018.

8. ANNEX

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	2.1	2.7	0.4	0.6	1.0	1.5	1.7	1.7
Output gap [1]	0.4	0.7	-0.9	-0.8	-0.9	-0.8	-0.4	-0.2
HICP (annual % change)	1.6	2.2	2.1	1.5	0.8	1.0	1.8	1.6
Domestic demand (annual % change) [2]	1.5	2.0	0.4	0.1	0.6	1.8	1.5	1.4
Unemployment rate (% of labour force) [3]	4.3	5.1	5.0	5.6	5.7	6.0	5.9	5.9
Gross fixed capital formation (% of GDP)	24.7	23.2	22.5	22.7	22.6	22.9	23.0	23.1
Gross national saving (% of GDP)	25.1	27.0	25.5	26.0	25.9	25.7	25.5	25.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.7**	**-2.6**	**-3.2**	**-2.7**	**-1.1**	**-1.6**	**-1.3**	**-1.0**
Gross debt	**66.2**	**67.0**	**81.8**	**84.4**	**85.5**	**84.6**	**82.8**	**81.2**
Net financial assets	**-35.6**	**-41.6**	**-53.8**	**-59.1**	**-57.0**	**n.a**	**n.a**	**n.a**
Total revenue	49.7	48.5	49.1	50.0	50.6	49.5	49.4	49.4
Total expenditure	51.4	51.1	52.3	52.7	51.7	51.1	50.7	50.4
of which: Interest	3.5	3.1	2.8	2.5	2.4	2.1	2.0	1.9
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.1**	**-0.2**	**1.8**	**2.5**	**0.6**	**0.5**	**0.6**	**0.8**
Net financial assets; non-financial corporations	**-83.5**	**-81.9**	**-73.8**	**-72.9**	**-73.6**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-5.4**	**-3.9**	**0.8**	**2.9**	**4.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.0	15.8	14.4	14.9	14.6	14.7	14.9	15.1
Gross operating surplus	24.3	26.8	24.5	23.5	23.4	23.2	23.4	23.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.7**	**5.3**	**3.3**	**2.6**	**2.5**	**3.1**	**2.8**	**2.5**
Net financial assets	**107.5**	**115.3**	**124.0**	**131.4**	**129.6**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	39.8	38.1	39.2	39.6	39.6	39.6	39.6	39.5
Net property income	9.4	11.1	8.1	6.8	6.7	6.4	6.2	6.1
Current transfers received	22.8	21.9	22.9	23.3	23.2	23.1	23.1	23.1
Gross saving	9.6	10.2	8.9	7.7	7.8	8.4	8.0	7.7
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.1**	**2.7**	**2.0**	**2.4**	**2.0**	**2.1**	**2.0**	**2.2**
Net financial assets	**18.6**	**13.8**	**5.9**	**0.4**	**-0.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.0	3.6	2.8	3.3	4.0	3.8	3.7	3.9
Net primary income from the rest of the world	-0.8	0.1	0.3	0.2	-0.5	-0.6	-0.6	-0.6
Net capital transactions	-0.2	-0.1	-0.1	-0.1	-0.5	0.0	0.0	0.0
Tradable sector	46.5	45.7	44.7	44.3	44.2	43.8	n.a	n.a
Non tradable sector	42.7	43.4	44.3	44.8	44.9	45.3	n.a	n.a
of which: Building and construction sector	6.6	6.2	5.8	5.8	5.7	5.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	98.4	99.3	100.8	104.2	102.4	102.7	102.0	101.3
Terms of trade goods and services (index, 2000=100)	102.9	101.6	99.2	98.5	99.8	100.5	99.9	99.8
Market performance of exports (index, 2000=100)	103.2	101.6	100.1	98.2	96.1	94.2	93.0	91.4

Notes:

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

[2] The indicator on domestic demand includes stocks.

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

Source :

AMECO data, Commission 2017 spring forecast