# Austria

FISKALRAT
Austrian Fiscal Advisory Council

*Country note, July 2018*

## Key messages:

- **Boom conditions call for neutral or restrictive fiscal stance in 2017 and 2018**
- **Fiscal consolidation efforts by the new government helped avert a breach of the structural budget rule**
- **Austria is expected to be broadly in compliance with EU fiscal rules in 2018 and 2019**
- **Government debt ratio drops sharply in 2018 and 2019**
- **Adaptations of the national fiscal framework are called for**

## Positive macroeconomic outlook

The Fiscal Advisory Council sees a positive outlook for the Austrian economy but assumes that the upswing peaked at the end of the first quarter of 2018. Annual real GDP growth is expected to climb further – to more than 3% – in 2018, after 2.9% in 2017 (2016: 1.5%), and to slow down somewhat thereafter (2019: 2.2%).

## Fiscal outlook for 2018 and 2019

According to the government's current budget program, Austria will remain broadly in compliance with the EU-wide multidimensional budget rules (deficit rule, structural fiscal rules, debt rule) over the entire medium term forecast horizon from 2018 to 2022. Current estimates of the Fiscal Advisory Council predict that Austria will fail to comply only with the expenditure rule, but the deviation is not likely to be "significant." For Austria, experience has shown that the expenditure rule involves greater estimation uncertainty as the structural fiscal rule and is more difficult to comply with.

Austria's structural budget deficit adjusted for cyclical and one-off effects is expected to deteriorate in 2018 slightly according to the Fiscal Advisory Council's forecast even though some fiscal spending measures have been renounced by the new government (2017: –0.5% of GDP, 2018: –0.7% of GDP, 2019: –0.4% of GDP). The current government's fiscal consolidation efforts helped avert a breach of the structural budget rule in 2018 that the Fiscal Advisory Council had predicted in fall 2017. If the unusual events provisions (additional costs originating from refugee migration and counter-terrorism measures) or the normal margin of tolerance of 0.25 percentage point are taken into account, Austria will be in compliance with the EU's structural budget rules both in 2018 and 2019.

## Sharp decline in Austria´s debt ratio

The current decline in the general government debt ratio is substantial as the economy is strong, interest rates are very low and debt-reducing effects in connection with the nationalized banks are particularly high. We project the general government debt ratio to drop to 74.8% and 70.7% of GDP in 2018 and 2019, respectively. Stock-flow adjustments contribute substantially to the decline in government debt primarily due to the winding down of nationalized banks.

## Fiscal framework and national fiscal rules

The 2012 Austrian Stability Pact (2012 ÖStP) lays down subsectoral fiscal targets. Once fully implemented (from 2017 onward at the latest), the 2012 ÖStP will be a multi-dimensional fiscal framework similar to the EU-wide fiscal framework. However, the interpretation of the 2012 ÖStP is controversial among the contracting partners (central, regional and local authorities), its full application is complex and – to some extent – delivers results that deviate from those obtained through the application of the EU fiscal rules. The Fiscal Advisory Council recommends that the national fiscal rules be simplified, in particular at the local level, and that more focus should be put on the ex ante monitoring of subsectoral budget outcomes in Austria in order to be able to identify potential breaches of rules early on. Furthermore, transparency and a free flow of information between organizational units involved in the evaluation process (Statistics Austria, Court of Audit, coordinating bodies, Fiscal Advisory Council) and a clear definition of interfaces should be ensured.

Chart 1: Government balance and components

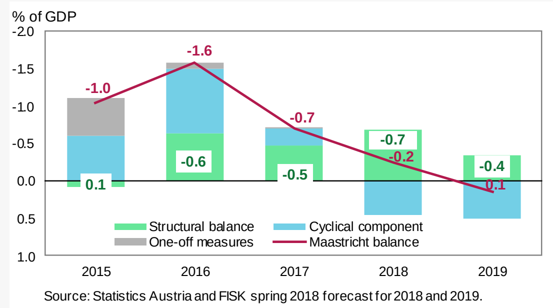



Chart 2: Fiscal Stance

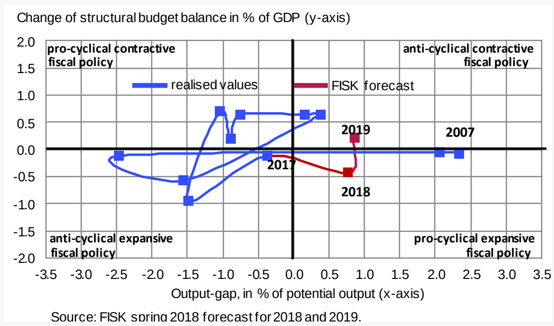
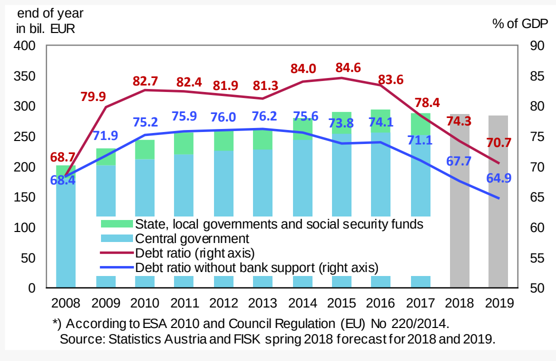



Chart 3: Government debt ratio




## Key indicator forecast

| | | 2015 | 2016 | 2017 | 2018 f | 2019 f | 2020 f | Source |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth rate | [% y-to-y] | 1.1 | 1.5 | 2.9 | 3.2 | 2.2 | 1.9 | 1 |
| Output Gap – FISK est. | [%] | -1.0 | -1.5 | -0.4 | 0.8 | 0.8 | 0.6 | 2 |
| GG balance – targets | [% of GDP] | -1.0 | -1.6 | -0.7 | -0.4 | 0.0 | 0.1 | 3 |
| GG balance - FISK est. | [% of GDP] | -1.0 | -1.6 | -0.7 | -0.2 | 0.1 | - | 2 |
| GG debt - MoF est. | [% of GDP] | 84.6 | 83.6 | 78.4 | 74.5 | 70.9 | 67.7 | 3 |
| GG debt - FISK est. | [% of GDP] | 84.6 | 83.6 | 78.4 | 74.3 | 70.7 | - | 2 |
| GG structural balance - FISK est. | [% of GDP] | 0.1 | -0.7 | -0.5 | -0.7 | -0.4 | - | 2 |
| Adapted fiscal rule expendit. growth | [% y-to-y] | 2.7 | 4.0 | 2.4 | 3.8 | 3.4 | - | 2 |
| Discretionary revenue measures (y-to-y-effect) | [% of GDP] | - | -0.8 | -0.3 | -0.3 | -0.2 | - | 2 |

*Sources:*

*1 – Austrian Institute of Economic Research*

*2 – Fiscal Advisory Council (FISK)*

*3 – Ministry of Finance (MoF)*

*f - forecast*

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