Austria

FISKALRAT
Austrian Fiscal Advisory Council

Country note, January 2018

Key messages:

- **Austria's fiscal position temporarily improves in 2017**
- **Significant rule breaches cannot be ruled out in 2018 unless countermeasures are taken**
- **Strong economic upswing calls for neutral or restrictive fiscal stance in 2018**
- **Government debt ratio drops sharply in 2017 and 2018**
- **Reform of federal structures should have priority**

Macroeconomic outlook

Austria's economy is back on solid growth path, with both domestic and foreign demand driving the rebound. Having accelerated by 1.5% in 2016, real GDP is projected to grow noticeably by 2.8% in both 2017 and 2018 and 2.2% in 2019. The unemployment rate is forecast to decline to 5.4% by 2018 from the historic peak of 6.0% seen in 2016. The inflation rate is expected to rise to 2.0% in 2017 and to reach 1.9% in 2018.

Fiscal outlook for 2017 and 2018

Austria's overall budget deficit is expected to contract to 0.7% of GDP in 2017 after 1.6% of GDP in 2016 (fall forecast 2017 of the Fiscal Advisory Council). Government revenues are set to increase by 3.8% or EUR 6.7 billion on the back of buoyant economic activity and the fact that last year's one-off effect of the tax reform is no longer an issue. Also, government expenditure is growing in 2017 relatively moderately (2017: +1.9%). The structural deficit (including eligible clauses, factoring out additional spending of 0.4% of GDP on assistance to refugees and counter-terrorism measures) is expected to come to only 0.2% of GDP.

In 2018, current fiscal estimates indicate that Austria is set to pursue an expansive fiscal path, even though the domestic economy is expected to be operating above normal capacity utilization levels. Austria's fiscal stance is neutral in 2017 and turning procyclical in 2018. The numerous economic policy measures adopted by government toward end-2016 and in the 2017 election year will show their full fiscal effects from 2018 onward (causing the deficit to increase by EUR 2.2 billion or 0.6% of GDP in 2018). Current forecasts point to deviations from several fiscal rules in 2018: The structural deficit will clearly exceed the Medium-Term Objective of –0.5% of GDP and the projected increase in government expenditure (2018: +4.4%) will clearly breach the ceiling as defined by the EU, which will result in a significant deviation from the expenditure rule. The Fiscal Advisory Council calls for a neutral to restrictive fiscal path in 2018.

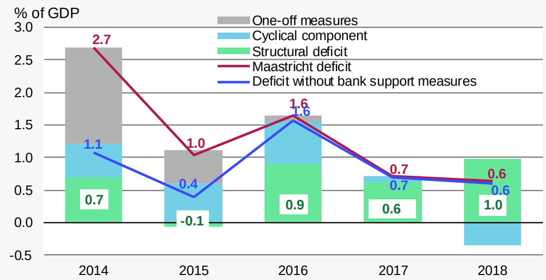
Sharp decline in Austria´s debt ratio

The decline in the general government debt ratio for 2017 and 2018 can be assumed to be substantial as the economy is going to be strong, interest rates are very low and debt-reducing effects in connection with the nationalized banks should be particularly high. We project the general government debt ratio to drop to 77.8% and 74.5% of GDP in 2017 and 2018, respectively, after 83.6% at end-2016. Stock-flow adjustments contribute substantially to the decline in government debt in 2017 (–EUR 9.8 billion) primarily due to the winding down of nationalized banks (–EUR 6.5 billion). Also in 2018, ongoing winding down of nationalized banks and premiums from over-par issues are expected to reduce the government debt.

Fiscal framework and national fiscal rules

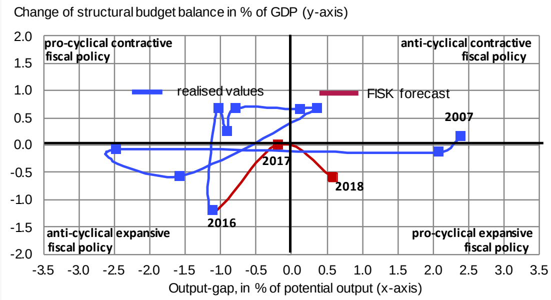
The Austrian Fiscal Advisory Council recommends taking measures right at the beginning of the new parliamentary term to proceed with the preparations for a reform of federal structures as specified in the 2017 fiscal sharing agreement and to replace the subnational fiscal rules currently in place with simpler rules and processes. The subnational rules should ensure the compliance with EU rules in terms of materiality and time framework, but need to be adapted to the fiscal frameworks of the regions and communities.

Chart 1: Government deficit and components



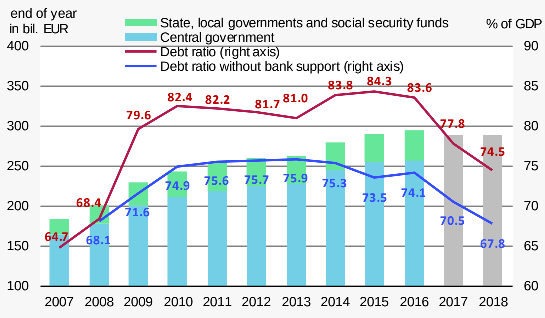
Source: Statistics Austria and FISK fall 2017 forecast for 2017 and 2018.

Chart 2: Fiscal Stance



Source: FISK fall 2017 forecast for 2017 and 2018.

Chart 3: Government debt ratio



*) According to ESA 2010 and Council Regulation (EU) No 220/2014.
Source: Statistics Austria and FISK fall 2017 forecast for 2017 and 2018.

Key indicator forecast

		2015	2016	2017 f	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	1.1	1.5	2.8	2.8	2.2	1.8	1
Output Gap – FISK est.	[%]	-1.0	-1.1	-0.2	0.6	-	-	2
GG balance – targets	[% of GDP]	-1.0	-1.6	-0.9	-0.8	-0.5	-0.4	3
GG balance - FISK est.	[% of GDP]	-1.0	-1.6	-0.7	-0.6	-	-	2
GG debt - MoF est.	[% of GDP]	84.3	83.6	78.3	75.2	76.0	73.5	3
GG debt - FISK est.	[% of GDP]	84.3	83.6	77.8	74.5	-	-	2
GG structural balance - FISK est.	[% of GDP]	0.1	-0.9	-0.6	-1.0	-	-	2
Adjusted real GG expenditure growth	[% y-to-y]	0.5	3.0	1.4	2.8	-	-	2
Discretionary revenue measures (y-to-y-effect)	[% of GDP]	-	-0.5	-0.1	-0.2	-	-	2

Sources:

1 – Austrian Institute of Economic Research

2 – Fiscal Advisory Council (FISK)

3 – Ministry of Finance (MoF)

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