

Country note, July 2019

Key messages:

- The cooling yet still robust economy supports fiscal consolidation
- Broad compliance with EU fiscal rules of general government 2019, full compliance 2020
- Non-compliance with national fiscal rules of some regional and municipal governments from 2019 onward
- Projected fiscal path subject to high degree of uncertainty due to upcoming parliamentary elections in fall 2019
- Structural reforms needed to ensure sustainable public finances in the long run

Continued robust macroeconomic outlook

The Fiscal Advisory Council (FISK) expects a loss of momentum yet continued robust growth over the medium term: Following growth of 2.7% in 2018, real GDP growth is expected to weaken visibly in 2019 (to 1.7%) and to keep decelerating until 2023 (to 1.4%). The balance of forecast risks is predominantly on the downside.

Sound fiscal outlook for 2019 and 2020

The FISK expects Austria to achieve a general government budget surplus of 0.4% of GDP in both 2019 and 2020. The 0.3% improvement on the year for 2019 results from a marked decline of the expenditure-to-GDP ratio that will be driven above all by a moderate growth of monetary social benefits and a further decline of interest payments. With regard to 2020, the budget balance is expected to change only marginally, even though revenues from social security contributions are expected to shrink visibly and spending on gross investment is expected to rise visibly. However, these changes will be compensated for by the growth rate of monetary social benefits, intermediate consumption below the nominal GDP rate and shrinking interest payments. We expect Austria's structural budget balance to improve to +0.1% of GDP in 2019 (2018: -0.4% of GDP) and to remain broadly unchanged for 2020.

Austria is set to continue to reduce debt in 2019 and 2020 due to high primary surpluses and the shrinking indebtedness of nationalized banks. The marked decline of the debt-to-GDP ratio to 69.6% and 66.4% reflects also strong GDP growth and low financing costs.

Based on our spring forecast, we expect Austria to fail to comply only with the expenditure rule in 2019 (average deviation over two years). From today's perspective this is, however, unlikely to trigger the EC's alert mechanism. After all, Austria stands to achieve its MTO and may expect the EC to ease its requirements for 2019 even further in its final ex post assessment in spring 2020 in view of the presumed MTO compliance in 2018.

Given the premature end of the 26th legislative session and the upcoming reelection of parliament in fall 2019, the projected fiscal path and enactment of government-adopted measures are subject to a high degree of uncertainty.

Necessary reforms of federal structures and age-related areas of expenditure recommended

In terms of macroeconomic and budgetary conditions, there is currently a window of opportunity for implementing structural reforms. The FISK recommended to implement structural reforms designed to safeguard the long-term sustainability of public finances. Priority should be given to reforming the competencies of the different levels of government and structural reform projects including sustainable financing models in age-related areas of expenditure (healthcare, long-term care, pensions, education). Policymakers should aim to raise the quality of public finances by proactively focusing on investment expenditure, in particular on infrastructure investments but also on investments to create human capital.

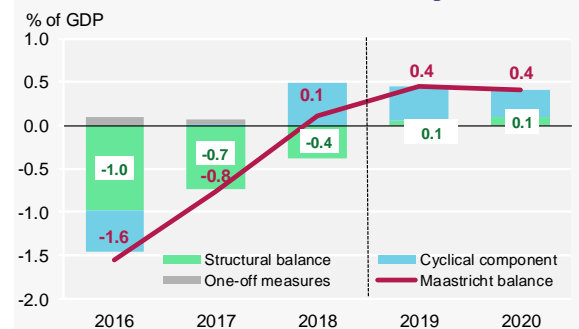
Some non-compliance with national rules expected

Some regional and municipal governments may fail to comply with national fiscal rules (structural balance rules, debt rule) from 2019 onward. Yet the data also show that meaningful analyses presuppose accurate estimates of the current and medium-term fiscal paths as well as timely data on fiscal developments on all sub-sectoral levels.

Key indicator forecast

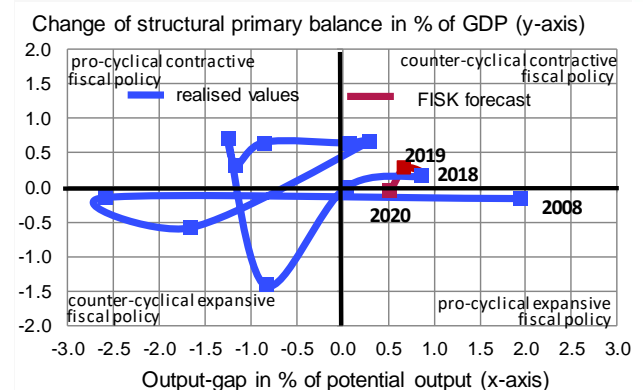
		2015	2016	2017	2018	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	1,1	2,0	2,6	2,7	1,7	1,8	1
Output Gap - FISK est.	[%]	-1,3	-0,8	0,0	0,9	0,7	0,5	2
GG balance - targets MoF	[% of GDP]	-1,0	-1,6	-0,8	0,1	0,3	0,2	3
GG balance - FISK	[% of GDP]	-1,0	-1,6	-0,8	0,1	0,4	0,4	2
GG debt - MoF est.	[% of GDP]	84,7	83,0	78,2	73,8	69,6	66,5	3
GG debt - FISK est.	[% of GDP]	84,7	83,0	78,2	73,8	69,6	66,4	2
GG structural balance - FISK est.	[% of GDP]	0,2	-1,0	-0,7	-0,4	0,1	0,1	2
Adapted fiscal rule expenditure growth	[% y-to-y]	-	3,9	2,4	3,9	3,3	3,5	2
Discretionary revenue measures (y-to-y-effect)	[% of GDP]	-	-0,5	-0,2	-0,1	-0,3	-0,3	2

Chart 1: Government balance and components



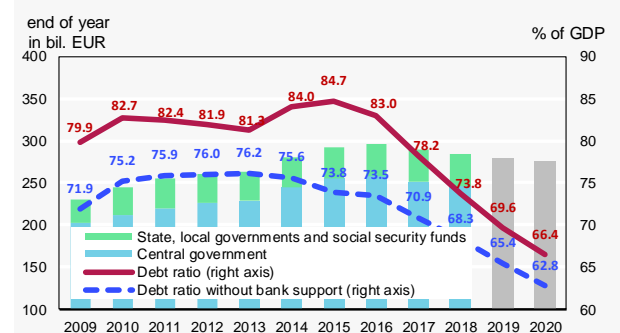
Source: Statistics Austria, WIFO and FISK spring forecast (for 2019 and 2020)

Chart 2: Fiscal Stance



Source: Statistics Austria, WIFO and FISK spring forecast (for 2019 and 2020)

Chart 3: Government debt ratio



*) According to ESA 2010 and Council Regulation (EU) No 220/2014.

Source: Statistics Austria and FISK spring forecast (for 2019 and 2020).

Sources:

- 1 - Austrian Institute of Economic Research
 - 2 - Fiscal Advisory Council (FISK)
 - 3 - Ministry of Finance (MoF)
- f - forecast