Austria

![FISKALRAT Austrian Fiscal Advisory Council]

Country note, January 2019

Key messages:

- **Positive economic conditions call for neutral fiscal stance in 2018 and 2019**
- **Fiscal consolidation efforts by the new government helped to reach the medium term objective**
- **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**
- **Effective structural reforms are needed to ensure a sustainable consolidation path in the long term**

Positive macroeconomic outlook

The Fiscal Advisory Council sees a positive outlook for the Austrian economy, although the upswing has peaked in the first quarter of 2018. Annual real GDP growth is expected to climb to about 3% in 2018, after 2.6% in 2017, and to slow down somewhat thereafter (2019: 2.0%).

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 rule, debt rule) over the entire medium term forecast horizon from 2018 to 2022. The federal government's objective is to conduct a fiscal policy without building up new debt from 2019 onwards. The Fiscal Advisory Council expects a fiscal balance of 0.0% of GDP already in 2018, in view of robust employment growth and high tax revenues. Our forecast for the general government budget in 2019 is a surplus of 0.2% of GDP.

Austria will fail to comply only with the expenditure rule in 2018 and 2019, but experience has shown that in Austria the expenditure rule involves greater estimation uncertainty as the structural fiscal rule. Despite a cost containment path and strict budget execution, some important expenditure items are increasing quite rapidly, especially spending on health care and old-age pensions. If external factors change, e.g. if economic growth slows down or interest rates rise, and if dynamic growth persists in particular as regards spending on health care and old-age pensions, it will become more difficult to comply with the EU fiscal rules. Moreover, for the planned substantial tax reform that has been scheduled to enter into force in 2020, the counter financing measures (spending cuts and/or increases in revenues) remain unknown up to now.

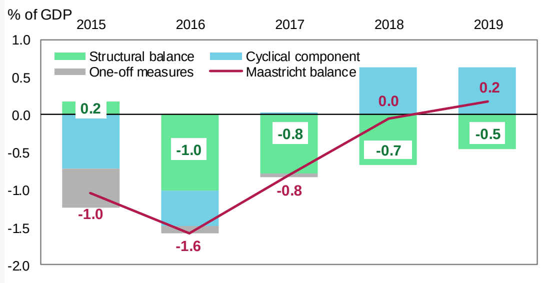
Sharp decline in Austria´s debt ratio

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 73.4% and 69.4% of GDP in 2018 and 2019, respectively.

Reforms of federal structures, old-age pension, health care and taxes are needed

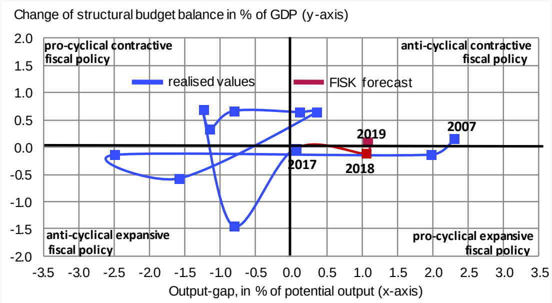
The Fiscal Advisory Council recommends that the government will define a binding reform process to reform the federal structures in Austria, starting with disentangling the tasks of the different levels of government. The reform needs to raise allocative efficiency, bundle responsibilities for revenues, spending and tasks, increase transparency, reduce mixed financing and simplify the system of transfers. Furthermore, taking on board the recommendations issued by international organizations to make Austria's pension system more sustainable, e.g. by implementing appropriate sustainability mechanisms, should remain a key priority. As regard health-care spending, the government should continue to persistently pursue the target control agreement on health care to promote measures necessary to raise efficiency. The Fiscal Advisory Council also advocates a comprehensive, systemic (tax) reform package that avoids isolated individual steering measures, which could lead to conflicting effects in the overall system.

Chart 1: Government balance and components



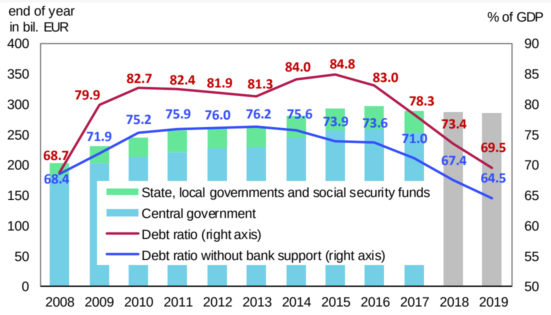
Source: Statistics Austria and FISK spring 2018 forecast for 2018 and 2019.

Chart 2: Fiscal Stance



Source: FISK fall 2018 forecast for 2018 and 2019.

Chart 3: Government debt ratio



*) According to ESA 2010 and Council Regulation (EU) No 220/2014.
Source: Statistics Austria and FISK spring 2018 forecast for 2018 and 2019.

Key indicator forecast

		2015	2016	2017	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	1.1	2.0	2.6	3.0	2.0	2.0	1
Output Gap - FISK est.	[%]	-1.2	-0.8	0.1	1.1	1.1	0.7	2
GG balance – targets MOF	[% of GDP]	-1.0	-1.6	-0.8	-0.3	0.1	-	3
GG balance - FISK	[% of GDP]	-1.0	-1.6	-0.8	0.0	0.2	-	2
GG debt - MoF est.	[% of GDP]	84.8	83.0	78.3	74.2	70.5	-	3
GG debt - FISK est.	[% of GDP]	84.8	83.0	78.3	73.4	69.5	-	2
GG structural balance - FISK est.	[% of GDP]	0.1	-0.7	-0.8	-0.7	-0.5	-	2
Adapted fiscal rule expenditure growth	[% y-to-y]	-	3.9	2.4	3.8	3.7	-	2
Discretionary revenue measures (y-to-y-effect)	[% of GDP]	-	-0.5	-0.2	-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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