

Mr. Siim Kallas
Commissioner

Vienna, May 12th, 2014

Dear Commissioner,

following the discussion of Austria's Draft Budgetary Plan in the Eurogroup on May 5, I would like to inform you about how we will respond.

First of all, let me reiterate that Austria has always been a firm believer in sound fiscal policy. This is also appreciated by the credit rating agencies, which have continued to issue top ratings for Austria all through the crisis. We also remain committed to achieving our MTO as soon as possible. Austria has a proven track record of always achieving better budgetary results than expected, because our assumptions are always on the safe side.

Against this background, let me express the expectation of the Austrian government that the Commission will - as foreseen by the regulation - undertake an overall assessment of the situation, rather than referring exclusively to its own forecast, which is subject to the same uncertainty as the Austrian forecast. Having said that, I would like to stress that the Austrian government stands by its commitment given in the Eurogroup to take additional measures as appropriate to the risk of non-compliance.

As the final outcome of the 2013 budget in structural terms did not become clear until very late in the budgetary process for 2014, we have not been able to adjust the macroeconomic parameters of the 2014 budget in line with these new developments. Thus, to have a balanced approach to the 2013 and 2014 budgets, we should be able to adjust also the 2014 budget parameters to this situation. Accordingly, I also commit, should developments in 2014 as concerns tax revenues or spending not be in line with such revised data to immediately take rebalancing measures of the appropriate size through expenditure based measures.

In terms of revenues, we expect the following additional revenues:

1. Reduction of eligible funding costs; Corporate Income Tax Act

Corporations can deduct interest and other costs of procuring funding. Under the amendment the possibility to deduct is restricted strictly to the interest on borrowed capital. It was adopted by the Parliamentary Committee on 8 May. Additional revenues of 25 mn € are expected (tax base 100; 25 % CIT).

2. Reduction of Capital Gains Tax Fraud

Fraud models have been developed and spread, which are directed at the repeated reimbursement of the same capital gains tax through sales around the cum/ex-appointed date (sales of a share shortly before the dividend date and repurchase of the same share shortly after the dividend date). A range of measures is planned to be able to recognise such models and refuse the reimbursement. The implementation via a Ministerial decree is in the making. Additional revenues of 50 mn € are expected.

3. Stricter regime in relation to voluntary disclosures

As from October 2014, a stricter regime in relation to voluntary disclosures will apply. The following points are to be reformed: At the beginning of an audit by the tax authorities, a voluntary disclosure will lead to an average fine of 25%. The measure will be implemented by a law, which is in the pipeline.

Additional revenues from 150 mn € are expected. Through the measures, we expect an one-off pull-forward effect in the year 2014 through a higher number of voluntary disclosures, but a part of the effect will be permanent due to a general, structural improvement of tax honesty and higher penalties.

4. Better economic developments

The higher employment than expected likewise brings about increased income in social security insurance and in income tax for the year 2014. As a result, increased income is also expected in pension insurance, unemployment insurance and family equalisation fund and indirect taxes. We estimate this effect to be around 300 mn € (additional wage sum of some 600-700 mn €).

In addition, the Federal Government assumes the following savings measures on the expenditure side:

5. Measures to increase the effective retirement age for persons having special pension regimes by enterprises with the state as shareholder

The measures will help increasing the effective retirement age and bringing it closer to the legal retirement age, especially in the spun-off undertakings and units. These measures can be

implemented, especially via a stricter scrutiny of pension applications. Expenditure savings could amount to 10-15 mn € in 2014. In addition, the pension harmonisation towards the general pension scheme is being implemented more rapidly.

6. Avoidance of duplication of subsidisation

According to federal law, there should be no duplications of transfers/subsidies for the same purpose and application. With the more systemic use of the transparency database and strict implementation of the laws, duplication will be abolished. This will be implemented by Ministerial order. Expenditure savings of 50 mn € are expected in 2014. A permanent effect will be secured by an intergovernmental agreement (Article 15a-agreement between the layers of government).

In addition, the Federal Government takes the following measures to achieving the EU Guidelines:

7. Expenditure savings of spun-off units

A review of the tasks as well as the lump-sum transfer (covering the costs for public service delivery except cultural, educational and scientific units) is envisaged. The target is to achieve savings of 50 mn €. To achieve a permanent effect, the ministries will have to take into account these savings in their contractual base with its spun-off units or if necessary change the legal basis.

8. Further legal measures

The Austrian government envisages further legal measures. Paragraph 52 of the Federal Budget Act allows making an ad hoc cut of discretionary spending. All relevant spending categories except for future-oriented areas will be affected. It will be implemented by a Decision of the Council of Ministers. Furthermore the Länder and Gemeinden (municipalities) will contribute via intergovernmental agreement between the federal government and the state governments. These expenditure savings and further legal measures would amount up to 350 mn €.

I am confident that the Commission will consider these additional measures as appropriate to avoid a significant deviation in Austria's structural effort for 2014.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Lindner". The signature is fluid and cursive, with a horizontal line at the end.