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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a draft budgetary plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING AUSTRIA

3. Austria submitted its Draft Budgetary Plan (DBP) for 2014 on 15 October 2013 in compliance with Regulation (EU) No 473/2013. Due to general elections, which took place on 29 September 2013, the DBP presented by the outgoing federal Austrian government was based on unchanged policies, and constituted a mere technical update of the 2013 Stability Programme. The Commission adopted on 15 November 2013 an opinion on the DBP for 2014 where it invited the Austrian authorities to submit to the Commission and the Eurogroup an updated DBP as soon as the new government took office, taking into account the Commission's opinion. In particular, the Commission invited the Austrian authorities to ensure full compliance with the SGP within the national budgetary process for the 2014 budget given that Commission's 2013 Autumn forecast pointed to risk of significant deviation according to the change in the structural balance in 2014. In January 2014 the government adopted a provisional budget, covering the period up to the adoption of a fully-fledged budget for 2014-15.
4. Austria submitted the updated DBP on 29 April 2014. The updated DBP, submitted together with the Stability Programme, covers 2014 and, in addition, 2015. The present Commission opinion assesses the consistency of the updated DBP for the year 2014 with the rules of the SGP, in accordance with Art. 7 of the Regulation (EU) No 473/2013. The Commission will provide its Opinion on the DBP for 2015 on the basis of the submission by Austria by October 2014 in compliance with Regulation (EU) No 473/2013.
5. Austria is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure (EDP) for Austria on 2 December 2009 and recommended to correct the excessive deficit by 2013 at the latest by pursuing an average annual structural adjustment of ¾% of GDP. The Commission 2014 Spring forecast indicates that Austria has corrected its excessive deficit in a sustainable manner in line with the Council recommendation of 2 December 2009. In particular, the validated figure of the deficit for 2013 indicates that the deficit reached 1.5% of GDP, while the Commission's forecast projects the deficit to remain below 3% of GDP over the forecast horizon. Hence, as from 2014, Austria will be subject to the

preventive arm of the Pact, under the assumption that the Council decides to abrogate the EDP based on a Commission recommendation.

6. The macroeconomic scenario underlying the updated DBP assumes GDP growth picking up to 1.7% in 2014 and 2015 driven by a recovery in domestic demand. It also projects relatively strong employment and wage growth. Compared with the scenario underlying the DBP submitted in October 2013, the employment growth is revised up significantly for 2014 (0.3 pps). The updated DBP and the spring 2014 Commission's forecast share broadly similar projections for nominal and real GDP over 2014 and 2015, but there are some differences in the composition and time profile of GDP growth. In particular, the Commission's forecast projects a somewhat slower recovery of domestic demand in view of the still fragile improvement in business and consumer confidence and a stronger role of net exports in 2014. The Commission's forecast also projects more moderate employment and wage growth over 2014-15 than the updated DBP. The combination of these factors leads to somewhat slower increases in the tax bases for the personal income tax, social contribution and indirect taxes, somehow affecting the relative tax revenue in the Commission forecast for 2014.
7. The macroeconomic forecast underlying the updated DBP have been produced by the Austrian Institute of Economic Research (WIFO). It has been a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast produced by the Institute. WIFO is a non-profit association and its governing board is composed of representatives of NGO's, financial institutions, the Austrian National Bank, business associations, and academia. Representatives of the central and regional government occupy one and two seats respectively on the Governing Board and two seats each on the Supervisory Council.
8. The general government deficit reached 1.5% of GDP in 2013, significantly better than the target of 2.3% of GDP planned in the DBP submitted in October 2013. This fiscal outcome was due to a large extent to the unexpected size of a one-off measure related to the sale of mobile phone spectrum, which accounted for almost 0.6% of GDP. The updated DBP projects the deficit to increase in 2014 to 2.7% of GDP due to the impact of the establishment of a defeasance structure (Liquidation Entity, *Abbaueinheit*) to wind-down the impaired assets of Hypo Alpe Adria. The Commission's forecast points to a general government deficit estimated at 2.8% of GDP for 2014, slightly exceeding the forecast of the updated DBP. The updated DBP expects the deficit to decline to 1.4% of GDP in 2015, mainly reflecting the diminishing impact of one-off support to Hypo Alpe Adria. The Commission's forecast for the year 2015 is broadly in line with government's projections.
9. The impact of the establishment of the Liquidation Entity for Hypo Alpe Adria is estimated by an external expert group of advisors appointed by the government to amount to up to EUR 4 billion (1.2% of GDP) including the effect of a capital injection of EUR 750 million, already undertaken in 2014. The final recording of the deficit-increasing impact will depend on an independent asset quality review of Hypo Alpe Adria's assets, which will be undertaken later this year in order to allow Eurostat to evaluate the statistical recording of this operation.
10. The updated DBP projects an increase in the debt ratio by roughly 5 pps. to 79.2% of GDP in 2014. This is linked to the inclusion in general government debt of liabilities incurred in connection with the transfer of the impaired assets of Hypo Alpe Adria to the Liquidation Entity. This operation explains also a debt-increasing stock-flow

adjustment in 2014. The Commission's forecast projects an increase in the debt ratio to 80.3% of GDP, taking into account a broadly similar size for the liabilities arising in relation to the transfer of the impaired assets. In 2015, the updated DBP expects the debt level to decrease to 77.6% of GDP, while the Commission projects public debt at 79.2% of GDP.

11. The updated DBP reports the effects of two packages of discretionary measures including measures equivalent in total to 0.4% of GDP with a roughly equivalent split between revenue increase, already adopted in February, and expenditure savings. Part of the expenditure saving measures included in the updated DBP have already been implemented in recent months.
12. Austria's general government deficit turned out below the 3% of GDP Treaty reference value both in 2011 and 2012, while uncertainty over Hypo Alpe Adria remained at the time. The validated public finance data for 2013 shows that the general government deficit remained below the 3% of GDP reference value, thereby respecting the deadline set by the Council for the correction of the excessive deficit. The Commission 2014 Spring forecast covers 2014 and 2015 and projects a sustainable correction, as the deficit remains below the 3% of GDP reference value in both years. The deficit-increasing impact of the Liquidation Unit is still provisional, since it is based on a report made by an expert group appointed by the Government. The structural balance improved by 0.5% of GDP in 2013, better than projected by the DBP of last October which planned an improvement by 0.1% of GDP. The additional structural effort made by Austria was required in order to attain the average structural effort of $\frac{3}{4}$ % of GDP over 2011-2013, as recommended by the Council under the EDP.
13. Under the assumption that the EDP is abrogated based on the projected sustainable correction of the excessive deficit, Austria will be in a transition period under the debt benchmark as from 2014. Based on the updated DBP, it is making sufficient progress towards compliance with the debt criterion in both 2014 and 2015.
14. Under the assumption that the EDP is abrogated Austria, as from 2014, will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO, according to the requirements of Regulation (EC) No 1466/97. The MTO has been set at a structural deficit of 0.45% of GDP. Article 5(1) of Regulation (EC) No 1466/97 requires the Commission and the Council to examine if the Member State concerned pursues an appropriate annual improvement of its structural balance. For Member States with a debt level exceeding 60% of GDP and in normal cyclical conditions, the annual improvement in the structural balance towards the MTO should be above 0.5% of GDP, which has been operationalized in consultation with Member States as a requirement of an effort of at least 0.6% of GDP. Consequently, Austria is required to pursue an annual structural adjustment toward the MTO of at least 0.6% in 2014.
15. The updated DBP provides for virtually no improvement in the structural balance (as recalculated by the Commission in line with the commonly agreed methodology), as it remains unchanged at -1.0% in 2014. This would fall short of the 0.6% of GDP required adjustment and would have implied a planned deviation exceeding the 0.5% threshold for a significant observed deviation as set out in Art. 6(3) of Regulation 1466/97. The Commission's spring forecast projects a negative structural effort of 0.1% of GDP, resulting in an even larger deviation from the required annual structural adjustment. The analysis of the information included in the updated DBP

shows that expenditure growth would deviate by around 1.6% of GDP from the expenditure benchmark. On the basis of the spring forecast, this deviation would amount to 1.8% of GDP. However, this is due essentially to the cost of establishing the planned Hypo Alpe Adria defeasance structure and other planned financial sector measures.

16. On 12 May 2014, the Austrian government reiterated its commitment to the 5 May Eurogroup to take additional measures as appropriate to avoid a significant deviation in Austria's structural effort for 2014. It publicly announced, and confirmed in a letter to the Commission, a set of additional revenue and expenditure measures amounting to close to EUR 700 million in 2014. Due to better-than-expected economic developments the Austrian government also projects higher revenues by EUR 300 million from social security contributions and income tax compared to the DBP's projections. According to its assessment, the Commission is of the opinion that the package includes structural measures of about EUR 630 million, or 0.2% of GDP in 2014.
17. In conclusion, provided that the above measures are strictly and timely implemented, the Commission is of the opinion that the government does no longer plan a significant deviation from the adjustment path towards the MTO in 2014. Nevertheless, based on the Commission 2014 Spring forecast and its assessment of the additional measures, the Commission considers that risks of not fulfilling the requirements of the preventive arm of the Stability and Growth Pact remain in 2014. Therefore, the Commission invites the authorities to take all necessary measures to ensure full compliance with the preventive arm of the Pact in 2014 and beyond. The Commission will provide an assessment on the basis of a fully-fledged DBP for 2015, to be submitted according to Art. 6 of Regulation (EU) No 473/2013 by 15 October 2014.

Done at Brussels, 16.5.2014

For the Commission
Siim KALLAS
Vice-President

