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Draft Federal Budget 2012: Pro-Active Approach to Fiscal Policy Needs To Be Accentuated

Against the background of a rather unfavourable macroeconomic environment following the latest weakening of short-term prospects, the draft federal budget for 2012 is the second "consolidation budget" after the financial market crisis and the deep recession. What is still missing is the integration of the annual budget into a comprehensive and pro-active approach to fiscal policy. Several accents put in key areas for future growth (education, research, energy-saving renovation of buildings, universities, child care) ought to be reinforced. In addition, a growth- and employment-friendly reform of the tax structure should be initiated in a revenue-neutral way, alleviating the high tax burden on labour particularly for low- and middle-income earners; to offset the implicit revenue losses, environmental and certain wealth taxes (real estate tax, inheritance and gift tax) should be raised gradually.

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The draft federal budget for 2012 voted in October 2011 is integrated into the Federal Financial Framework for the period from 2012 till 2015 adopted in April 2011. Since the macroeconomic environment had improved during 2011, the WIFO short-term forecast of September 2011 on which the 2012 budget is based holds out more benign economic prospects than WIFO's medium-term scenario of January 2011 underlying the Financial Framework 2012-2015 (Table 1). Nevertheless, already in the forecast of last September, WIFO revised down the growth outlook for 2012 and reduced it slightly further in the latest revision of December 2011. Hence, unlike assumed in spring 2011 when the Medium-Term Financial Framework was drafted, the federal budget for 2012 cannot count on a continued recovery from the crisis at the initial surprisingly strong pace. GDP in 2012 is expected to edge up by a mere 0.4 percent in real and 2.7 percent in nominal terms.

The trend in federal revenue and expenditure over the last few years was shaped by the financial market crisis and the deep recession (Table 2). In spite of the crisis-related increase in spending on bank support and cyclical stabilisation, federal expenditure receded by 6.1 percent in 2009 and 3.1 percent in 2010. Apart from a base effect (ad-hoc programme for bank support in 2008), this decline was due to a restraint in spending (supported by new legislation on federal budgeting, implemented in 2009) that was rather counter-productive given the severity of the recession. A further dampening effect resulted from the low interest rates on government debt. It was only in 2011 that expenditure edged up by 0.8 percent. The strong rebound by 8.5 percent according to the budget for 2012, whereby federal expenditure would nearly return to their level of 2008 is explained by a one-off effect (recording of payments on a cash-basis)¹. Adjusted for this factor, outlays are set to rise

A federal budget overview

¹ According to the new legal budgetary framework for the federal government, payments made in December of a year, but economically related to the following year (e.g., the Federal old-age care allowance, salaries and retirement benefits of federal government employees and teaching staff employed by the Länder) are administratively attributed to the year in which the payment is made. According to the Maastricht guidelines, attribution continues to be to the year for which the payment is economically relevant.

by 6.7 percent to a level still markedly below that of 2008. On average over the period 2008-2012, expenditure has been broadly flat or (abstracting from the one-off factor) declining by 0.6 percent p.a.

Table 1: Key economic data

	WIFO medium-term forecast								WIFO forecast						
	January 2011				January 2012				September 2011			December 2011			
	2009	2010	2011	2012	2009	2010	2011	2012	2010	2011	2012	2010	2011	2012	2013
Gross domestic product															
Percentage changes from previous year, volume	- 3.9	+ 2.0	+ 2.2	+ 2.0	- 3.8	+ 2.3	+ 3.2	+ 0.4	+ 2.3	+ 2.9	+ 0.8	+ 2.3	+ 3.2	+ 0.4	+ 1.6
Nominal	- 3.1	+ 3.2	+ 3.8	+ 3.8	- 2.8	+ 4.1	+ 5.5	+ 2.7	+ 4.1	+ 4.9	+ 2.9	+ 4.1	+ 5.5	+ 2.7	+ 3.2
Billion €, nominal	274.3	283.2	293.9	305.1	274.8	286.2	301.8	309.9	286.2	300.3	309.1	286.2	301.8	309.9	320.0
Consumer prices															
Percentage changes from previous year	+ 0.5	+ 1.8	+ 2.1	+ 1.8	+ 0.5	+ 1.9	+ 3.3	+ 2.1	+ 1.9	+ 3.1	+ 2.1	+ 1.9	+ 3.3	+ 2.1	+ 1.9
Gross wage bill, nominal															
Percentage changes from previous year	+ 0.8	+ 2.5	+ 2.8	+ 2.8	+ 0.8	+ 2.4	+ 4.8	+ 3.7	+ 2.4	+ 4.6	+ 2.9	+ 2.4	+ 4.8	+ 3.7	+ 2.4
Per capita	+ 1.5	+ 1.4	+ 2.0	+ 2.3	+ 1.6	+ 1.2	+ 2.7	+ 2.9	+ 1.2	+ 2.7	+ 2.5	+ 1.2	+ 2.7	+ 2.9	+ 1.8
Dependent employment															
Percentage changes from previous year	- 1.4	+ 1.0	+ 0.6	+ 0.5	- 1.5	+ 0.8	+ 1.9	+ 0.6	+ 0.8	+ 1.8	+ 0.4	+ 0.8	+ 1.9	+ 0.6	+ 0.4
Unemployment															
Changes from previous year in 1,000	+ 48.1	- 9.6	± 0.0	+ 5.5	+ 48.1	- 9.5	- 3.0	+ 15.2	- 9.5	- 4.5	+ 11.0	- 9.5	- 3.0	+ 15.2	+ 11.5
Absolute, in 1,000	260.3	250.7	250.7	256.2	260.3	250.8	247.8	263.0	250.8	246.3	257.3	250.8	247.8	263.0	274.5
Unemployment rate															
As a percentage of dependent labour force	+ 7.2	+ 6.9	+ 6.8	+ 6.9	+ 7.2	+ 6.9	+ 6.8	+ 7.1	+ 6.9	+ 6.7	+ 7.0	+ 6.9	+ 6.8	+ 7.1	+ 7.4
As a percentage of total labour force (Eurostat)	+ 4.8	+ 4.5	+ 4.4	+ 4.5	+ 4.8	+ 4.4	+ 4.2	+ 4.5	+ 4.4	+ 4.2	+ 4.4	+ 4.4	+ 4.2	+ 4.5	+ 4.7

Source: WIFO.

Glossary of terms

Administrative balance (net balance): revenue minus expenditure; equivalent to current net borrowing.

Maastricht balance: administrative balance adjusted (according to ESA 95 definitions) for items that, while associated with revenue and expenditure, do not affect the budgetary situation from the macroeconomic perspective (e.g., when the origin of payments dates from an earlier or later period, or when payments correspond to claims or liabilities of the same amount); it is the reference item for the obligations under the European Stability and Growth Pact.

Primary balance: revenue minus expenditure net of interest payments on public debt; **Primary deficit:** government revenue is lower than government expenditure net of interest payments, interest for the current year is thus covered by new borrowing; **Primary surplus:** revenue is higher than expenditure net of interest, interest for the current year thereby being covered by current revenue.

Structural balance: budget balance adjusted for the cyclical component; resulting independently from the level of economic activity.

Gross tax revenue: revenue from entirely federal or shared federal taxes before transfers to federal government funds, Länder, communities and EU.

Net tax revenue: revenue from entirely federal or shared federal taxes (gross tax revenue) net of transfers to federal government funds, Länder, communities and EU.

Reserves: amounts not spent during a fiscal year and therefore disposable for the following year.

Swap-transactions: contracts whereby the parties mutually agree to honour the obligations from equal liabilities during a certain period at the conditions defined ex-ante.

In 2009, federal government revenues fell by 3.2 percent year-on-year, in 2010 by 4.7 percent. Due to the revenue-raising measures² of the "consolidation package I", decided by the government in October 2010 at its dedicated retreat in Loipersdorf and implemented in 2011, as well as due to the unexpectedly swift recovery from the deep recession, revenues rebounded by a strong 6.8 percent in 2011. For 2012, an increase by 1.5 percent is expected. On average over the period from 2008 to

² For details, see Schratzenstaller (2011).

2012, revenues have broadly stagnated, with the projected level for the current year just matching that of 2008.

Table 2: Federal budget overview

	2008	2009	2010	2011		2012	2009	2010	2011	2012	Ø 2008-2012
	Outturn			Draft budget	Preliminary outturn	Draft budget	Percentage changes from previous year				
	Million €										
Revenue	64,435	62,376	59,434	62,540	63,452	64,408	- 3.2	- 4.7	+ 6.8	+ 1.5	- 0.0
Expenditure ¹	73,999	69,457	67,287	70,162	67,814	73,585	- 6.1	- 3.1	+ 0.8	+ 8.5	- 0.1
Administrative balance	- 9,564	- 7,080	- 7,853	- 7,622	- 4,362	- 9,177	- 26.0	+ 10.9	- 44.5	+ 110.4	- 1.0
Maastricht balance	- 1,328	- 8,767	- 9,720	- 8,725	- 8,150	- 8,170	+ 560.1	+ 10.9	- 16.2	+ 0.2	+ 57.5
Gross tax revenue	44,961	37,638	39,816	41,477	41,931	43,737	- 16.3	+ 5.8	+ 5.3	+ 4.3	- 0.7
Net tax revenue	68,528	63,314	65,492	68,980	69,858	72,525	- 7.6	+ 3.4	+ 6.7	+ 3.8	+ 1.4
	As a percentage of GDP										
Revenue	22.8	22.7	20.8	21.4	21.0	20.8					
Expenditure	26.1	25.3	23.5	24.0	22.5	23.8					
Administrative balance	- 3.4	- 2.6	- 2.7	- 2.6	- 1.4	- 3.0					
Maastricht balance	- 0.7	- 3.2	- 3.4	- 3.0	- 2.7	- 2.6					
Gross tax revenue	24.2	23.0	22.9	23.6	23.1	23.5					
Net tax revenue	15.9	13.7	13.9	14.2	13.9	14.1					

Source: Court of Audit; Federal Ministry of Finance, Budget Report 2012; WIFO calculations. – ¹ 2012: one-off effect of advance payments amounting to € 1,252 million.

Revenue developments are largely determined by gross tax revenues of the federal government (Table 8). The latter slumped by 7.6 percent in 2009, on account of the fall in GDP and the introduction of the tax reform 2009-10, but rebounded by 3.4 percent in 2010 and 6.7 percent in 2011, owing to the strong recovery and the tax increases included in the "consolidation package I". Thanks to the benign cyclical trend, actual tax revenues turned out higher in both years than planned in the budget. In 2012, gross tax revenues are projected to rise by 3.8 percent. Net tax revenues of the federal government show a similar pattern: after a massive fall by 16.3 percent in 2009 (explained, apart from the cycle, by a conversion of part of the federal transfers to the Länder to percentage shares of tax revenues), they rebounded by 5.8 percent in 2010 and 5.3 percent in 2011; the 2012 budget expects an increase by 4.3 percent. Since 2008, gross tax revenues have moved up by an annual average 1.4 percent, while net tax revenues of the federal government have edged down by 0.7 percent p.a., mainly due to the one-off effect referred to.

The "consolidation package II" agreed in February 2012, will have an impact already on the federal budget for the current year, with an improvement of the budget balance by € 1.53 billion (of which € 1.18 billion in additional revenues and € 0.35 billion of spending cuts). The bulk of the measures of the package, which is to add up to a total amount of budgetary relief of € 20.74 billion for the federal government and of € 27.87 billion for the general government over the period 2012 to 2016, will nevertheless take effect as from 2013 only (or later)³.

The general government expenditure ratio had dropped before the crisis in 2007 to 48.5 percent of GDP, its lowest reading in thirty years; by 2009⁴ it moved up to 52.9 percent of GDP, but gradually abated in the following years with the cyclical recovery and the consolidation-related expenditure restraint (Table 3). At a projected ratio of 51.2 percent of GDP in 2012, it will fall clearly below its peak of 56.4 percent recorded in 1993.

³ A more detailed presentation and assessment of the "consolidation package II" will be given in issue 5/2012 of "WIFO-Monatsberichte".

⁴ In interpreting these ratios, the strong level effect in 2008 and 2009 should be remembered, caused by the sharp fall in GDP.

Federal budget overview

Outturn 2011

According to the preliminary outturn, federal revenues rose to € 63.45 billion in 2011 thereby exceeding the budgeted revenues of € 62.54 billion by € 0.91 billion, primarily due to unexpectedly high tax revenues (notably of corporate tax and capital gains tax on dividends, while revenues from capital gains tax on interests and mineral oil tax disappointed). Federal revenues were 6.8 percent higher than in 2010. Federal expenditure turned out at € 67.81 billion, € 2.35 billion below the planned € 70.16 billion, corresponding to an annual increase of 0.8 percent. Major savings of € 0.93 billion were generated by lower-than-budgeted interest expenditure, but also the transfers to the social retirement scheme turned out lower by € 0.5 billion than in the budget, because of buoyant contribution revenues. Several Ministries, such as for agriculture and environment or science, spent less than foreseen in the draft budget. Overall, the budget balance in administrative terms did not amount to the planned € -7.62 billion, but to a lower € -4.36 billion, € 3.26 billion below the budget target. In the Maastricht definition, the federal deficit of € 8.15 billion or 2.7 percent of GDP was € 0.58 billion below the draft budget figure of € 8.73 billion or 3 percent of GDP.

Draft federal budget 2012

The draft budget provides for an increase in revenues by 1.5 percent to € 64.41 billion and in expenditure by 8.5 percent to a total € 73.59 billion (adjusted for advance payments +6.7 percent to € 72.3 billion). This yields a deficit in administrative terms of € 9.18 billion and in the Maastricht definition of € 8.17 billion or 2.6 percent of GDP.

Medium-term Financial Plan – Federal Financial Framework 2012-2015

The Federal Financial Framework 2012-2015 provides for an increase in federal revenues from € 64.17 billion in 2012 to € 71.12 billion in 2015. Expenditure is planned to rise from € 73.59 billion to € 75.49 billion. This will imply a reduction in the federal deficit in administrative terms from € 9.42 billion to € 4.36 billion. The Maastricht deficit is to be cut from € 8.3 billion (2.7 percent of GDP) to € 5.6 billion (1.6 percent of GDP). For 2012, the figure for expenditure in the draft budget corresponds to that in the Federal Financial Framework. The ceiling for the fixed outlays was respected by resorting to the liquidation of reserves (to the amount of € 0.42 billion), owing to which additional spending (essentially for the financing of the old-age-care fund created in mid-2011, on education, science and research as well as on environmental protection) is covered. The revenue projections of the Federal Financial Framework were slightly revised upward on account of the liquidation of reserves which are recorded as "other revenues".

Table 3: Government ratios

	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
	As a percentage of GDP									
Expenditure ratio ¹	56.2	51.8	49.9	49.0	48.5	49.3	52.9	52.5	51.5	51.2
Revenue ratio	50.4	50.1	48.2	47.5	47.6	48.3	48.7	48.1	47.9	48.0
Maastricht balance	- 5.8	- 1.7	- 1.7	- 1.5	- 0.9	- 0.9	- 4.1	- 4.4	- 3.6	- 3.2
Tax ratio ²	41.4	43.0	42.1	41.5	41.7	42.7	42.6	42.0	42.0	42.1

Source: Statistics Austria; Federal Ministry of Finance, Federal Budget Act 2012. – ¹ Harmonised (excluding Swaps). – ² Without imputed social contributions.

At 47.5 percent of GDP in 2006, the general government revenue ratio had declined to its lowest level since 1983. It rose to 48.7 percent of GDP in 2009, although tax revenues in that year slumped because of the recession and the tax cuts, and has been stable around 48 percent of GDP since. The tax burden, which rose to an all-time maximum of 44.9 percent of GDP in 2001 and moderated to below 42 percent of GDP thereafter, exhibits a parallel trend. In 2008 and 2009, it edged up to 42.7 percent and 42.6 percent of GDP, respectively, stabilising around 42 percent of GDP in the subsequent years. Thus, the tax burden – unlike the government expenditure and revenue ratios – will be higher in 2012 than in 1995.

Debt developments

Given the sovereign debt crisis in the EU and the crisis-related significant worsening of debt indicators since 2008 also in Austria, developments in this area are currently of particular interest for budgetary analysis. Table 4 shows key indicators of public debt for Austria on the basis of the projections of April 2011 for the period from 2011 to 2015 (according to the Strategy Report⁵ for the Medium-Term Financial Framework 2012-2015 and the Austrian Stability Programme for 2010-2014).

According to the Strategy Report, the general government deficit (in the Maastricht definition) is to be reduced from a peak of 4.6 percent of GDP in 2010⁶ gradually to 2 percent of GDP by 2015. The structural deficit, adjusted for cyclical variations and one-off effects, should also have peaked in 2010 (at 3.2 percent of GDP), declining subsequently to 1.9 percent of GDP by 2014. Public debt, which before the crisis stood at slightly above 60 percent of GDP in 2007, is projected to rise to 75.5 percent of GDP in 2013 and abate thereafter.

In this way, the budgetary plans of spring 2011 were in line with the EU Council recommendation in the context of the Excessive Deficit Procedure only with regard to the deficit in the Maastricht definition, which was to be reduced to below 3 percent of GDP by 2013. The plans were, however, not in compliance with the second requirement, namely to lower the structural deficit over the period from 2011 to 2013 (i.e., until the abrogation of the Excessive Deficit Procedure) by at least 0.75 percent of GDP p.a., and in the following years by an annual 0.5 percent of GDP until the Medium-Term Objective (of a structural deficit no higher than 0.5 percent of GDP) is reached.

Table 4: General government deficit and debt indicators

As per April 2011

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	As a percentage of GDP								
Maastricht balance ¹	- 0.9	- 0.9	- 4.1	- 4.6	- 3.9	- 3.3	- 2.9	- 2.4	- 2.0
Structural budget balance	.	.	.	- 3.2	- 2.8	- 2.4	- 2.1	- 1.9	.
Public debt	60.2	63.8	69.5	72.3	73.6	75.0	75.5	75.1	74.4

Source: Until 2009: Statistics Austria, as of 2010: Federal Ministry of Finance (2011B, 2011C). – ¹ Including revisions of National Accounts.

Table 5 presents the actual and (as from 2011) projected deficit and debt indicators of October 2011, as submitted together with the draft federal budget for 2012. Thereby, the general government deficit (in the Maastricht definition) was to fall from 4.4 percent of GDP in 2010 to 3.6 percent in 2011; although the deficit for 2011, because of a statistical revision, turned out higher by 0.2 percent of GDP than according to the plans of spring, it would have turned out lower than anticipated primarily due to unexpectedly high tax revenues. For 2012, expectations are for a Maastricht deficit of 3.2 percent of GDP. As usual, with a ratio of 2.6 percent of GDP, the bulk of the deficit is accounted for by the federal government; the Länder and the municipalities which on aggregate had achieved a small budgetary surplus until 2008, will register a deficit of 0.6 percent of GDP, marginally lower than in the previous year. These target ratios are essentially those of the internal Austrian stability pact for 2011-2014 as newly agreed in mid-2011 which provides for a general government deficit of 3.3 percent of GDP (for the federal government of 2.7 percent and for Länder and municipalities of 0.6 percent of GDP). According to this projection, general government gross debt will rise to 74.6 percent of GDP by 2012.

⁵ The Strategy Report is the key document of the Federal Ministry of Finance for the Medium-Term Financial Framework of the federal government; it contains information on the government's plans for revenue and expenditure for the period covered by the current Financial Framework (2012-2015) and on the preliminary federal budget outturn for the preceding year (in this case 2010).

⁶ This figure was revised down in September 2011 to 4.4 percent of GDP on account of the reclassification of the capital transfer to Hypo Alpe-Adria, while the deficit ratio for 2011 was raised accordingly by 0.2 percentage points; see also the adjusted figures in Table 5.

Table 5: General government deficit and debt indicators

As per October 2011

	2007	2008	2009	2010	2011	2012
	As a percentage of GDP					
Maastricht balance by government level ¹						
General government	- 0.9	- 0.9	- 4.1	- 4.4	- 3.6	- 3.2
Federal government	- 0.9	- 1.1	- 3.2	- 3.4	- 2.9	- 2.6
Länder, municipalities, social security agencies	± 0.0	+ 0.2	- 0.9	- 1.0	- 0.7	- 0.6
Public debt						
General government	60.2	63.8	69.5	71.8	72.4	74.6
Federal government	54.5	57.6	61.5	62.6	.	.
Länder, municipalities, social security agencies	5.7	6.2	8.0	9.2	.	.
Long-term liabilities ¹ of public enterprises	11.2	11.0	10.7	11.2	10.7	10.4
Federal enterprises ²	6.7	6.5	6.9	7.5	7.2	7.0
Market-determined municipal enterprises ²	4.5	4.4	3.8	3.7	3.5	3.4

Source: Statistics Austria, Federal Ministry of Finance, Government Debt Committee, WIFO calculations. + . . . surplus, - . . . deficit. - ¹ Market financing operations of original period above one year and market financing operations of territorial authorities on behalf of off-budget entities. - ² After deduction of liabilities already included in the government sector according to ESA 1995, extrapolated on the basis of 2010 to 2011 and 2012.

Apart from the debt included in the government debt ratio in the ESA (European System of National Accounts) definition, the liabilities of off-budget entities outsourced by the territorial authorities need to be taken into account for a comprehensive assessment of the indebtedness of the public sector in a wider sense (Schratzstaller, 2011). In this regard, the availability of reliable data remains unsatisfactory. Thus, at the level of the local communities, recording is incomplete for the liabilities of outsourced (market-determined) companies, due inter alia to the change in data collection for municipal associations ("Gemeindeverbände") by Statistics Austria. Also for the Länder, consistent and comparable data are available only for the hospital management companies (which according to a Eurostat decision of March 2011 have been re-integrated into the debt account of the public sector), but not for other potentially outsourced entities.

From an overall government perspective, the Government Debt Committee ("Staatsschuldenausschuss") presents in its annual reports the long-term liabilities of enterprises owned by public (territorial) authorities and distinguishes between those which are included in the official public debt ratio and those which are not. In the budget documentation produced by the Federal Ministry of Finance, however, no such distinction is made: therein, all financial liabilities (short-term and long-term) are listed for federal government enterprises only, whether or not they are to be classified as public and thus ought to be included into the public debt ratio. While this distinction has so far been of little relevance since all liabilities of the major outsourced federal enterprises (Federal Real Estate Corporation – BIG, Austrian Federal Railways – ÖBB, ASFINAG) had been excluded from government debt, it has become significant since the above-mentioned statistical revision of March 2011, according to which part of the liabilities and of the newly-incurred debt of ÖBB Infrastruktur AG is to be attributed to the federal government. Moreover, figures given in the budget documentation differ from those in the report on outsourced companies that is also issued by the Federal Ministry of Finance.

According to the data from the Government Debt Committee, long-term liabilities of enterprises owned by the federal government and the municipalities which are not included in the public debt ratio amounted to € 32.1 billion in 2010 or 11.2 percent of GDP (Table 5). Keeping the 2010 level constant for 2011 and 2012 (in the absence of reliable estimates), the federal and municipal long-term off-budget liabilities together amount to 10.7 percent and 10.4 percent of GDP in 2011 and 2012, respectively. Yet, a further rising trend appears more plausible since the long-term federal government liabilities are likely to follow a similar pattern as the total financial liabilities which the Budget Report quotes as rising by 7.6 percent each in 2011 and 2012.

The share of transfers in total federal expenditure is rising over the medium-term, from 35 percent in 2000 to 43.6 percent in 2012 (in adjusted terms 44.3 percent), according to the draft federal budget. Of undiminished high importance is spending on retirement benefits, with a share of 62.7 percent of total transfers, followed by family-related subsidies accounting for 19.8 percent. The latest increase in the share of long-time care benefits is explained by the newly-implemented old-age-care fund and by the shift of responsibility for benefit payments from the Länder to the federal government (Bund). With the introduction of the consolidation package I, the share of expenditure for family support has slightly decreased.

Selected aspects of expenditure composition

Table 6: Major items of federal government spending on transfers

	2000	2009 Outturn	2010	2011 ¹ Draft budget	2012	2012	Ø 2000-2012
	Million €					Percentage changes from previous year	
Retirement	11,901	17,165	18,073	18,625	20,107	+ 8.0	+ 4.5
Federal employees pensions	2,499	3,321	3,367	3,535	3,914	+ 10.7	+ 3.8
Reimbursement to Länder for pensions of teachers	697	1,069	1,138	1,152	1,297	+ 12.6	+ 5.3
Postal employees pensions	872	1,190	1,199	1,216	1,320	+ 8.5	+ 3.5
Austrian Federal Railways employees pensions	1,695	2,054	2,068	2,141	2,365	+ 10.5	+ 2.8
Subsidies to social retirement insurance ²	6,139	9,530	10,300	10,582	11,211	+ 6.0	+ 5.1
Families	4,322	6,188	6,528	6,335	6,331	- 0.1	+ 3.2
Family benefits	2,787	3,444	3,447	3,211	3,168	- 1.3	+ 1.1
Maternity, child care benefits ³	421	1,156	1,155	1,127	1,158	+ 2.7	+ 8.8
Retirement contributions for child care periods	77	550	825	852	811	- 4.9	+ 21.6
Other	1,037	1,038	1,101	1,145	1,195	+ 4.3	+ 1.2
Unemployment benefits	1,859	2,796	2,962	2,914	3,186	+ 9.3	+ 4.6
Old-age care benefits	1,264	1,773	1,855	1,915	2,427	+ 26.7	+ 5.6
Total	19,347	27,921	29,418	29,790	32,051	+ 7.6	+ 4.3
Percentage shares							
Retirement	61.5	61.5	61.4	62.5	62.7		
Families	22.3	22.2	22.2	21.3	19.8		
Unemployment compensation	9.6	10.0	10.1	9.8	9.9		
Old-age care	6.5	6.3	6.3	6.4	7.6		

Source: Federal Ministry of Finance, WIFO calculations. – ¹ Preliminary outturn not yet available. – ² Including minimum pension supplements and transfers to the balancing fund of the social retirement insurance agencies. – ³ Including small-children support.

Table 7: Federal expenditure on retirement benefits

	2000	2009 Outturn	2010	2011 ¹ Draft budget	2012	2012	Ø 2000-2012
	Million €					Percentage changes from previous year	
<i>Total gross expenditure</i>	<i>11,901</i>	<i>17,165</i>	<i>18,135</i>	<i>18,625</i>	<i>20,107</i>	<i>+ 8.0</i>	<i>+ 4.5</i>
Federal employees pensions	2,499	3,321	3,429	3,535	3,914	+ 10.7	+ 3.8
Reimbursement to Länder for pensions of teachers	697	1,069	1,138	1,152	1,297	+ 12.6	+ 5.3
Postal employees pensions	872	1,190	1,199	1,216	1,320	+ 8.5	+ 3.5
Austrian Federal Railways employees pensions	1,695	2,054	2,068	2,141	2,365	+ 10.5	+ 2.8
Subsidies to social retirement insurance	4,152	7,655	8,206	8,568	9,175	+ 7.1	+ 6.8
Minimum pension supplements	741	996	990	998	1,002	+ 0.4	+ 2.5
Transfers to the balancing fund of the social retirement insurance agencies	1,246	880	1,105	1,016	1,035	+ 1.9	- 1.5
<i>Total revenue</i>	<i>1,412</i>	<i>1,591</i>	<i>1,491</i>	<i>1,554</i>	<i>1,632</i>	<i>+ 5.1</i>	<i>+ 1.2</i>
Federal employees pension contributions	561	588	586	608	665	+ 9.4	+ 1.4
Contributions according to § 13 Pension Act	47	130	133	132	138	+ 4.4	+ 9.4
Contributions from teachers employed by the Länder	14	40	41	42	45	+ 6.1	+ 10.4
Pension contributions postal employees	273	211	211	217	223	+ 2.9	- 1.7
Pension contributions and supplements Austrian Federal Railways employees	435	400	390	374	388	+ 3.6	- 0.9
Other pension revenue	82	223	130	181	174	- 3.9	+ 6.4
<i>Net pension expenditure</i>	<i>10,490</i>	<i>15,574</i>	<i>16,644</i>	<i>17,071</i>	<i>18,475</i>	<i>+ 8.2</i>	<i>+ 4.8</i>

Source: Federal Ministry of Finance, WIFO calculations. – ¹ Preliminary outturn not yet available.

Federal net expenditure on retirement benefits (gross expenditure minus corresponding revenues, i.e., essentially insurance contributions for various public-sector retirement schemes) have increased by 4.8 percent p.a. since 2000. In 2012, gross federal retirement expenditure will account for 27.3 percent (in adjusted terms 27.8 percent) of total federal government spending, net federal retirement expenditure: 25.1 percent (in adjusted terms 25.5 percent). The federal subsidies to the statutory social retirement insurance, the largest single item of gross federal retirement spending, have recorded the strongest momentum, at an annual gain of 6.8 percent. Also the federal compensation of retirement outlays by the Länder for their teaching staff have risen by an above-average 5.3 percent p.a.

Total federal revenues stagnated on average over the period 2008-2012 (Table 8). In 2012, according to the draft federal budget, two-thirds of the total are accounted for by net tax revenues (revenues from exclusive federal taxes and revenue shares of joint federal taxes) and 15.9 percent by quasi-tax revenues (essentially unemployment insurance contributions and employers' contributions to the Family Benefit Fund). From 2008 to 2012, federal gross tax revenues have edged up by only 1.4 percent p.a., notably due to the crisis-related slump in tax revenues in 2009 and the tax reform of 2009-10. The same factors, together with the above-cited one-off effect of a switch of the bulk of Länder revenues from federal transfers towards joint tax revenue shares, are responsible for a decline in federal net tax revenues by 0.7 percent per year. The quasi-tax revenues, for their part, which under the impact of the crisis grew more slowly without declining, have risen by 2.8 percent p.a. since 2008.

In 2011, like in 2010, actual federal gross tax revenues turned out significantly higher than projected, by a margin of € 0.87 billion (Table 8), thereby exceeding for the first time the pre-crisis level of 2008. In 2011, gross tax revenues rose by 6.7 percent year-on-year, due to the swift cyclical recovery and the consolidation measures concerning the tax side. Tax revenues were higher than projected for wage tax and assessed income tax (by € 0.18 billion each), but particularly for corporate tax (€ +0.78 billion) and capital tax on dividends (€ +0.15 billion) tax. Revenues from capital tax on interest income (€ –0.47 billion), from VAT (€ –0.21 billion) and from mineral oil tax (€ –0.14 billion) turned out below expectations.

Selected aspects of revenue composition

Table 8: Development of federal government revenues

	2008	2009 Outturn	2010	2011 Preliminary outturn	2011 Draft budget	2012	Ø 2008-2012 Year-to-year percentage changes
	Million €						
<i>Government taxes, gross</i>	68,528	63,314	65,492	69,853	68,980	72,525	+ 1.4
Wage tax	21,308	19,897	20,433	21,784	21,600	23,000	+ 1.9
Assessed income tax	2,742	2,605	2,668	2,678	2,500	2,850	+ 1.0
Corporate tax	5,934	3,834	4,633	5,277	4,500	5,500	– 1.9
Capital gains taxes	3,750	3,015	2,556	2,712	3,030	2,950	– 5.8
Value added tax	21,853	21,628	22,467	23,391	23,600	24,100	+ 2.5
Excise taxes	5,633	5,582	5,684	6,103	6,236	6,270	+ 2.7
Transport taxes	5,027	4,953	5,116	5,627	5,251	5,672	+ 3.1
Other	2,280	1,798	1,934	2,280	2,263	2,183	– 1.1
<i>Minus</i>							
Transfers to Länder, municipalities etc.	– 21,517	– 23,397	– 23,340	– 25,414	– 25,104	– 26,288	+ 5.1
Transfers to EU budget	– 2,050	– 2,279	– 2,336	– 2,512	– 2,400	– 2,500	+ 5.1
<i>Government taxes, net</i>	44,961	37,638	39,816	41,926	41,476	43,737	– 0.7
Transfer of revenue shares ¹	1,759	1,609	1,658	1,812	1,787	1,884	+ 1.7
Tax-like revenues	9,165	9,278	9,608	10,032	9,762	10,242	+ 2.8
Unemployment insurance contributions	4,710	4,615	4,771	5,021	4,847	5,000	+ 1.5
Employers' contribution to Family Benefit Fund	4,399	4,624	4,762	4,977	4,875	5,111	+ 3.8
Other revenues ¹	14,849	13,851	8,352	9,681	9,515	8,545	– 12.9
<i>Total revenues</i>	64,435	62,376	59,434	63,452	62,540	64,408	± 0.0

Source: Federal Ministry of Finance, Federal Budget Act 2012. – ¹ 2008 adjusted, value according to new budget legislation framework. 2009 including one-off withdrawal from balancing reserve.

In 2012, tax revenues are projected to increase by 3.8 percent in gross and by 4.3 percent in net terms. Gains should be particularly strong for wage and assessed income tax, for corporate tax and for capital taxes.

The gradual, but steady increase in the share of wage tax in total gross tax revenues was only temporarily held back by the tax reform of 2009-10 (Table 9). In 2012, this share is projected to rise to 31.7 percent, while it stood at 24.8 percent in 1990. Value added tax is still the highest revenue-generating single tax, although its weight is rather going down: from 36.3 percent of total gross tax revenues in 1990 to 33.2 percent in 2012. With a share of 7.3 percent, revenues from energy-related taxes are gradually climbing back to their peak of 7.7 percent in 2004. Property-related taxes, including the bank levy introduced in 2011, will account for 1.9 percent of overall gross tax revenues in 2012. Recovering from their slump during the recession of 2009, corporate tax will contribute 7.6 percent to gross tax revenues. During the last two decades, the share of assessed income tax declined significantly, as a consequence notably of several tax rate cuts and additional (temporary or permanent) tax exemptions, as well as of the widening differential between the corporate tax rate after it had been cut in 2005 and the top marginal income tax rate, which may create an incentive for converting non-incorporated companies into incorporated enterprises.

Table 9: Composition of gross tax revenues by broad categories

	Total	Taxes on income		Wage tax	Taxes on consumption		VAT	Taxes on wealth
		Income tax	Corporate tax		Total	Energy-based		
In percent								
1990	42.9	7.9	3.2	24.8	50.6	4.6	36.3	4.1
1995	46.7	5.8	5.4	28.8	50.8	6.0	34.5	1.7
2000	47.1	5.6	7.7	28.7	50.5	6.5	33.9	1.4
2001	50.8	7.1	11.1	27.9	47.1	6.5	30.9	1.3
2002	48.5	5.7	8.3	29.5	49.3	6.9	32.1	1.2
2003	49.5	5.0	8.1	31.7	49.2	7.5	30.8	1.3
2004	48.0	5.0	8.0	30.5	50.3	7.7	32.3	1.3
2005	46.6	4.4	7.7	29.6	51.7	7.6	34.0	1.4
2006	47.1	4.2	8.0	30.0	50.4	7.0	33.4	1.5
2007	49.5	4.1	8.9	30.4	48.5	6.9	32.2	1.5
2008	50.5	4.0	8.7	31.1	47.6	6.7	31.9	1.3
2009	47.8	4.1	6.1	31.4	51.0	7.0	34.2	1.4
2010	47.6	4.1	7.1	31.2	50.8	7.0	34.3	1.4
2011 ¹	47.2	3.6	6.5	31.3	50.6	7.5	34.2	2.0
2012 ²	48.7	3.9	7.6	31.7	49.2	7.3	33.2	1.9

Source: Federal Ministry of Finance, WIFO calculations. – ¹ According to preliminary outturn. – ² According to draft federal budget.

The trend in the government/GDP ratio in the EU since the pre-crisis year 2007 shows the initially expansionary stance of fiscal policy since the beginning of the crisis, followed by an increasingly restrictive course since 2011 in the majority of EU member countries. According to the Autumn 2011 forecast by the European Commission, the government expenditure ratio for the EU 27 rose from 45.6 percent of GDP in 2007 (EU 15: 46 percent) to 50.6 percent in 2010 (EU 15: 51.2 percent; Table 10). From that time, the ratio has been declining steadily to a projected 48.4 percent in 2013, still 2.8 percentage points above the 2007 level (EU 15: 48.9 percent; +3.0 percentage points). The revenue ratio for the EU 27 edged down from 44.7 percent in 2007 to 44.1 percent in 2010 (in the EU 15 from 45.1 percent to 44.6 percent) and is expected to rebound to 45.2 percent by 2013 (EU 15: 45.7 percent). The tax ratio shows a similar pattern: it diminished for the EU 27 from 39.7 percent in 2007 to 38.6 percent in 2010 (in the EU 15 from 40.1 percent to 39.2 percent) and is expected to climb to 39.7 percent in 2013 (EU 15: 40.2 percent). Thus, whereas the revenue ratio of 2013 should be 0.5 percentage point higher than in 2007, the tax ratio is expected to match its pre-crisis level. In Austria, the expenditure ratio is above the EU average (2007: 48.6 percent, 2013: 51 percent), but follows the overall trend, albeit with a somewhat smaller increase such that the gap vis-à-vis the EU average is slightly re-

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duced. Also the revenue and the tax ratio both exceed the EU average; the ratios projected for 2013 are higher than those of 2007. The gap of the tax ratio vis-à-vis the EU average will thereby increase (2013: EU 27 39.7 percent of GDP; Austria 42.3 percent).

Table 10: Government ratios in a European comparison

	Expenditure ratio					Revenue ratio					Tax ratio				
	2007	2010	2011	2012	2013	2007	2010	2011	2012	2013	2007	2010	2011	2012	2013
EU 27	45.6	50.6	49.3	49.0	48.4	44.7	44.1	44.6	45.0	45.2	39.7	38.6	39.1	39.6	39.7
EU 15	46.0	51.2	49.8	49.5	48.9	45.1	44.6	45.0	45.5	45.7	40.1	39.2	39.5	40.0	40.2
Belgium	48.3	52.9	52.4	53.2	53.1	48.0	48.8	48.8	48.6	48.5	43.7	43.7	43.7	43.4	43.4
Germany	43.5	47.9	45.7	45.5	45.0	43.7	43.6	44.4	44.5	44.3	39.0	38.4	39.2	39.3	39.2
Greece	47.6	50.2	50.3	49.5	49.4	40.8	39.5	41.4	42.5	42.6	32.6	31.1	32.5	33.9	34.0
Spain	39.2	45.6	43.0	42.3	41.9	41.1	36.3	36.4	36.3	36.6	37.1	31.9	31.9	31.9	32.1
France	52.6	56.6	56.6	57.1	56.9	49.9	49.5	50.8	51.8	51.8	43.4	42.5	43.6	44.4	44.5
Ireland	36.6	66.8	45.7	43.9	42.9	36.7	35.5	35.4	35.3	35.0	31.3	28.0	28.8	29.3	29.5
Italy	47.6	50.3	49.6	49.1	48.5	46.0	45.8	45.8	46.9	47.4	42.8	42.3	42.3	43.4	43.9
Luxembourg	36.3	42.5	43.2	44.6	44.9	39.9	41.4	42.6	43.6	44.0	35.7	37.2	38.4	39.3	39.7
Netherlands	45.3	51.2	50.3	49.9	50.0	45.4	46.2	46.0	46.8	47.3	38.7	38.8	38.4	39.0	39.4
Austria	48.6	52.5	51.5	51.3	51.0	47.6	48.1	48.1	48.3	48.1	41.8	42.1	42.1	42.4	42.3
Portugal	44.4	51.3	49.1	47.2	45.4	41.1	41.6	43.3	42.7	42.2	32.8	31.5	32.9	33.8	33.4
Finland	47.2	55.1	54.5	54.5	54.8	52.4	52.3	53.3	53.6	54.0	43.1	42.2	43.2	43.4	43.6
Denmark	50.8	58.5	58.2	58.7	56.9	55.6	55.7	54.0	54.0	54.6	48.9	48.2	46.5	46.6	47.2
Sweden	51.0	52.9	51.5	51.7	51.4	54.5	52.8	52.2	52.1	52.1	47.6	46.1	45.7	45.6	45.6
UK	43.9	50.6	49.9	48.5	47.1	41.1	40.3	40.4	40.8	41.4	37.3	36.7	36.5	36.9	37.4
Bulgaria	39.8	38.1	37.0	36.1	35.4	40.9	34.9	34.5	34.4	34.1	33.3	27.5	26.9	26.8	26.6
Czech Republic	41.0	44.1	43.6	43.7	43.7	40.3	39.3	39.4	40.0	39.8	35.9	33.8	34.0	34.6	34.4
Estonia	34.0	40.6	38.4	40.4	38.9	36.4	40.9	39.1	38.7	38.1	31.4	34.0	32.7	32.3	32.2
Cyprus	41.3	46.4	46.8	45.1	44.8	44.8	41.0	40.1	40.2	40.2	39.9	35.9	35.3	35.8	35.8
Latvia	35.9	44.4	41.3	40.3	38.4	35.6	36.1	37.2	37.1	35.3	30.6	27.3	27.9	27.9	26.7
Lithuania	34.6	40.9	38.1	36.9	36.9	33.6	33.8	33.2	34.1	33.9	29.5	27.1	26.8	26.8	26.7
Hungary	50.6	49.5	48.6	48.8	48.6	45.6	45.2	52.1	46.0	44.9	40.4	37.7	36.0	38.6	37.1
Malta	42.7	42.9	42.4	42.7	42.4	40.3	39.3	39.4	39.2	38.8	34.7	33.2	33.4	33.0	32.7
Poland	42.2	45.4	45.2	44.8	44.0	40.3	37.5	39.6	40.8	41.0	34.8	31.8	33.1	34.1	34.6
Romania	38.2	40.9	38.8	38.4	37.9	35.3	34.0	34.0	34.7	34.9	29.1	27.3	27.7	28.1	28.5
Slovenia	42.5	50.1	51.0	50.5	50.9	42.4	44.3	45.2	45.2	45.2	37.7	38.0	38.4	38.4	38.4
Slovakia	34.2	40.0	38.9	38.5	37.9	32.4	32.3	33.1	33.5	32.7	29.3	28.1	28.7	28.7	28.6

Source: European Commission, Autumn 2011 forecast.

The recently adopted consolidation package II, containing revenue-raising and expenditure-dampening measures at a proportion of 40 : 60, will reduce the government expenditure ratio accordingly, particularly as from 2013, while boosting the revenue and tax ratios, thereby reducing or increasing, respectively, the gap vis-à-vis the EU average.

In the pre-crisis year 2007, the general government deficit in the Maastricht definition of 0.9 percent of GDP in Austria was equivalent to the EU average, in the years thereafter until 2013 it has always been lower (Table 11). In 2013, the deficit in Austria will drop below the Maastricht ceiling of 3 percent of GDP, while the EU average will stay above the reference value. Several EU countries took the opportunity of benign cyclical conditions before the crisis to consolidate government finances. Thus, Finland and Sweden recorded relatively high budget surpluses in 2007 and low debt ratios. Sweden will continue to achieve surpluses and reduce its public debt ratio to 32.4 percent of GDP by 2013. In Finland, the budget deficit remains low and the debt ratio, though having increased markedly, will at 53.5 percent of GDP keep a certain "safety margin" vis-à-vis the Maastricht ceiling of 60 percent of GDP. On average for the EU 27, the debt ratio ratcheted up, largely as a consequence of the crisis, from about 60 percent of GDP in 2007 to 84.9 percent, in the EU 15 from 60 percent to 87.8 percent. Among the EU-15 countries, the debt ratio is below the reference value only in Luxembourg, Finland, Denmark and Sweden, whereas among the new EU member countries only Cyprus, Hungary and Malta exhibit debt ratios above 60 percent of GDP. In Austria, the debt ratio, starting from the same level as the EU average, rose markedly less than the overall trend, to a ratio of 73.7 percent of GDP according to the projections of the European Commission.

Table 11: General government balance and public debt of EU member countries

	2007	Maastricht balance				2013	2007	Level of government debt			
		2010	2011	2012	2013			2010	2011	2012	2013
As a percentage of GDP											
EU 27	- 0.9	- 6.6	- 4.7	- 3.9	- 3.2	59.0	80.3	82.5	84.9	84.9	
EU 15	- 0.8	- 6.6	- 4.7	- 4.0	- 3.2	60.7	83.1	85.3	87.9	87.8	
Belgium	- 0.3	- 4.1	- 3.6	- 4.6	- 4.5	84.1	96.2	97.2	99.2	100.3	
Germany	+ 0.2	- 4.3	- 1.3	- 1.0	- 0.7	65.2	83.2	81.7	81.2	79.9	
Greece	- 6.5	- 10.6	- 8.9	- 7.0	- 6.8	107.4	144.9	162.8	198.3	198.5	
Spain	+ 1.9	- 9.3	- 6.6	- 5.9	- 5.3	36.2	61.0	69.6	73.8	78.0	
France	- 2.7	- 7.1	- 5.8	- 5.3	- 5.1	64.2	82.3	85.4	89.2	91.7	
Ireland	+ 0.1	- 31.3	- 10.3	- 8.6	- 7.8	24.9	94.9	108.1	117.5	121.1	
Italy	- 1.6	- 4.6	- 4.0	- 2.3	- 1.2	103.1	118.4	120.5	120.5	118.7	
Luxembourg	+ 3.7	- 1.1	- 0.6	- 1.1	- 0.9	6.7	19.1	19.5	20.2	20.3	
Netherlands	+ 0.2	- 5.1	- 4.3	- 3.1	- 2.7	45.3	62.9	64.2	64.9	66.0	
Austria	- 0.9	- 4.4	- 3.4	- 3.1	- 2.9	60.2	71.8	72.2	73.3	73.7	
Portugal	- 3.1	- 9.8	- 5.8	- 4.5	- 3.2	68.3	93.3	101.6	111.0	112.1	
Finland	+ 5.3	- 2.5	- 1.0	- 0.7	- 0.7	35.2	48.3	49.1	51.8	53.5	
Denmark	+ 4.8	- 2.6	- 4.0	- 4.5	- 2.1	27.5	43.7	44.1	44.6	44.8	
Sweden	+ 3.6	+ 0.2	+ 0.9	+ 0.7	+ 0.9	40.2	39.7	36.3	34.6	32.4	
UK	- 2.7	- 10.3	- 9.4	- 7.8	- 5.8	44.4	79.9	84.0	88.8	85.9	
Bulgaria	+ 1.2	- 3.1	- 2.5	- 1.7	- 1.3	17.2	16.3	17.5	18.3	18.5	
Czech Republic	- 0.7	- 4.8	- 4.1	- 3.8	- 4.0	27.9	37.6	39.9	41.9	44.0	
Estonia	+ 2.4	+ 0.2	+ 0.8	- 1.8	- 0.8	3.7	6.7	5.8	6.0	6.1	
Cyprus	+ 3.5	- 5.3	- 6.7	- 4.9	- 4.7	58.8	61.5	64.9	68.4	70.9	
Latvia	- 0.4	- 8.3	- 4.2	- 3.3	- 3.2	9.0	44.7	44.8	45.1	47.1	
Lithuania	- 1.0	- 7.0	- 5.0	- 3.0	- 3.4	16.8	38.0	37.7	38.5	39.4	
Hungary	- 5.1	- 4.2	+ 3.6	- 2.8	- 3.7	67.0	81.3	75.9	76.5	76.7	
Malta	- 2.4	- 3.6	- 3.0	- 3.5	- 3.6	62.1	69.0	69.6	70.8	71.5	
Poland	- 1.9	- 7.8	- 5.6	- 4.0	- 3.1	45.0	54.9	56.7	57.1	57.5	
Romania	- 2.9	- 6.9	- 4.9	- 3.7	- 2.9	12.8	31.0	34.0	35.8	35.9	
Slovenia	- 0.0	- 5.8	- 5.7	- 5.3	- 5.7	23.1	38.8	45.5	50.1	54.6	
Slovakia	- 1.8	- 7.7	- 5.8	- 4.9	- 5.0	29.6	41.0	44.5	47.5	51.1	

Source: European Commission, Autumn 2011 forecast.

The draft federal budget for 2012 is the second "consolidation budget" after the financial market crisis and the deep recession. Like for its predecessor for 2011, the annual budget lacks integration into a comprehensive and pro-active approach to fiscal policy which in view of the longer-term economic challenges – modest growth of output and employment, climate change, demographic shifts – should mobilise the potential for stronger growth and more jobs. Beyond the action programme adopted with the "consolidation package I" (energy-saving renovation of buildings, new facilities for after-school-hours' child care, subsidies for research and innovation and additional resources for universities), only limited targets are set (e.g., creation of an old-age-care fund, further promotion of child care facilities by the federal government). Yet, more forceful action is needed in a medium-term perspective. This in turn would require a review and structural reform of government spending with a view to widening the scope for discretionary policy action. However, both the Federal Fiscal Framework 2012-2015 and the federal budget for 2012 lack ambition for such in-depth reform which was already absent in the "consolidation package I". Still missing is also the long-overdue revenue-neutral reform of the tax structure, whereby the tax burden on labour would be reduced and the implicit revenue shortfalls be offset by higher environmental, real estate and inheritance taxes and by the abolition or reduction of tax exemptions of questionable economic or social impact. Neither do the budgetary plans offer a systematic approach towards the implementation of gender-budgeting analysis. In a large number of Ministries, there is apparently little follow-up of pilot projects for the general introduction of gender budgeting as an integral part of impact assessment, as provided by stage II of the reform of budget legislation in 2013.

Concluding remark

Federal Budget 2012: Pro-Active Approach to Fiscal Policy Needs To Be Accentuated – Summary

The draft federal budget 2012 is the second "consolidation budget" after the nadir of the financial and economic crisis. The general government's Maastricht deficit is to decline from 3.6 percent of GDP in 2011 to 3.2 percent in 2012. According to the Federal Medium-Term Financial Framework for 2012-2015, it is to be reduced to 2 percent of GDP by 2015. The debt ratio is expected to increase further to 74.6 percent of GDP in 2012. It is predicted to rise to 75.5 percent by 2013 and decline again gradually in subsequent years. Due to the financial crisis, the general government expenditure ratio, which, in the pre-crisis year 2007, had reached the lowest level since 1997 at 48.5 percent of GDP, increased to 52.9 percent until 2009. In subsequent years it declined again slowly as a consequence of the cyclical recovery and expenditure-based consolidation measures. For 2012 a ratio of 51.2 percent is expected. The tax ratio rose slightly in 2008 and 2009 to 42.7 percent and 42.6 percent, of GDP, respectively, and has remained near 42 percent since then. At 0.9 percent of GDP, Austria's general government budget deficit as defined in the Maastricht Treaty was comparable to the EU average in the pre-crisis year 2007. During the years until 2013 it is expected to remain below average. In 2013, the Austrian budget deficit will fall below the Maastricht ceiling of 3 percent of GDP again, while the EU average will continue to exceed this limit also in 2013. Starting from a level near the EU-27 average of about 60 percent of GDP, Austria's debt ratio increased far less than the EU average which will rise to 84.9 percent until 2013.

The share of government transfers in total expenditures will increase in the medium term: whereas government transfers accounted for 35 percent of total expenditures in 2000, they will reach 43.6 percent of total expenditures in 2012 according to the draft federal budget. Expenditures for old age pensions will remain of high importance at an envisaged level of 62.7 percent of total transfers, followed by family-related expenditures amounting to 19.8 percent.

The slow, but steady increase of the share of the wage tax in gross tax revenues was slowed only temporarily by the tax reform of 2009-10. In 2012 the share of the wage tax will increase to 31.7 percent; in 1990, it had amounted to only 24.8 percent. Value added tax remains the individual tax generating the highest revenues, although its weight is declining: starting from 36.3 percent in 1990, its share in overall gross tax revenues will decline to 33.2 percent in 2012. Energy-related taxes will reach a share of 7.3 percent and thus converge towards their maximum share of 7.7 percent observed in 2004. Taxes on wealth will reach a share of 1.9 percent of total gross tax revenues in 2012, if the bank levy introduced in 2011 is included. Following the crisis-induced recession of 2009 corporate income tax revenues are recovering and will contribute 7.6 percent of gross tax revenues in 2012.

Like its predecessors this draft federal budget is largely lacking a proactive economic policy framework strengthening the long-term growth and employment potential. Beyond the action programme ("Offensivprogramm": energy-efficient modernisation of buildings, expansion of after-school care, promotion of R&D as well as additional funding for universities and universities of applied sciences) enacted simultaneously with the first consolidation package in October 2010 only minor measures (establishment of a fund for long-term care, further federal transfers for the expansion of childcare facilities) are envisaged. However, additional structural reforms would be necessary to create the budgetary leeway required to finance further measures that will become necessary in the medium term. Yet, the chance of initiating such far-reaching structural reforms, which the first consolidation package lacks completely, with the Federal Medium-Term Financial Framework for 2012-2015 of April 2011 or with the draft federal budget 2012, has been missed. The long overdue revenue-neutral reform of the tax structure also remains to be implemented. It would relieve income from wages and salaries while being financed by a corresponding increase of environmental taxes, of taxes on real estate and high inheritances as well as the abolition or reduction of tax exemptions with doubtful effects or questionable social incidence. Further, a systematic approach to gender budgeting analyses is still lacking.

There are some risks with respect to meeting the envisaged budget targets. The potential worsening particularly of the European economic prospects, potential capital requirements of nationalised banks as well as other financial institutions, the (partial) default on loans to Greece or the non-compliance with deficit rules by Länder and municipalities would make it more difficult to adhere to the envisaged debt trend.

The achievement of the budgetary targets is subject to several risks. Thus, the short-term economic outlook has weakened already shortly after finalisation of the draft budget, while a further slowdown of GDP growth internationally and in Austria appears likely, with negative implications for government households. Short- and medium-term prospects will crucially depend on whether the European debt crisis can be resolved any time soon. It can also not be ruled out that banks that had to be nationalised for their survival and other credit institutions may require additional public support (higher equity capital requirements, possible write-offs in the context of the haircut for Greek debt), which like the partial default on Greek loans would complicate the adherence to the desired path of government debt reduction. Finally, the new fiscal benchmarks for Länder and municipalities are significantly more ambitious than their actual deficit records in the last few years since the beginning of the crisis.

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