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Between Consolidation and Growth: Federal Financial Framework 2013-2016, "Consolidation Package II" and Stability Programme

In Austria, the quantifiable costs of the financial market crisis and the global recession, in terms of support to banks, cyclical stimulus programmes and measures related to the euro-area crisis management, have added some 7¾ percentage points to the government-debt-to-GDP ratio by 2012. Further discretionary measures ("anti-inflation package" and Parliament decisions of 2008) and statistical revisions boost the debt ratio by another nearly 6 percentage points, to an overall 74 percent of GDP in 2012. Against the background of more stringent EU rules for the reduction of deficits and debt levels as well as the downgrading of the ratings for Austrian government bonds by Standard & Poor's, a second consolidation package was adopted in spring 2012, of a total € 28 billion until 2016. By that time, the general government budget (according to the Maastricht definition) should be brought to balance. The latest edition of the Stability Programme foresees a reduction of the structural deficit to 0.4 percent of GDP and of the debt ratio to 70.6 percent of GDP.

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The government debt ratio in Austria will rise above 74 percent of GDP in 2012. The quantifiable costs of the financial market crisis and the global recession account for nearly 7¾ percentage points of this ratio, further discretionary measures and statistical revisions for the last few years add another close to 6 percentage points. The consolidation package adopted in spring 2012 is to ensure a balanced general government budget (according to the Maastricht definition) by 2016. In addition, it is intended to reduce the structural deficit to 0.4 percent of GDP and the debt ratio to 70.6 percent of GDP.

The global financial market crisis and economic recession put a heavy burden on public finances in the countries concerned. In almost all EU member countries, government debt ratios have ratcheted up significantly since the onset of the crisis. The latest increase is largely due to the budgetary cost of the crisis, although debt ratios in a number of countries had reached high levels already before the crisis (*Tichy, 2012*). According to the spring 2012 forecast of the European Commission, the government-debt-to-GDP ratio for the EU 27 will rise to 87.2 percent in 2013, an increase of 28.2 percentage points from the pre-crisis level of 59 percent in 2007. For Austria, where the debt ratio had declined to around 60 percent by 2007, the European Commission expects an increase by over 14 percentage points between 2007 and 2013.

The costs of financial market and economic crises for government budgets essentially result from the operation of automatic stabilisers (recession-induced fall in public revenues and rise in expenditure, e.g. for unemployment benefits), from discretionary measures of cyclical stimulus, support for the financial sector and additional interest payments due to an increase in public debt and possibly also in the interest rate (*Piflik – Schratzenstaller, 2010*). According to an estimate by the International Monetary Fund (*IMF, 2011*), the government debt ratio of the industrialised countries

Cost of the crisis and the necessity of consolidation

The burden on public finances caused by the crisis

will move up by 38.6 percentage points between 2008 and 2015 as a consequence of the crisis. Half of this increase (18.4 percentage points) is claimed to be caused by revenue shortfalls (automatic stabilisers), the other half to roughly equal shares to interest rate hikes (6.8 percentage points), discretionary stimulus (6.4 percentage points) and aid to the financial sector including valuation losses (7 percentage points). Only the support for the financial sector is considered to be the direct cost of the financial market crisis, with the other items weighing on government budgets deemed being indirect costs of the crisis.

The total burden on government households from the direct and indirect costs of the financial market and economic crisis cannot be quantified exactly for Austria, let alone at the international level (*Government Debt Committee*, 2011). The following analysis sets out to estimate the direct crisis-related budgetary cost for Austria and to the extent possible the indirect cost via cyclical stimulus and labour market support programmes as well as the measures taken in the context of euro-area crisis management (debt incurred to support Greece, Portugal, Ireland and to fund the European Stabilisation Mechanism). The total amount of the indirect cost cannot be ascertained, but it is likely to be a multiple of the direct cost (*Köhler-Töglhofer – Reiss*, 2010).

Apart from the financial market crisis and the deep recession (with the bank support package, the cyclical and labour market stabilisation package including the carrying-forward of the tax reform originally planned for 2010 into 2009, and the euro-area crisis management, together pushing up the debt ratio by 7.6 percentage points by 2012), further discretionary measures (the "anti-inflation package" of 2008, the federal parliament decisions of September 2008, the cut in unemployment insurance contributions and the tax reform as from 2010, together enhancing the debt ratio by 2.8 percentage points by 2012) burden the federal government balance on a sustained basis. Furthermore, the (re-)inclusion of off-budget debt in March 2011 lifted the debt ratio retroactively for the last few years, by 3.2 percentage points in 2012. Table 1 summarises the quantifiable costs of the crisis and further discretionary spending increases and tax cuts as well as the impact of the (re-)inclusion of off-budget items on the government debt level. Overall, the discretionary measures taken since 2008, assuming that they have entirely been financed via debt increase and abstracting from expansionary effects with positive repercussions for GDP and public debt, have pushed up the government-debt-to-GDP ratio by 16.5 percentage points.

Table 1: Major causes of the increase in the government debt ratio in Austria since 2008

As per 2012

	Million €	As a percentage of GDP
Bank support package	9,151	3.0
Stimulus and labour market package ¹	6,884	2.2
Euro-area crisis management	.	2.4 ²
Statistical revisions and re-classifications (ÖBB) ³ , hospital management, Wohnbau Burgenland GmbH, cash collaterals	9,852	3.2
Tax reform as from 2010 ⁴	8,918	2.9
Other items (parliament decisions of 24 September 2008, "anti-inflation package", cuts in unemployment insurance contributions) ⁵	8,552	2.8
Total		13.6

Source: Federal Ministry of Finance, Statistics Austria, WIFO calculations and compilations. – ¹ Cumulated 2009-2012, including revenue losses from carrying-forward of the tax reform into 2009. – ² Rising up to 3 percent of GDP in 2014 and gradually abating thereafter; not relevant for budgetary surveillance and for initiation of an Excessive Deficit Procedure. – ³ As per 2011; henceforth € 1.3 to 1.5 billion p. a. – ⁴ Revenue losses as from 2010, cumulated 2010-2012. – ⁵ Cumulated 2008-2012.

At the end of October 2008, besides two cyclical stimulation packages and labour market policy measures to mitigate the effects of the financial market crisis on the real economy, a package of measures was adopted for the stabilisation of the Austrian financial market. This "bank support package" was originally designed for a total amount of € 100 billion. Up to € 15 billion were planned for the strengthening of equity capital of banks and insurance companies within the framework of the Financial Market Stabilisation Act (supply of participation capital, acquisition of stakes in financial institutions by the federal government, guarantees extended for credits and investment at risk of default). The scope of guarantees offered until end-2010 for banks' issues of securities (Inter-Bank Market Strengthening Act) was originally limited at € 75 billion. In 2009, € 10 billion of that amount were converted into guarantees for companies (Corporate Liquidity Strengthening Act), and in 2010 € 15 billion into support for Greece and euro-area crisis management (Current Account Stabilisation Act). Up to € 10 billion were allocated to the unlimited deposit guarantee for private savings and small and medium-sized companies, in force until end-2009 (Banking Act), which was not drawn upon at all.

Table 2 gives an overview of the financial market stabilisation measures and their respective amounts (as per spring 2012). The outstanding claims of refundable participation capital which the federal government offers banks on a temporary basis to strengthen their capital base against the payment of dividends currently amount to € 4.1 billion. The underlying idea is that the participation capital be repaid over the medium term such that the burden on the federal budget is only temporary. In the context of the partial nationalisation of Österreichische Volksbanken-AG (ÖVAG), the participation capital of € 1 billion supplied to the institution is being reduced by € 700 million in 2012; this amount, being a capital transfer, weakens the federal budget balance in a permanent way. Already in 2011, the participation capital made available to Hypo Alpe-Adria-Bank AG of originally € 1.35 billion was reduced by € 625 million, and a further € 450 million were converted into share capital. In this way, the larger part of participation capital (€ 1,075 million) was also for Hypo Alpe-Adria-Bank transformed into capital subsidies lost for the federal government. The first repayments of participation capital of a total € 900 million by Erste Group Bank AG and Österreichische Volksbanken-AG were originally foreseen already for 2011, but could not be made by the banks. The draft federal budget for 2012 foresees the repayment of participation capital of € 300 million.

Direct costs of the crisis: financial market stabilisation ("bank support package")

Table 2: Measures of financial market stabilisation

As per spring 2012

	Participation capital ¹	Capital transfer	Guarantee	Guarantees for securities issued ²
	Million €			
Hypo Alpe-Adria-Bank International AG	275 ³	1,075 ⁴	200	598
Erste Group Bank AG	1,224			2,500
Österreichische Volksbanken-AG	300 ⁵	950 ⁶	100	3,000
Raiffeisen Bank International AG	1,750			2,750
Kommunkredit Austria AG including KA Finanz AG		1,459 ⁷	2,500 ⁸	5,601
BAWAG	550		1,268 ⁹	
Total	4,099	3,484	4,068	14,449

Source: Federal Ministry of Finance, media reports, WIFO calculations and compilations. Including partial nationalisation of Österreichische Volksbanken-AG and new equity capital measures and guarantees for KA Finanz AG in spring 2012. – ¹ 8 percent dividend: Hypo Alpe-Adria-Bank International AG, Erste Group Bank AG, Raiffeisen Bank International AG; 9.3 percent dividend: Österreichische Volksbanken-AG, BAWAG. – ² As per end 2011. – ³ Originally € 1,350 million. – ⁴ Reduction participation capital: € 625 million, transformation participation capital: € 450 million. – ⁵ Originally € 1,000 million. – ⁶ Reduction participation capital I: € 700 million, capital increase: € 250 million. – ⁷ Until end-2011: capital increase or transfer Kommunkredit Austria AG: € 250 million, transfers KA Finanz AG: € 210 million; spring 2012: transfer: € 610 million, increase equity capital KA Finanz AG: € 389 million; in 2013 additional liquidation of guarantee of € 1,000 for KA Finanz AG: € 1,137 million. – ⁸ Guarantee for commercial paper programme. – ⁹ Guarantee in the context of re-capitalisation of KA Finanz AG which was called end-2011: € 1,000 million; the federal government will liquidate this open claim by paying € 1,137 billion in mid-2013 such that guarantee will be replaced by a capital transfer of equal amount; guarantees: additional € 268 million.

In spring 2012, non-refundable *capital subsidies* from the federal government (Bund) to banks amount to a total € 3.484 billion. Of this amount, € 1.075 billion go to Hypo Alpe-Adria, € 1.459 billion to Kommunalkredit Austria AG (including its Bad Bank KA Finanz AG; to Kommunalkredit Austria AG capital increase and shareholder subsidy of € 250 million; to KA Finanz AG until end-2011 shareholder subsidies of € 210 million, in spring 2012 a further shareholder subsidy of € 610 million and equity capital increase by € 389 million). In addition, in early 2012 capital subsidies of € 950 million were granted to Österreichische Volksbanken-AG: € 700 million as reduction of the larger part of participation capital and € 250 million as capital increase. In 2013, the federal government will liquidate a debt guarantee for KA Finanz AG of € 1 billion, which will then also be converted into a capital subsidy. Following a Eurostat decision, the guarantee has since 2010 been included to an amount of € 1 billion in government debt and in the deficit (Maastricht definition). From today's perspective, public capital subsidies for Austrian banks will rise to € 4,621 million in 2013 (of which € 3,484 million already fixed capital subsidies, liquidation of guarantee for KA Finanz AG € 1,137 million). To the extent that these subsidies cannot be compensated by future revenues from the sale of (partially) distress-nationalised banks, they remain a definitive cost for the federal government. Abstract is made from a potential further need for capital by Hypo Alpe-Adria.

Furthermore, the federal government assumed *guarantees for assets or liabilities* of the (partially) distress-nationalised banks to the amount of nearly € 4.1 billion by spring 2012. Among these is a guarantee of € 200 million for Hypo Alpe-Adria and of € 100 million for ÖVAG. The federal government also guarantees for a Commercial-Paper-Programme of KA Finanz AG to the tune of € 2.5 billion. For the KA Finanz AG there is, apart from the already mentioned guarantee of € 1 billion, another one of € 268 million. In principle, guarantees are contingent liabilities and therefore not included in the budget. The guarantee of € 1 billion for KA Finanz AG will nevertheless burden the Federal Budget 2013 definitively since the federal government is bound to liquidate this guarantee. Also for the other guarantees to the (partially) distress-nationalised banks assumed for bad loans etc. there is a certain risk for these guarantees being called and thus becoming a definitive liability for the federal budget.

The *guarantees for securities* issued by banks, for which the banks pay guarantee fees to the federal government, rose to a total € 14.45 billion at the end of 2011. The disposable guarantee amount for these issues was limited to the end of 2010, with no further guarantees being assumed since and the existing ones gradually expiring. Until the end of March 2012, the overall amount of guarantees declined to € 9.7 billion (Federal Ministry of Finance, 2012B).

Table 3 summarises the budgetary effects (receipts and disbursements)¹ of the measures taken to stabilise financial markets in the years from 2008 to 2011, as well as the expected receipts and disbursements according to the draft federal budget for 2012. Not included are disbursements and repayments of participation capital since their effects on the budget are transitory if repayments actually take place as planned. Disbursements are capital increases or shareholder subsidies as well as the refinancing cost for the federal government which has to raise the funds for bank support on the capital market. Receipts include dividend payments from banks for participation capital if yielding profits, as well as – independent of profits – fees for guarantees assumed by the federal government and possibly other receipts. Over the period from 2008 to 2011, cumulated disbursements of € 2.1 billion exceeded the cumulated receipts of € 1.4 billion; on balance, bank support during that period implied budgetary cost for the federal government of € 0.7 billion. According to the draft federal budget for 2012, receipts (including expected revenues of € 250 million from sales of financial stakes by KA Finanz AG)² will exceed disbursements by

¹ To some extent, items listed here among disbursements, such as the reduction of participation capital and its conversion into shareholder contributions or the transformation of participation capital in equity capital, do not lead to actual cash payments.

² Whether these will actually be realised still in 2012 is yet uncertain.

€ 0.6 billion in the current year, which should bring disbursements and receipts almost to balance for the entire period since 2008.

Table 3: Budgetary effects of the bank support package, 2008-2012

	2008	2009	2010	2011	2008-2011	Draft federal budget 2012 ¹
	Million €					
Disbursements		444	288	1,371	2,103	75
Capital increases, transfers		310	75	1,150	1,535	75
Refinancing cost		134	213	221	568	
Receipts	3	217	564	621	1,405	668
Dividends participation capital ²		0	263	289	552	241
Guarantee fees	3	217	301	332	853	177
Other revenue						250 ³
Balance	3	- 227	276	- 750	- 698	593

Source: Federal Ministry of Finance, WIFO calculations and compilations. Without reimbursable participation capital; without marginal revenues from penalties and outlays for the Federal Finanzmarktbeteiligung Aktiengesellschaft; without liquidation of guarantee for KA Finanz AG foreseen for 2013. – ¹ Without further capital transfers to KA Finanz AG and Österreichische Volksbanken-AG pledged for 2012. – ² Foregone dividends 2010 Hypo Alpe-Adria-Bank International AG € 36 million, Österreichische Volksbanken-AG € 93 million; 2011 Hypo Alpe-Adria-Bank International AG € 72 million, Österreichische Volksbanken-AG € 93 million, in total € 294 million. – ³ Revenues from sales of stakes.

However, this calculation includes neither the refinancing cost in 2012 nor the commitments of further capital subsidies to KA Finanz AG (€ 999 million) and ÖVAG (€ 950 million) for the current year, which both were decided only after the drafting of the federal budget. Also not included is the liquidation of the guarantee of € 1,137 million for KA Finanz AG, due in 2013. All in all, the definitive federal expenditure on capital transfers to banks and the cost of refinancing the necessary borrowing for financial market stabilisation is likely to be significantly higher than the future receipts of dividends and guarantee fees. Thus, from today's perspective, the disbursements for bank support (capital transfers to banks, refinancing cost) will probably exceed the receipts (dividends, guarantee fees, earnings from the sale of Hypo Alpe-Adria and Kommunalkredit Austria AG), such that the various operations will eventually have a negative net effect on the federal budget balance.

The various measures have a different impact on the Maastricht deficit and on public debt. The supply of participation capital raises the debt level temporarily (until the time of repayment), but does not affect the deficit. The repayment of participation capital lowers the debt level accordingly. Capital subsidies are deficit-neutral only if granted to viable, but not to (partly) distress-nationalised banks. They increase the debt level in any case. Guarantees are in principle deficit- and debt-neutral since they are not associated with disbursements as long as they are not called. If, however, they are assumed for non-viable banks, they are to be included in both public debt and the Maastricht deficit, according to Eurostat rules. Table 4 presents an overview of the (likely) impact of the bank package on the level of government debt as per spring 2012.

The participation capital, if repaid as planned, raises the total government debt figure temporarily by € 4,099 million or 1.3 percent of GDP in 2012. The capital transfers granted so far (capital increases, shareholder subsidies etc.) make for a definitive increase in the debt level by € 3,484 million or 1.1 percent of GDP. The debt-relevant guarantees for the (partially) distress-nationalised banks are estimated at a total € 1,568 million or 0.5 percent of GDP in 2012. Thus, altogether 3 percentage points of the government debt ratio in 2012 are accounted for by the various financial market stabilisation measures and represent the direct cost of the financial market crisis for the general government budget.

Table 4: Impact of the "bank support package" on government debt

As per spring 2012

	Increase in debt	
	Million €	As a percentage of GDP
Participation capital	4,099	1.3
Capital transfers	3,484	1.1
Guarantees	1,568 ¹	0.5
Total	9,151	3.0

Source: Federal Ministry of Finance, WIFO calculations and compilations. – ¹ Including guarantee of € 1,000 million for KA Finanz AG, which will be liquidated by the federal government in 2013 (including interest € 1,137 million).

In March 2012, the Federal Financial Framework 2013-2016 was adopted. Like its previous edition of April 2011, it is characterised by the endeavour to put Austria's public finances back onto a financially sustainable base.

The Federal Financial Framework 2013-2016 sets for this four-year period disbursement ceilings³ for the different sub-categories of the federal budget and projects the planned receipts by major categories. Following this projection, total receipts will rise from € 63.5 billion in 2011 to € 68.4 billion in 2013 and € 75.9 billion in 2016 (Table 5).

Overview of the Federal Financial Framework 2013-2016

Table 5: Federal Financial Framework 2013-2016 – overview

	Federal Financial Framework 2013-2016							Change from Federal Financial Framework 2012-2015					
	2011 ¹	2012 ²	2013	2014	2015	2016	Ø 2011-2016	Ø 2013-2016	2011 ³	2012 ²	2013	2014	2015
	Billion €							Year-to-year percentage changes		Billion €			
Receipts	63.5	65.3	68.4	70.2	72.6	75.9	+ 3.7	+ 3.6	+ 0.9	+ 1.2	+ 2.1	+ 0.9	+ 1.5
Disbursement ceilings of Federal Financial Framework	67.8	75.6	74.3	73.9	73.9	76.5	+ 2.4	+ 1.0	- 2.3	+ 2.0	+ 1.0	- 0.7	- 1.6
Justice, security	7.7	8.1	8.0	7.9	7.7	7.9	+ 0.4	- 0.5	- 0.2	+ 0.0	+ 0.1	+ 0.0	- 0.1
Labour, social affairs, health, families	32.8	35.6	35.7	36.3	36.8	37.8	+ 2.9	+ 2.0	- 0.4	+ 0.0	- 0.2	- 0.4	- 0.1
Education, research, arts, culture	11.9	12.7	13.0	12.9	13.0	13.1	+ 1.9	+ 0.3	- 0.0	+ 0.4	+ 1.0	+ 0.8	+ 0.7
Economy, infrastructure, environment	8.2	11.0	9.3	8.5	8.2	8.4	+ 0.5	- 3.5	- 0.6	+ 2.0	+ 1.0	+ 0.0	- 0.5
Cash management, interest	7.2	8.3	8.3	8.4	8.4	9.3	+ 5.3	+ 4.0	- 1.2	- 0.4	- 0.9	- 1.1	- 1.5
Administrative balance	- 4.4	-10.3	- 5.9	- 3.7	- 1.3	- 0.6	-33.0	-53.6	+ 3.3	- 0.9	+ 1.1	+ 1.5	+ 3.1

Source: Federal Ministry of Finance, WIFO calculations. Rounding differences. – ¹ Preliminary outturn. – ² Including advance payments of € 1.25 billion and € 1.4 billion, respectively. Advance payments are regulations in the new budgeting legislation whereby payments for the following year take their budgetary effect already in December. This does not affect the Maastricht rules for which the attribution to the respective economic year remains the relevant criterion. – ³ Comparison between draft federal budget and preliminary outturn.

This implies an average rate of increase of 3.7 percent p.a. for the period from 2011 to 2016, or a rate of 3.6 percent p.a. for the years from 2013 until 2016. Due to the unexpectedly lively business activity, receipts in 2011 were € 0.9 billion higher than budgeted. Accordingly, receipts projected for the years to come are also higher than assumed in the previous Federal Financial Framework 2012-2015 (of April 2011).

³ With the second stage of the reform of Federal budget legislation taking effect in 2013, the term "expenditure" will be replaced by "disbursement" and the term "revenue" by "receipt". The background is the changeover of book-keeping to a double-entry accounting system as from 2013, whereby the traditional recording of cash flows (receipts and disbursements) will be supplemented by an additional operating statement (revenues and expenditures).

Table 6: Projections of the macroeconomic environment

	Strategy Report 2012-2015					Strategy Report 2013-2016			
	2012	2013	2014	2015	2012	2013	2014	2015	2016
Gross Domestic Product (GDP)									
Percentage changes from previous year, real	+ 2.0	+ 2.1	+ 2.2	+ 2.2	+ 0.4	+ 1.6	+ 2.0	+ 2.2	+ 2.1
Percentage changes from previous year, nominal	+ 4.1	+ 3.8	+ 4.0	+ 4.0	+ 2.7	+ 3.2	+ 3.6	+ 3.8	+ 3.8
Billion €, nominal	309.2	320.9	333.8	347.1	309.9	320.0	331.6	344.2	357.1
Gross wages and salaries, nominal									
Percentage changes from previous year	+ 2.8	+ 3.2	+ 3.4	+ 3.7	+ 3.7	+ 2.4	+ 3.7	+ 4.2	+ 4.1
Per capita	+ 2.3	+ 2.6	+ 2.7	+ 3.0	+ 2.9	+ 1.8	+ 2.6	+ 3.0	+ 2.9
Persons in dependent active employment									
Percentage changes from previous year	+ 0.5	+ 0.6	+ 0.7	+ 0.7	+ 0.6	+ 0.4	+ 1.0	+ 1.1	+ 1.1
Persons unemployed									
In 1,000	256.2	257.0	253.0	249.0	263.0	274.5	281.0	277.0	274.0
Unemployment rate									
As percent of labour force (Eurostat)	+ 4.5	+ 4.5	+ 4.4	+ 4.3	+ 4.5	+ 4.7	+ 4.7	+ 4.6	+ 4.4

Source: Federal Ministry of Finance, WIFO.

Table 7: Federal Financial Framework 2013-2016: disbursements by sub-categories

	Preliminary outturn	Federal Financial Framework 2013-2016					Year-to-year percentage changes
	2011	2012	2013	2014	2015	2016	Ø 2013/2016 In percent
			Million €				
<i>Categories 0, 1: justice, security</i>	7,702.1	8,122.5	7,978.2	7,857.5	7,705.6	7,857.4	- 0.5
President's office	7.5	8.1	7.8	7.5	7.4	7.6	- 0.9
Federal legislation	136.3	173.0	136.3	137.6	138.3	142.3	+ 1.4
Constitutional court	11.8	12.6	12.8	14.0	14.8	15.1	+ 5.7
Administrative court	15.7	16.9	17.0	16.5	16.5	17.0	± 0.0
Civil mediator (Ombudsmann)	6.3	7.3	10.2	10.0	10.1	10.3	+ 0.3
Court of auditors	27.4	30.9	30.6	30.4	30.3	31.2	+ 0.6
Federal chancellery	326.3	343.5	325.1	322.4	309.7	312.7	- 1.3
Home affairs	2,294.9	2,470.2	2,505.0	2,494.7	2,473.9	2,536.3	+ 0.4
Foreign affairs	416.6	422.8	392.0	380.3	384.5	387.3	- 0.4
Justice	1,201.7	1,185.9	1,199.2	1,209.7	1,203.6	1,222.9	+ 0.7
Military defence, sport	2,158.2	2,232.3	2,149.4	2,133.8	2,021.3	2,057.5	- 1.4
Financial administration	1,099.4	1,219.0	1,192.8	1,100.6	1,095.2	1,117.2	- 2.2
<i>Category 2: labour, social affairs, health, families</i>	32,808.1	35,571.8	35,662.0	36,276.5	36,736.2	37,822.1	+ 2.0
Labour	6,034.2	6,191.3	6,405.8	6,593.0	6,581.3	6,610.3	+ 1.1
Social affairs, consumer protection	2,454.3	3,005.4	2,888.5	2,925.9	2,982.4	3,041.6	+ 1.7
Social insurance	9,113.8	10,024.0	10,181.6	10,065.0	9,846.2	10,037.2	- 0.5
Pensions	8,007.6	9,017.3	8,693.9	8,948.7	9,281.2	9,817.8	+ 4.1
Health	904.3	928.2	925.8	943.3	971.6	961.1	+ 1.3
Families and youth	6,293.9	6,405.6	6,566.4	6,800.6	7,073.5	7,354.1	+ 3.8
<i>Category 3: education, research, arts, culture</i>	11,936.2	12,647.6	13,001.4	12,898.2	12,946.2	13,135.2	+ 0.3
Education, arts, culture	7,847.8	8,316.9	8,500.4	8,426.1	8,479.0	8,664.3	+ 0.6
Science, research	3,632.3	3,847.5	4,022.0	3,971.3	3,966.4	3,970.2	- 0.4
Economy (research)	106.2	100.8	97.9	101.6	101.6	101.6	+ 1.2
Transport, innovation, technology (research)	349.9	382.4	381.1	399.2	399.2	399.1	+ 1.6
<i>Category 4: economy, infrastructure, environment</i>	8,194.2	10,955.3	9,320.3	8,457.0	8,155.9	8,367.4	- 3.5
Economy	408.7	445.5	389.4	380.6	377.2	381.9	- 0.6
Transport, innovation, technology	2,741.7	2,970.6	2,957.5	3,248.8	3,434.7	3,576.9	+ 6.5
Agriculture, forestry, water management	2,033.8	2,144.6	2,084.6	2,125.5	2,049.6	2,054.9	- 0.5
Environment	678.0	1,007.5	667.1	639.4	640.3	662.2	- 0.2
Fiscal federal relations	689.3	770.4	804.0	838.9	870.5	908.9	+ 4.2
Federal assets	1,563.1	1,723.9	1,138.4	1,090.7	650.5	649.5	- 17.1
Financial market stability	79.6	1,892.8	1,279.3	133.1	133.1	133.1	- 53.0
<i>Category 5: cash management, interest</i>	7,173.1	8,282.7	8,241.4	8,350.2	8,336.2	9,280.5	+ 4.0
Cash management	345.6	335.6	365.9	287.5	265.5	259.2	- 10.9
Financing operations, currency swaps	6,827.5	7,947.1	7,875.5	8,062.7	8,070.7	9,021.3	+ 4.6
<i>General household total</i>	67,813.7	75,579.9	74,203.3	73,839.4	73,880.1	76,462.6	+ 1.0

Source: Federal Ministry of Finance, Strategy Report 2013-2016, WIFO calculations. As from 2012 including advance payments (2012 € 1.4 billion).

The disbursement ceilings are projected to increase from € 67.8 billion in 2011 to € 75.6 billion in 2012⁴. For 2013 they are taken back to € 74.3 billion⁵, and further to € 73.9 billion each for 2014 and 2015, before heading up to € 76.5 billion in 2016. Thus, overall disbursements are planned to increase by an annual average 1 percent from 2013 to 2016. Actual disbursements in 2011 fell short of the ceilings set in the Federal Financial Framework 2012-2015 and in the draft federal budget for 2011 by the amount of € 2.3 billion, mainly due to savings on interest expenditure (€ –0.9 billion) owing to the low interest rate level, but also to lower federal transfers required for the social insurance scheme (€ –0.5 billion), lower guarantee calls (€ –0.4 billion) and savings in the Ministries of Agriculture, Environment and Science. For 2012 and 2013, disbursement ceilings were revised up, for 2014 and 2015 down. As a result, the administrative budget balance improves markedly for the whole planning period with the exception of 2012.

Table 8: Federal Financial Framework 2013-2016: receipts by categories

	Preliminary outturn 2011	Draft federal budget 2012	Federal Financial Framework 2013-2016 Million €				Year-to-year percentage changes Ø 2011-2016 Ø 2013-2016 In percent	
			2013	2014	2015	2016		
<i>Gross government taxes</i>	69,858	73,723	76,902	79,788	83,274	86,970	+ 4.5	+ 4.2
Wage tax	21,784	23,000	23,916	25,342	27,042	28,742	+ 5.7	+ 6.3
Assessed income tax	2,678	2,860	3,349	3,593	3,743	4,093	+ 8.9	+ 6.9
Corporate tax	5,277	5,500	5,790	6,125	6,425	6,725	+ 5.0	+ 5.1
Capital gains tax	2,712	2,980	3,040	3,350	3,550	3,650	+ 6.1	+ 6.3
Stability charge	510	520	510	510	510	510	± 0.0	± 0.0
Special contribution to stability charge		128	128	128	128	128		± 0.0
Ex-ante taxation of pension funds		900						
Financial transaction tax				500	500	500		
Lump-sum payment			1,000	50	50	50		
Value added tax	23,391	24,230	25,100	25,900	26,800	27,800	+ 3.5	+ 3.5
Consumption taxes	6,103	6,270	6,421	6,481	6,531	6,581	+ 1.5	+ 0.8
Transaction taxes	5,627	5,672	5,923	6,044	6,190	6,336	+ 2.4	+ 2.3
Other taxes	1,775	1,663	1,725	1,765	1,805	1,855	+ 0.9	+ 2.5
<i>Minus</i>								
Transfers to Länder, municipalities etc.	– 25,414	– 26,344	– 27,875	– 28,815	– 30,280	– 31,706	+ 4.5	+ 4.4
Contributions to EU budget	– 2,512	– 2,500	– 2,600	– 2,700	– 2,900	– 2,800	+ 2.2	+ 2.5
<i>Net government taxes</i>	41,931	44,879	46,426	48,273	50,093	52,463	+ 4.6	+ 4.2
Receipts sub-category 20 labour	5,192	5,003	5,352	5,561	5,791	6,113	+ 3.3	+ 4.5
Receipts sub-category 25 families, youth	6,085	6,394	6,638	7,074	7,586	8,079	+ 5.8	+ 6.8
Other receipts	10,244	9,064	9,939	9,322	9,141	9,260	– 2.0	– 2.3
<i>Receipts total</i>	63,452	65,340	68,356	70,230	72,611	75,916	+ 3.7	+ 3.6

Source: Federal Ministry of Finance, Strategy Report 2013-2016; WIFO.

Table 6 summarises the macroeconomic assumptions underlying the current Federal Financial Framework as compared with the previous edition. As can be seen, growth prospects have weakened markedly for 2012 and 2013 and are likely to lead to higher unemployment than originally expected.

Over the period from 2011 to 2016, disbursements are set to increase in all five categories (Table 7). Between 2013 and 2016, however, they are planned to rise only in category 2 – labour, social affairs, health, family policy, category 3 – education, research, art and culture, and category 5 – cash management and interest. For categories 0, 1 – justice and security, and 4 – economic affairs, infrastructure and environment, disbursements are planned to decline. Above-average increases between

⁴ This increase is explained i.a. by the fact that starting from 2012 the advance payments made in December are no longer recorded for the following year, but for the current year, whereby the disbursements in 2012 are increased by a one-off € 1.4 billion.

⁵ Figures for 2013 are biased by a balance sheet extension boosting in 2013 disbursements and receipts by € 860 million each and rising thereafter, since the federal government will be obliged as from 2013 to pay retirement contributions of 12.55 percent of payroll for its civil servants as well as for the teaching staff of the Länder; the implicit additional expenditure is balanced by corresponding revenues of the same amount.

2013 and 2016 are foreseen for category 2 – labour, social affairs, health, family policy (+2 percent p.a.) and category 5 – cash management and interest (+4 percent p.a.); total disbursements are set to expand at an annual rate of 1 percent. Thus, the dynamics of spending over the period 2013-2016 will be noticeably dampened, under the impact i.a. of the consolidation package II adopted together with the Federal Financial Framework, with expenditure growth remaining significantly below that of nominal GDP.

The EU strategy for the stabilisation of Economic and Monetary Union ("six-pack")

The EU strategy for coping with the sovereign debt crisis focuses heavily on the strengthening of fiscal discipline. The set of Council Regulations ("six-pack") in force since 13 December 2011 includes the following elements:

Preventive arm of the Stability and Growth Pact (SGP) (Regulation 1175/2011)

The aim is to reach the budgetary medium-term objectives (MTO) of a structural budget "close to balance or in surplus"; for euro area members and ERM II participants this covers a range from a deficit of 1 percent of GDP to a surplus (MTO for Austria: -0.5 percent of GDP); as long as the MTO is not reached, a consolidation effort of an average 0.5 percent of GDP p.a. in structural terms is required. This provision is supplemented by an expenditure rule: the annual increase in primary expenditure must not exceed the medium-term growth rate of potential output, and it should remain below potential output growth as long as the MTO is not reached. In case of violation of the requirement of the structural fiscal effort or the expenditure rule, financial sanctions (an interest-bearing deposit of 0.2 percent of GDP) will be imposed.

Corrective arm of the SGP (Regulation 1177/2011)

Member countries exhibiting a government debt ratio above 60 percent of GDP are obliged to reduce their debt systematically: the difference between the actual debt ratio and 60 percent of GDP must decline by $\frac{1}{20}$ p.a. on average over the past three years. The debt rule shall be applied only after a transition period of three years following the closure of an Excessive Deficit Procedure (EDP). Henceforth, the EDP will be applied not only in case of violation of the 3 percent of GDP deficit ceiling, but also in case of non-compliance with the debt rule.

Regulation on the implementation of budgetary surveillance in the euro area (Regulation 1173/2011)

The regulation supplements the reform of the SGP with new, graduated financial sanctions for euro-area countries: in the preventive arm, non-compliance can from now on be sanctioned by an interest-bearing deposit of 0.2 percent of GDP; in the corrective arm, a non-interest-bearing deposit of 0.2 percent of GDP can be claimed already with the Council decision on the existence of an excessive deficit, which can be converted into a fine if further council recommendations are neglected. In the future, for the decision on the imposition of sanctions, the rule of "reversed qualified majority voting" applies, i.e., a sanction is considered adopted unless the Council votes against by qualified majority within 10 days. Any manipulation of statistics will henceforth be sanctioned by a penalty of 0.2 percent of GDP.

Guideline on the requirements of member countries' budgetary frameworks – Guideline 2011/85/EU

The aim is to guarantee minimum standards for national budgetary frameworks and their consistency with the EMU policy framework. This concerns in particular the National Accounts systems, statistics and forecasting practices as well as numerical fiscal rules. In addition, the fiscal situation of sub-national government authorities (Länder, municipalities, social insurance agencies) and their contingent liabilities are to be assessed more closely, and numerical fiscal rules (e.g., the Austrian stability pact) are to enhance fiscal discipline of all territorial authorities and secure their contribution to the general government consolidation efforts.

Regulation on the prevention and correction of macroeconomic imbalances (Regulation 1176/2011)

If the analysis of macroeconomic indicators ("scoreboard") reveals significant deviations from threshold values and an in-depth study by the European Commission in co-operation with the member country concerned confirms the existence of economic imbalances, a macroeconomic imbalances procedure may be initiated which obliges the member country to submit a corrective action plan. During the implementation of the latter, the procedure will be suspended, whereas in the case of repeated inaction or non-compliance with Council recommendations financial sanctions will be imposed.

Regulation on enforcement of the correction of excessive macroeconomic imbalances in the euro area (Regulation 1174/2011)

This regulation amends that on the prevention and correction of macroeconomic imbalances; in the case of repeated non-compliance with recommendations addressed in the context of the macroeconomic imbalances procedure, a penalty of 0.1 percent of GDP p.a. will be imposed.

Source: Federal Ministry of Finance (2012A), European Commission (2012).

Gross tax revenues as the largest item of federal government revenues are projected to increase by 4.5 percent p.a. between 2011 and 2016, and by 4.2 percent p.a. between 2013 and 2016 (Table 8). Revenues from wage tax, assessed income tax, corporate tax and capital yields tax are expected to record above-average increases. The dynamic increase in gross tax revenues is mainly driven by the tax-related consolidation measures, supported by the projected moderate growth of nominal GDP as from 2013.

The EU strategy for the stabilisation of economic and Monetary Union ("two-pack")

The "two-pack" which is to be adopted in summer 2012 includes the following elements:

Regulation on common rules for the surveillance and assessment of national budgetary plans and for the insurance of correction of excessive deficits by euro area member countries

This regulation provides for a harmonised time frame for member countries' budgets: submission of medium-term fiscal framework and of Stability or Convergence Programme by 15 April, of general government draft budget by 15 October and of voted budget by 31 December; implementation of numerical fiscal rules and control by an independent "fiscal council". In case of a significant violation of SGP provisions by the national budgetary plans, the European Commission may ask for their revision.

Regulation on enhanced economic and fiscal surveillance of member countries which are affected or threatened by serious difficulties with regard to their financial stability within the euro area

The government budget of member countries affected by serious stability problems can henceforth, based on a decision by the European Commission, be subjected to an enhanced surveillance with the aim of refinancing via the capital market being restored. It is foreseen i.a. that the European Commission may recommend an economic adjustment programme.

Treaty on stability, co-ordination and governance – fiscal compact

This Treaty, signed on 2 March 2012 by 25 EU member countries, will enter into force once it is ratified by at least 12 euro area countries.

The member countries should commit, preferably by constitutional law, to achieve a balanced budget or a budget surplus, as measured by the structural budget balance which must not exceed a reference value of –0.5 percent or –1 percent of GDP (defined respectively at the national level), at a government debt ratio significantly below 60 percent of GDP. An automatic correction mechanism in case of significant deviations from the rules should preferably also be anchored in the Constitution. In case of violation of the structural deficit rule, a member country can in the future be sued at the European Court of Justice.

Source: Federal Ministry of Finance (2012A), European Commission (2012).

According to the forecasts of the Federal Ministry of Finance, the structural deficit of the general government would have come to exceed 3 percent of GDP in 2016 and the debt ratio would have reached 78 percent of GDP without further consolidation measures. As an integral part of the new Federal Financial Framework, the federal government therefore adopted in February 2012 another consolidation package ("stability package") as a supplement to the "consolidation package I"⁶ decided in October 2010 at the government retreat in Loipersdorf. In order to cover the budgetary cost of the partial nationalisation of Österreichische Volksbanken-AG (ÖVAG) initiated soon thereafter, further consolidation measures were agreed in March 2012. This "consolidation package II", which like the current Federal Financial Framework refers to the period 2013-2016, is largely motivated by two recent developments: first, by the latest resolutions at the EU level for the strengthening of budgetary discipline which require a tightening of the fiscal stance also in Austria; second, by the downgrading of the Republic of Austria's credit rating by the agency Standard & Poor's in mid-January 2012.

"Consolidation package II"

Scope and composition

⁶ A detailed analysis of the "consolidation package I" is presented in Schratzenstaller (2011).

The Austrian debt brake and the new internal stability pact

On 7 December 2011, the Austrian parliament adopted a "debt brake" for the federal government level in line with the German model. It foresees that as from 2017 the federal budget (including the social insurance agencies) shall in principle be in structural balance, with a structural deficit not exceeding 0.35 percent of GDP. Further details, in particular the calculation method for the structural deficit as well as control and compensation mechanisms for deviations from the deficit ceiling, are elaborated in a regulation by the Federal Ministry of Finance. An exception clause allows for a temporary excess structural deficit in emergency situations like natural disasters, a severe recession or other events outside government control and with a major drag on public finances. In such case, the regulation requires the simultaneous submission of a planned trajectory for the reduction of the exceptionally higher deficit.

In early May 2012, the three levels of government (federal government, Länder, municipalities) agreed on a new national stability pact which replaces the current edition (covering the period from 2011 to 2014) and anchors the integration of the Länder and municipalities into the debt brake for the general government. The stability pact consists of several fiscal rules, including ceilings for the nominal budget balance according to ESA (Maastricht balance), for the structural balance (debt brake) and for expenditure growth (expenditure brake) as well as a rule for the reduction of public debt as defined by ESA (debt ratio adjustment) for the different territorial authorities.

According to the debt brake, the federal government is deemed to be in compliance with the balanced budget principle if the structural deficit is not higher than 0.35 percent of GDP as from 2017. For the Länder and the municipalities, the overall ceiling is 0.1 percent of GDP. The provisions for the expenditure brake and the debt ratio adjustment are aligned to the corresponding ones of the EU governance framework for the stabilisation of EMU.

The stability pact is in principle concluded for an indefinite period. However, it may expire automatically if inter-governmental agreements of budgetary relevance are changed unilaterally (e.g., non-agreed changes in health and old-age care financing, tax reforms with major repercussions for lower government levels, lack of consensus on a new federal fiscal agreement). In case of violation of deficit ceilings, a panel of two representatives each from the federal government, the Länder and the municipalities shall decide on financial penalties. Such decision shall be taken unanimously, with the territorial authority concerned being barred from voting.

Source: Federal Ministry of Finance (2012A, 2012B), media reports.

The measures of this new consolidation programme amount to € 27.87 billion⁷ cumulated over the period from 2012 to 2016, somewhat more than those of the consolidation package I (of a cumulated € 25.06 billion⁸ from 2011 to 2016; Table 9). Taken together, the two packages provide for an improvement of the general government balance of nearly 0.9 percent of GDP in 2011, rising to 3.9 percent of GDP in 2016. Although the various budget documents present the measures taken only up to 2016, one should bear in mind that all adjustments on the expenditure side and most of the revenue-raising measures are of permanent nature, remaining effective beyond the planning horizon of 2016.

On average for the period 2012-2016, the share of expenditure-related measures of nearly 62 percent of the overall consolidation amount is significantly higher than the corresponding 53 percent of consolidation package I. For both packages together, the share of savings on the expenditure side is estimated at 57 percent over the period from 2011 to 2016.

The federal government shoulders about three-quarters of the cumulated amount of consolidation package II, Länder and municipalities nearly one-fifth⁹ and the social security agencies 5 percent. For both consolidation programmes taken together, the share of the federal government rises to almost 80 percent for the period 2011-2016, that of Länder and municipalities amounts to 18 percent and that of the social security bodies almost 3 percent.

⁷ Original plans were for a consolidation amount of € 26.5 billion; additional measures for the financing of the partial nationalisation of ÖVAG amount to some € 1.4 billion until 2016.

⁸ This cumulated presentation of the amount of the consolidation package I extrapolates the contributions for 2014 into 2015 and 2016.

⁹ Half of the contribution of Länder and municipalities to fiscal consolidation is covered by their share in the tax increases via the revenue shares they receive on the basis of the agreement on federal fiscal relations; the genuine savings requested from Länder and municipalities total € 2.6 billion from 2012 to 2016 (15 percent of the overall savings planned).

Table 9: Consolidation packages I and II

	Spending restraint	Revenue increase ¹	Total consolidation amount		Federal government	Länder and municipalities	Social insurance agencies	Expenditure	Revenue
	Million €			As a percentage of GDP	Percentage shares			Percentage shares	
Consolidation package I – "Loipersdorf", October 2010									
2011	1,409	1,219	2,628	0.9	82.4	17.6		53.6	46.4
2012	1,981	1,811	3,792	1.2	82.6	17.4		52.2	47.8
2013	2,241	2,010	4,251	1.3	82.8	17.2		52.7	47.3
2014	2,514	2,281	4,795	1.4	82.9	17.1		52.4	47.6
2015	2,514	2,281	4,795	1.4	82.9	17.1		52.4	47.6
2016	2,514	2,281	4,795	1.3	82.9	17.1		52.4	47.6
2011-2016	13,173	11,883	25,056		82.8	17.2		52.6	47.4
Consolidation package II, March 2012									
2011									
2012	0,463	1,238	1,701		89.9	6.6	3.5	27.2	72.8
2013	1,680	2,310	3,990		82.1	14.3	3.6	42.1	57.9
2014	3,388	2,197	5,585		74.4	21.0	4.6	60.7	39.3
2015	5,171	2,308	7,479		76.2	18.6	5.2	69.1	30.9
2016	6,478	2,637	9,115		72.8	21.5	5.7	71.1	28.9
2011-2016	17,180	10,690	27,870		76.4	18.7	4.9	61.6	38.4
Consolidation packages I and II combined									
2011	1,409	1,219	2,628	0.9	82.4	17.6	0.0	53.6	46.4
2012	2,444	3,049	5,493	1.8	84.8	14.1	1.1	44.5	55.5
2013	3,921	4,320	8,241	2.6	82.5	15.8	1.7	47.6	52.4
2014	5,902	4,478	10,380	3.1	78.3	19.2	2.5	56.9	43.1
2015	7,685	4,589	12,274	3.6	78.8	18.0	3.2	62.6	37.4
2016	8,992	4,918	13,910	3.9	76.3	20.0	3.7	64.6	35.4
2011-2016	30,353	22,573	52,926		79.4	18.0	2.6	57.3	42.7

Source: Federal Ministry of Finance, WIFO calculations. Rounding differences. – ¹ Consolidation package I: tax increases; consolidation package II: tax increases, increase in several social insurance contributions for employees, commercial self-employed and in agriculture as well as "experience rating" (penalty for lay-off € 110).

The planned measures on the expenditure side (see Table 10) concern a number of items which for some time have been identified as candidates for potential efficiency gains and which therefore have been the targets of expert suggestions for expenditure restraint (see, e.g., Aiginger et al., 2010).

The domain of "pensions" provides the largest contribution to expenditure restraint, with estimated savings of € 5.67 billion, one-third of total savings. Around € 3 billion are accounted for by structural reform measures, notably those aiming at the increase of the effective retirement age; almost half of savings (€ 2.56 billion) derive from the only modest adjustment of pensions planned for 2013 and 2014. The second-largest contribution to savings at the federal level (€ 2.5 billion or 15 percent of total savings) will come from public administration, where two-thirds of planned spending reductions result from non-structural measures like a zero-wage round in 2013, moderate salary adjustments in 2014 and a hiring freeze at the federal level until end-2014. Savings of € 1.4 billion are to be generated by the Austrian Federal Railways (ÖBB) and € 1 billion by a reform of the subsidy scheme to take effect in 2015. Moreover, the Länder and municipalities are expected to achieve savings of € 2.6 billion cumulated over the period until 2016 (15 percent of total savings), the social security agencies (health insurance) € 1.4 billion (8 percent of the total).

Whereas the measures in the areas of pensions and the implicit savings, as well as those for ÖBB, are specified in concrete terms¹⁰, the saving targets for subsidies and for the administration costs of Länder, municipalities and social security agencies are not yet operationalised by specific measures. All that is defined for Länder and municipalities is the global amount of expenditure reduction without concrete spending items or quantitative saving targets being named. What is only mentioned is the

¹⁰ Some uncertainty relates only to the effectiveness of the measures designed to raise the effective retirement age.

Measures in detail

Expenditure restraint

need for co-operation on the part of the Länder in order to achieve the goal of health expenditure growth not exceeding that of nominal GDP and for a reform of subsidy schemes which should generate savings as of 2015¹¹. However, like with the consolidation package I, the opportunity has again been missed to tie the participation of the Länder in the revenue gains from the consolidation-related tax increases to their obligation to contribute to the design of concrete structural reform measures and their implementation.

Table 10: Expenditure-related measures of the consolidation package II

	2012	Federal Financial Framework 2013-2016				2012-2016
		2013	2014	2015	2016	
		Million €				
Expenditure restraint total	463	1,680	3,388	5,171	6,478	17,177
Expenditure restraint federal government	348	1,604	2,537	3,988	4,679	13,154
Hiring freeze public sector (federal government)	42	94	112	112	112	472
Zero-wage round 2013 and moderate salary adjustment 2014		206	253	311	311	1,081
Other spending restraint in staff legislation	4	19	42	42	42	149
Other administrative savings (IT, army hospitals, district courts)	9	72	129	307	325	842
Harmonisation of retirement schemes (abolition of parallel calculation)			19	42	62	123
Stricter eligibility criteria for corridor pension		77	144	168	144	533
Tighter criteria for acceptability of jobs offered		32	65	166	201	464
Moderate pension adjustment in 2013 and 2014		400	720	720	720	2,560
Reform of invalidity pension scheme			– 14	– 33	– 12	– 59
Accelerated re-insertion of persons able to work (advance payments on retirement benefits)		50	71	93	95	309
Implementation of measures agreed in "Bad Ischl Dialogue"		– 17	11	58	140	192
Abolition of blocking agreements for partial retirement		13	42	57	74	186
Other measures related to unemployment insurance		23	23	23	24	93
Structural effect of deferred retirement		100	100	400	600	1,200
Other	11	14.5	14.5	14.5	14.5	69
Health care (federal government)	19					19
Re-dimensioning of ÖBB construction projects	47	159	259	212	240	917
Cuts in supplementary pension ÖBB	35	70	105	140	175	525
Reform of subsidy schemes				500	500	1,000
Cuts in discretionary expenditure	169	169	169	169	169	845
Saved interest expenditure federal government (lower deficit)	12	122	272	486	742	1,634
Additional expenditure restraint Länder and municipalities	55	– 68	595	791	1,279	2,651
Additional expenditure restraint social insurance Agencies	60	144	256	392	520	1,372

Source: Federal Ministry of Finance (2012A), WIFO calculations. Rounding differences.

In principle, it would have been meaningful to integrate the different structural reforms (as well as the new national stability pact as from 2012) into a reform of federal relations since most of them relate to areas of shared responsibility between the federal government and the Länder (subsidies, administration, health). Indeed, prior to setting consolidation targets, competences and responsibilities in the federal context should be newly defined as a first step, by reining back shared responsibilities as far as possible, strengthening the tax autonomy at the sub-central level and a sizeable reduction of intra-governmental transfers¹². Instead, the existing federal fiscal agreement in force until 2014 has de facto been extended with all its inherent inefficiencies until 2016 in order to meet a key condition of the regional governors for their co-operation in the fiscal consolidation programme. A further condition of the governors for their compliance with the consolidation targets was that future tax reforms require a consent by the Länder and that they obtain a share in the additional revenues generated by future tax increases.

¹¹ The projected savings of € 500 million p.a. as from 2015 through the reform of subsidies are, however, entirely attributed to the federal government.

¹² Fundamental criticism of the prevailing fiscal federalism in Austria and suggestions for a radical reform can be found in the "project reports" to the study "Grundsätzliche Reform des Finanzausgleichs" (Radical Reform of Federal Fiscal Relations) (<http://www.bmf.gv.at/budget/besonderebudgetthemen/finanzbeziehungenzu658/5361/studienzureformdes11884/start.htm>; Brothel et al., 2010, Biwald et al., 2010, Pitlik – Wirth – Lehner, 2010, Bauer et al., 2010).

The revenue increases planned until 2016 largely consist of hikes of existing taxes or the introduction of new ones (Table 11). In addition, a number of contributions and charges will be raised¹³. In a final amendment to the package it was decided to offer the option of ex-ante taxation of the contributions to occupational pension funds (with probably over-estimated additional income tax revenues of € 900 million for 2012 and annual revenue losses of € 75 million in the following years) and to collect a temporary special contribution to the bank levy. The expected additional revenues are intended to finance the partial nationalisation of ÖVAG. Overall, the revenue package consists of a number of measures of different kind. To some extent, the expected revenues appear rather optimistic (apart from the ex-ante taxation of the contributions to occupational pension funds, this seems to be the case for the taxation of undeclared revenues transferred to Switzerland and for restrictions to the group taxation regime). It also remains to be seen whether the introduction of a financial transaction tax in the EU, which is supposed to yield a (rather optimistically) estimated € 500 million p.a. as from 2014 for the Austrian general government, will actually be achieved.

Revenue increases

Table 11: Tax-related measures of the consolidation package II

	2012	Federal Financial Framework 2013-2016				2012-2016
		2013	2014	2015	2016	
		Million €				
Revenue increase total	1,238	2,310	2,197	2,308	2,637	10,690
Taxation of real estate capital gains	10	350	450	500	750	2,060
Restriction of group taxation regime		50	75	75	75	275
VAT: restricted discretion in deductibility of earlier-stage tax payments	100	250	250	250	250	1,100
VAT: modification of reimbursement of earlier-stage tax payments	30	50	50	50	50	230
Compensation health and social assistance act 1 : 1			100	100	100	300
Abolition of tax concessions for busses, rail vehicles and agro-diesel		70	80	80	80	310
Solidarity surcharge on high incomes until 2016 (13th, 14th monthly salary)		110	110	110	110	440
Financial transaction tax			500	500	500	1,500
Austrian-Swiss tax treaty		1,000	50	50	50	1,150
50 percent cut in saving premia for homebuilding and retirement		70	100	100	100	370
Broadening of corporate tax base	30	40	50	50	50	220
Surcharge on bank levy	128	128	128	128	128	640
Ex-ante taxation of private retirement funds	900	- 75	- 75	- 75	- 75	600
Harmonisation of retirement insurance contributions for commercial and agricultural self-employed		95	107	127	125	454
Abolition of suspended contributions for workers in occupational hardship		24	25	26	27	102
Increase in retirement contribution ceiling		52	54	55	57	218
Corporate lay-off charges ("experience rating")		29	51	72	93	245
Unemployment insurance contributions: liability prolonged (until eligibility to retirement benefit)		14	39	57	113	223
Increase in unemployment contribution ceiling		13	13	13	14	53
Research premia: tighter control of eligibility	40	40	40	40	40	200
Revenue increase federal government	1,181	1,671	1,617	1,711	1,957	8,137
Revenue increase Länder and municipalities	57	639	580	597	680	2,553

Source: Federal Ministry of Finance (2012A), WIFO calculations. Rounding differences.

When considering the composition of revenue-related measures, the following points are worth noting, also against the background of recommendations by international organisations for a growth-friendly orientation of fiscal consolidation¹⁴:

- after the increase in environmental taxes with the consolidation package I, the adjustment of the tax system towards environmental goals was no longer pursued;

¹³ In the background material of the Federal Ministry of Finance for the budget and other government documents, these contributions and charges are classified as expenditure savings; they amount to € 1.5 billion or 5.4 percent of the cumulated total of the "consolidation package II".

¹⁴ See most recently from the OECD perspective Sutherland – Hoeller – Merola (2012).

- the option of abolishing tax exemptions, notably in VAT and income tax, could have been retained with greater determination. The reduction or abolition of tax privileges would combine the benefits of raising additional revenue with simplification of the tax code and the phasing out of tax concessions which are poorly targeted from a social perspective (notably the reduced VAT rate for many goods and services), environmentally counter-productive (e.g., taxation of business cars), or provide other undesirable incentives (e.g., reduced taxation of overtime hours worked, which is problematic from the employment and equal opportunities perspective);
- several increases in social security contributions further add to Austria's very high tax burden on labour, even if they mainly concern the relatively less tax-sensitive higher incomes;
- with only few exceptions, the recent tax increases are permanent, without any commitment by the government to use the additional revenue in the medium term for a reduction of distortive taxes (in particular the high labour taxes) and thus for an overhaul of the tax structure;
- what is missing is the integration of the consolidation measures into an accompanying reform of the tax structure that would strengthen the relatively growth-friendly taxes (possibly setting positive incentives; notably real estate tax, inheritance and gift tax, environmental taxes) while lowering the growth- and employment-unfriendly high labour taxes.

Already the consolidation package I was accompanied by a set of measures to stimulate growth over the medium and longer term. It provided for additional expenditure of € 400 million per year over the period 2011-2014 for universities and colleges of higher education, schools (extended facilities for full-day supervision), energy-saving renovation of buildings, promotion of research and the health insurance fund. With the Federal Financial Framework 2012-2015, this extra spending was extended by one year (up to 2015), and with the Federal Financial Framework 2013-2016 by another year, until end-2016 (Table 12).

Growth-supporting measures

Table 12: Growth-supporting measures

	2012	2013	2014	2015	2016	2012-2016
	Million €					
<i>Total</i>	870	1,332	1,271	1,322	1,362	6,157
Universities, increase in global budget		250	250	250	250	1,000
Universities and technical colleges	80	80	80	80	80	400
Schools: extension of all-day care	80	80	80	80	80	400
Energy-saving renovation of buildings	100	100	100	100	100	500
Research promotion	100	100	100	100	100	500
Structural fund sub-category 24 health	40	40	40	40		160
Old-age care fund ¹	150	200	235	300	350	1,235
New Secondary School	12	34	66	102	132	346
Education: reinforcement of spending vis-à-vis draft federal budget 2012	308	448	320	270	270	1,616

Source: Federal Ministry of Finance (2012A). – ¹ Including share of the Länder.

The Federal Financial Framework 2012-2015 further provided expenditure reinforcement for the New Secondary School (increasing from € 12 million in 2012 to € 102 million in 2015) which by the new Federal Financial Framework is also to be extended until 2016 (by an amount of € 132 million). The growth-supporting measures also include the federal government contribution to the old-age care fund (planned to increase from € 150 million in 2012 to € 350 million in 2016) which was implemented in mid-2011 and is financed jointly with the Länder. As a new measure in the Federal Financial Framework 2013-2016, an additional € 300 million p.a. will be spent on education and the global budget for universities ("universities billion") will be reinforced by € 250 million per year from 2013 to 2016. Overall, the envisaged growth-supporting measures add up to nearly 0.3 percent of GDP in 2012 and to around 0.4 percent of GDP in the following years. In view of the sizeable amount of the two consolidation packages and the considerable current financial needs, further rein-

forcement of growth-supporting expenditure is deemed appropriate: even with these measures decided, expenditure in category 3 – education, research, art and culture – is set to edge up by only 0.3 percent on annual average between 2013 and 2016. In sub-category 03 (teaching, art and culture) the planned annual increase is a moderate 0.6 percent. In sub-category 31 which includes the major part of spending on science and research, including the universities, plans are even for a decline in expenditure by 0.4 percent per year.

The reform of federal budgeting legislation

The reform of federal budgeting legislation was adopted in two stages. The first stage, in force since 2009, contains essentially the medium-term (covering four years, on a roll-over basis) financial planning via the Federal Financial Framework. The latter provides spending ceilings for the different sub-categories for the four years of the planning period. A distinction is made between fixed ceilings (applying to around 80 percent of federal expenditure) and variable ceilings (mostly for cyclically sensitive expenditure and financing from the EU budget). The expenditure ceilings are legally binding for the first year of the planning period, for the subsequent three years they are indicative. The main objective of the expenditure ceilings is to avoid the use of (unexpected) additional revenues for current spending instead of debt reduction. The first stage of the reform also opened the possibility for the accumulation of budgetary reserves that may be spent freely later on, in order to no longer encourage spending for its own sake towards the end of the fiscal year ("December fever").

The second stage of the reform entering into force in 2013, will introduce commercial (double-entry) accounting, a distinction within the federal budget into global and detailed budgets and the regular establishment of a long-term budgetary projection for the next 30 years. An important innovation is the implementation of impact-oriented fiscal management with "gender budgeting" as an integral part. The aim of impact-oriented budgeting is to improve the allocation of federal resources with regard to their effect. The main intention of gender budgeting, introduced in 2009 by constitutional law for all government levels, is the integration of gender considerations at all stages of the budgetary process with a view to equality between men and women and allowing especially for unpaid work (care economy). For each expenditure sub-category a maximum of five impact objectives shall be defined, one of which ought to be an equality objective. These impact objectives shall be underpinned by measures for their achievement.

Source: Steger (2010), Federal Ministry of Finance (2012B).

The new Federal Financial Framework, including the two consolidation packages, targets a general government deficit (Maastricht definition) of 3 percent of GDP for 2012 (Table 13). In compliance with the EU Council Recommendations of 2nd December 2009 in the context of the Excessive Deficit Procedure, the deficit will be reduced below the ceiling of 3 percent of GDP by 2013 at a latest (to a ratio of 2.1 percent of GDP according to plans), with a balanced budget to be achieved by 2016. Although the deficit dropped already in 2011 below the Maastricht ceiling, turning out at 2.6 percent rather than the expected 3.3 percent of GDP, this may hardly be relevant for the following years¹⁵. Via a base effect, the higher-than-anticipated tax revenues of 2011 will have a positive spill-over also in subsequent years, and interest expenditure could, like in 2011, remain lower than assumed for the medium-term financial plan. However, the latest WIFO short-term projection for nominal GDP of +2.2 percent in 2012 is significantly below the +2.7 percent projected in December 2011 which is the underlying assumption of the Strategy Report. Moreover, the further capital transfers of € 1 billion by the federal government to KA Finanz AG, which are not yet included in the Strategy Report, will put an additional burden on the federal budget and weigh on the general government deficit for 2012¹⁶. Finally, budgetary execution since 2009 has been on the whole restrictive,

Trend in key figures for the public sector

¹⁵ According to latest statements by the European Commission, the decline in the deficit below the ceiling in Austria (like in other countries where this has occurred unexpectedly in 2011) will not automatically lead to the termination of the Excessive Deficit Procedure; the latter would require a sustained fiscal consolidation rather than an only temporary deficit reduction below the 3 percent of GDP ceiling.

¹⁶ The Austrian Stability Programme for the years from 2011 to 2016, released at end-April 2012 (Federal Ministry of Finance, 2012B), is based on the latest WIFO forecast of end-March 2012, while the previous revision of December 2011 that was more optimistic for 2012 is underlying the Federal Financial Framework. The projected deficit for 2012 (Maastricht definition) remained unchanged despite the less favourable cyclical out-

supported by the new budgetary legislation which gives the possibility to accumulate reserves¹⁷ and liquidate them in the following years. Nevertheless, this option of under-spending and build-up of reserves is limited in the medium term, particularly in a period of fiscal consolidation.

Table 13: Key figures for the public sector from the Federal Financial Framework

	2011	2011 ¹	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
	As a percentage of GDP							Million €					
Maastricht deficit general government	- 3.3	- 2.6	- 3.0	- 2.1	- 1.5	- 0.6	± 0.0	9,961	9,298	6,720	4,974	2,065	0
Federal government	- 2.7	- 2.4	- 2.5	- 1.8	- 1.3	- 0.6	- 0.2	8,150	7,748	5,760	4,310	2,065	714
Länder, municipalities	- 0.7	- 0.3	- 0.5	- 0.4	- 0.3	- 0.1	± 0.0	2,113	1,550	1,280	995	344	0
Social insurance agencies	+ 0.1	+ 0.1	± 0.0	± 0.0	+ 0.1	+ 0.1	+ 0.1	302	0	0	332	344	357
Structural deficit general government	- 3.1	.	- 2.5	- 1.8	- 1.5	- 0.9	- 0.6	9,357	7,748	5,760	4,974	3,097	2,143
Federal government	- 2.5	.	- 2.1	- 1.5	- 1.3	- 0.8	- 0.6	7,546	6,508	4,800	4,310	2,753	2,143
Länder, municipalities	- 0.7	.	- 0.5	- 0.4	- 0.3	- 0.2	- 0.1	2,113	1,550	1,280	995	688	357
Social insurance agencies	+ 0.1	.	± 0.0	± 0.0	+ 0.1	+ 0.1	+ 0.1	302	0	0	332	344	357
Primary balance	- 0.8		- 0.3	+ 0.6	+ 1.2	+ 2.0	+ 2.5	- 2,415	- 930	+ 1,920	+ 3,979	+ 6,883	+ 8,927
Public debt general government	72.2	72.2	74.4	74.7	73.9	72.1	70.0	217,930	230,585	239,029	245,029	248,134	249,970
Expenditure ratio	51.3	50.5	51.7	50.8	50.1	49.2	48.7						
Revenue ratio	48.0	47.9	48.7	48.7	48.6	48.6	48.7						
Tax burden	42.0	43.6	42.7	42.8	42.8	42.9	43.1						

Source: Statistics Austria, Federal Ministry of Finance (2012A), WIFO. Rounding differences. – ¹ According to Maastricht notification as per 29 March 2012. Tax burden: indicator 4 (including imputed social insurance contributions).

According to the Strategy Report, the general government deficit in structural terms is to be reduced stepwise from 3.1 percent of GDP in 2011 to 0.6 percent in 2016, in line with EU regulations, such that in 2017 it can be limited to the ceiling of 0.45 percent of GDP that will be in force by then, in compliance with the envisaged agreement on a debt brake between the territorial authorities. This planned trajectory has become obsolete with the Stability Programme submitted a few weeks later. The starting point for the structural deficit in 2011 was revised down to 2.4 percent of GDP; accordingly, the target for the structural deficit of a maximum of 0.45 percent of GDP is being carried forward from 2017 to 2016, when the structural deficit is projected at 0.4 percent of GDP. At the same time, the pace of deficit reduction in the new Stability Programme is somewhat slower than required by the EU fiscal rules.

The Strategy Report foresees a swing in the primary balance from deficit to surplus as from 2013. Starting from a primary deficit of 0.8 percent of GDP in 2011, a surplus of 0.6 percent shall be achieved in 2013, gradually increasing thereafter to 2.5 percent of GDP in 2016.

The government debt ratio (1976: 26 percent of GDP) rose until the mid-1990s to 68 percent of GDP, the highest value before the economic crisis of 2008-09, before declining to around 60 percent in 2007. Since then, it has increased steadily under the impact of the crisis, to a ratio of 72.2 percent in 2011. According to the Strategy Report, the debt ratio is to reach a peak of 74.7 percent in 2013 and should be gradually reduced thereafter to 70 percent by 2016. This path has also become outdated with the new Stability Programme. Including the contribution to the European Stability Mechanism (ESM), the debt ratio will rise to 75.3 percent of GDP in 2013 (somewhat higher than assumed in the Strategy Report), before moderating to 70.6 percent until 2016. To this "official" debt of the government sector should be added off-budget debt of public enterprises (federal enterprises like the Austrian

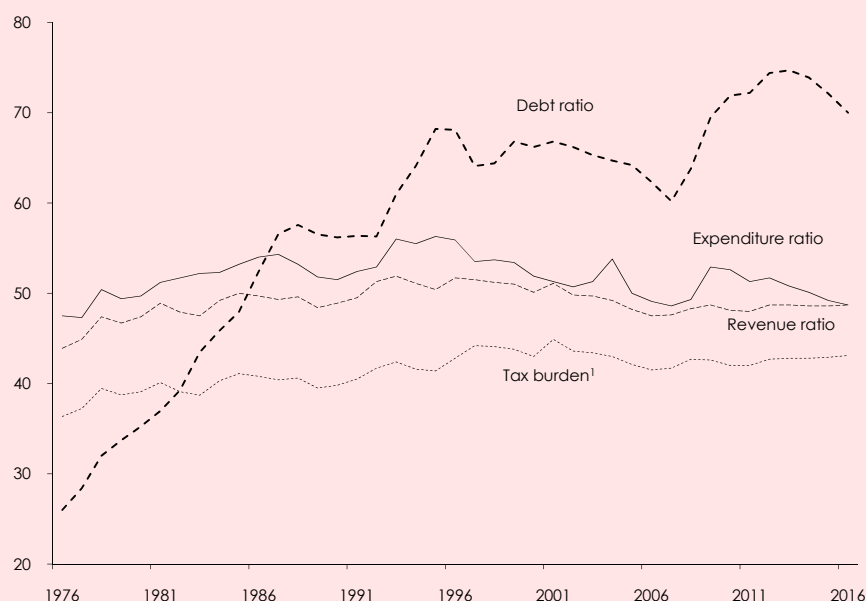
look and the fact that the federal government subsidies to KA Finanz AG are recorded only in 2012 following a Eurostat ruling.

¹⁷ A considerable amount of reserves have been accumulated over the last years. As of 31st December 2011 they totalled € 15.7 billion, of which € 5.4 billion were accounted for by reserves for bank support and almost € 4 billion by the Federal Financing Agency (Bundesfinanzierungsagentur) (due to the currently low interest rates).

Federal Railways ÖBB and market-determined communal enterprises) to the amount of over 10 percent of GDP (as per 2012; Schratzenstaller, 2011).

Figure 1: Trend in government ratios

As a percentage of GDP



Source: Federal Ministry of Finance, Statistics Austria. – ¹ Without imputed social insurance contributions.

Glossary of terms

Administrative balance (net balance): revenue (in future: "receipts") minus expenditure (in future: "disbursements"); equivalent to current net borrowing.

Maastricht-balance: administrative balance adjusted (according to ESA 95 definitions) for items that, while associated with revenue/receipts and expenditure/disbursements, 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/receipts minus expenditure/disbursements net of interest payments on public debt; **Primary deficit:** government revenue/receipts is lower than government expenditure/disbursements net of interest payments, interest for the current year is thus covered by new borrowing; **Primary surplus:** revenue/receipts is higher than expenditure/disbursements net of interest, interest for the current year thereby being covered by current revenue/receipts.

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 freely disposable (non-earmarked) for the following years.

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.

The government expenditure ratio increased from 47.5 percent of GDP in 1976 to a peak of 56.3 percent in 1995. It moved to a downward trend thereafter until 2007 and stood at slightly below 53 percent in 2009 and 2010. As from 2012, it should gradually decline to 48.7 percent of GDP by 2016.

The government revenue ratio moved from nearly 44 percent of GDP in 1976 to a peak of almost 52 percent in 1993. It fell subsequently to below 48 percent in 2006 and 2007. Varying slightly around 48 percent after the onset of the crisis in 2008-09, it should remain constant at 48.7 percent as from 2012.

The tax ratio stood at 36.3 percent of GDP in 1976 and reached a maximum of 44.9 percent in 2001. According to the Strategy Report, it will gradually increase from 42 percent in 2011 to 43.1 percent in 2016.

The sustainability of the latest consolidation programme will crucially depend on whether the necessary structural reforms (in the areas of health, subsidies, federal relations, retirement insurance) will actually be implemented. If the envisaged strengthening of the regulatory fiscal framework at the EU as well as the national level is to contribute as expected to a lasting improvement in public finances, it should not unduly constrain the discretionary leeway of economic policy and in particular the scope for counter-cyclical fiscal action. For example, the escape clause in the Austrian debt brake which allows a deviation from the deficit targets should be applicable whenever BIP is projected to decline, and not only in cases of severe recession, as currently foreseen. Admittedly, the Austrian consolidation strategy is more growth-friendly than the EU anti-crisis management has been so far¹⁸; however, the elements in favour of stronger medium-term growth ought to be reinforced while at the same time fiscal consolidation should be used as a leverage for the promotion of social and environmental goals.

Concluding remarks

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¹⁸ For a critical assessment of the EU anti-crisis strategy and a discussion of alternatives see Aiginger – Schratzenstaller (2012).

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Between Consolidation and Growth: Federal Financial Framework 2013-2016, "Consolidation Package II" and Stability Programme – Summary

The financial market and economic crisis has put severe strain on government budgets also in Austria. The costs of the crisis, to the extent that they can be quantified (support for banks, cyclical stimulus measures and contributions to the euro-area crisis management), have shifted the debt ratio up by almost 7¼ percentage points by 2012. Additional discretionary measures (anti-inflation package and parliamentary decisions of September 2008) as well as statistical revisions push the debt ratio up by a further 9 percentage points to a level slightly above 74 percent of GDP in 2012.

In spring 2012, the government adopted a second consolidation package worth almost € 28 billion cumulated up to 2016. By that time, the general government budget on a Maastricht basis should be brought to balance, with the structural deficit to be reduced to 0.4 percent of GDP and the debt ratio to 70.6 percent. Together with the first consolidation package adopted in autumn 2010, the overall consolidation volume will rise from 0.9 percent of GDP in 2011 to 3.9 percent in 2016.

The planned government savings concern a number of expenditure categories in need of structural reform. The pension system contributes one-third to total expenditure reductions, public administration to about 15 percent. A further € 1.4 billion should be provided by the Austrian Federal Railways (ÖBB) and € 1 billion by a reduction of public subsidies to take effect as from 2015. In addition, the Länder and the municipalities are expected to generate savings of more than € 2.6 billion until 2016, and the social security scheme (in the health domain) of nearly € 1.4 billion.

The legislated increases in public revenues consist of hikes in existing taxes, the introduction of new taxes and of other revenue-raising measures, notably increases in social security contributions. The latter will add to the already high tax burden on labour income, while de facto no more measures to "green" the overall tax system have been taken. Likewise, the integration of the tax-related consolidation measures into a broader growth- and employment-enhancing reform of the overall tax structure is still missing. What has been decided is an accompanying programme reinforcing spending on education and universities, after-school child care, research and development as well as energy-saving renovation of buildings, adding up to € 6.2 billion by 2016.