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Fiscal Policy Facing Manifold Challenges

Federal Fiscal Framework 2017-2020 and Draft Federal Budget 2017

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Demographic trends, the need for reinforcing expenditure in forward-looking domains, one-off incidents like the tax reform 2015-16, the current wave of refugee immigration, financial support for banks in distress (even if clearly less than in previous years) and – last, but not least – the necessity to unwind the jump in public debt in the wake of the recession 2008-09, pose severe challenges for fiscal policy. The general government deficit (in the Maastricht definition) is expected to abate to 1.2 percent of GDP in 2017, while the structural deficit may edge up to 0.9 percent of GDP. The government debt ratio has turned around in 2016, declining from 83.2 percent of GDP to a projected 76.6 percent by 2020. Subsidies for ailing banks pushed up the debt ratio by 11.3 percent of GDP at the end of 2016.

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1. Introduction

On 12 October 2016, the Council of Ministers¹ adopted the draft federal budget for 2017; it includes the details on expenditure and revenue, the cornerstones of which had been fixed by the Federal Financial Framework of April 2016.

The Federal Financial Framework 2017-2020 of April 2016 that replaces the earlier vintage (2016-2019) of April 2015 builds on the macroeconomic scenario laid down in the WIFO medium-term forecast of April 2016 (*Baumgartner – Kaniovski, 2016*). The latest revision of the WIFO medium-term forecast assumes for the overlapping years 2017-2019 somewhat less benign framework conditions, notably slower nominal and real GDP growth and higher unemployment. Table 1 summarises the key economic parameters underlying the Federal Financial Framework 2017-2020 and the draft federal budget for 2017.

The basis for the draft federal budget for 2017 is the WIFO short-term forecast of September 2016 (*Scheiblecker, 2016*). For 2017, the draft federal budget sees the unemployment rate (national definition) somewhat lower than the Federal Financial Framework, whereas the assumptions for GDP growth are identical and those for the employment trend differ only slightly. International economic developments, in particular in China and the commodity-exporting emerging markets, as well as the latest pick-up in oil prices, carry a high degree of uncertainty for Austria's medium-term prospects.

¹ Parliament passed the Budget Act on 24 November 2016, Federal Bulletin I Nr. 101/2016

Table 1: Key economic data

	Gross domestic product			Consumer prices	Gross wage bill, nominal		Dependent active employment	Unemployment		Unemployment rate	
	Real Percentage changes from previous year	Nominal Percentage changes from previous year	Nominal Billion €	Percentage changes from previous year	Total Percentage changes from previous year	Per capita Percentage changes from previous year	Percentage changes from previous year	Changes from previous year in 1,000	In 1,000	As a percentage of dependent labour force	As a percentage of total labour force (Eurostat)
<i>WIFO medium-term forecast March 2015 (basis for Strategy Report April 2015)</i>											
2014	+ 0.3	+ 2.0	329.0	+ 1.7	+ 2.6	+ 1.7	+ 0.8	+ 32.2	319.4	8.4	5.0
2015	+ 0.5	+ 1.9	335.3	+ 1.3	+ 2.2	+ 1.5	+ 0.6	+ 31.0	350.4	9.1	5.3
2016	+ 1.4	+ 3.1	345.8	+ 1.9	+ 2.8	+ 1.9	+ 0.8	+ 16.5	366.9	9.4	5.3
2017	+ 1.5	+ 3.2	357.0	+ 1.8	+ 3.2	+ 2.1	+ 0.9	+ 5.0	371.9	9.4	5.3
2018	+ 1.7	+ 3.3	368.8	+ 1.7	+ 3.4	+ 2.1	+ 1.1	- 0.9	371.0	9.3	5.2
2019	+ 1.9	+ 3.5	381.6	+ 1.8	+ 3.6	+ 2.2	+ 1.2	- 4.6	366.4	9.1	5.1
<i>WIFO medium-term forecast March 2016 (basis for Strategy Report April 2016)</i>											
2015	+ 0.9	+ 2.4	337.2	+ 0.9	+ 2.7	+ 1.7	+ 1.0	+ 35.0	354.3	9.1	5.7
2016	+ 1.6	+ 3.7	349.5	+ 1.2	+ 2.6	+ 1.3	+ 1.2	+ 23.0	377.3	9.5	5.9
2017	+ 1.6	+ 3.2	360.6	+ 1.8	+ 2.8	+ 1.5	+ 1.2	+ 14.0	391.3	9.8	6.1
2018	+ 1.6	+ 3.1	371.8	+ 1.8	+ 3.0	+ 1.7	+ 1.1	+ 12.0	403.3	9.9	6.3
2019	+ 1.5	+ 3.1	383.5	+ 1.8	+ 3.0	+ 1.8	+ 1.1	+ 7.2	410.6	10.0	6.3
2020	+ 1.5	+ 3.1	395.3	+ 1.8	+ 3.0	+ 1.9	+ 1.0	+ 4.9	415.5	10.0	6.3
<i>WIFO medium-term forecast September 2016 (basis for draft federal budget 2017)</i>											
2015	+ 1.0	+ 2.9	339.9	+ 0.9	+ 3.0	+ 1.7	+ 1.0	+ 35.0	354.3	9.1	5.7
2016	+ 1.7	+ 3.6	352.2	+ 1.0	+ 2.8	+ 1.4	+ 1.4	+ 7.0	361.3	9.2	6.0
2017	+ 1.5	+ 3.1	363.0	+ 1.7	+ 2.7	+ 1.6	+ 1.1	+ 16.0	377.3	9.4	6.1
2018	+ 1.4	+ 3.1	374.1	+ 1.7	+ 3.0	+ 1.9	+ 1.0	+ 12.6	389.9	9.6	6.2
2019	+ 1.5	+ 3.3	386.6	+ 1.8	+ 3.2	+ 2.0	+ 1.0	+ 11.1	401.0	9.8	6.2
2020	+ 1.5	+ 3.4	399.5	+ 1.8	+ 3.2	+ 2.1	+ 1.0	+ 4.9	405.9	9.8	6.2
2021	+ 1.6	+ 3.6	413.9	+ 1.9	+ 3.4	+ 2.2	+ 1.1	- 1.7	404.2	9.7	6.1

Source: WIFO.

The starting conditions for fiscal policy are still being shaped by a host of specific requirements. Demographic trends, the need to reinforce spending in forward-looking areas, special factors like the tax reform 2015-16, the recent wave of immigration and the continued support for banks in distress (even if the amounts are lower than in recent years), and – last, but not least – the need to unwind the jump in government debt related to the financial market crisis and the recession, all pose severe challenges for fiscal policy. On the other hand, the historically benign financing conditions and the moderating effect of low inflation on retirement and government personnel spending continue to provide budgetary relief in 2017.

2. Key parameters for budgetary planning until 2020

2.1 Overview of medium-term trends in expenditure and revenue

Federal government revenue (current receipts on a cash basis) is projected to increase from 72.7 billion € in 2015 to 80.9 billion € in 2020 (Table 2). The annual average increase over this period of 2.2 percent is thus markedly lower than between 2010 and 2017 or between 2010 and 2020 (respectively around +3 percent), largely as a result of the tax reform 2015-16. Federal expenditure (current disbursements on a cash basis) is expected to rise from 74.6 billion € in 2015 to 83 billion € in 2020 (2015-2020, 2010-2017 and 2010-2020 respectively around +2 percent p.a.). Federal gross tax revenue will advance from 82.4 billion € in 2015 to 95.2 billion € in 2020 (2015-2020 +2.9 percent p.a., 2010-2017 +3.7 percent p.a., 2010-2020 +3.8 percent p.a.), net tax revenues (gross taxes minus the revenue shares of Länder and municipalities and the contributions to the EU) from 50.4 billion € in 2015 to 57.5 billion € (2015-2020 +2.7 percent p.a., 2010-2017 +3.6 percent p.a., 2010-2020 +3.7 percent p.a.).

The administrative balance of the federal government moves from -1.9 billion € in 2015 to -2.1 billion € in 2020, equivalent to a deficit of 0.5 percent of GDP respectively. In the Maastricht definition, the federal government balance is expected to

decline over the same period from –4 billion € (–1.2 percent of GDP) to –2.4 billion € (–0.6 percent of GDP).

Table 2: Federal budget overview

	2010	2015	2016	2017	2018	2019	2020	2010-2017	2015-2020	2010-2020
	Billion €							Average year-to-year percentage changes		
Revenues and receipts ¹	59,434	72,728	71,828	73,159	75,566	78,072	80,894	+ 3.0	+ 2.2	+ 3.1
Expenditures and disbursements ¹	67,287	74,590	76,452	77,457	78,814	80,409	83,038	+ 2.0	+ 2.2	+ 2.1
Administrative balance	– 7,853	– 1,861	– 4,624	– 4,299	– 3,248	– 2,337	– 2,145			
Maastricht balance ²	– 9,929	– 3,988	– 5,544	– 5,013	– 3,917	– 3,252	– 2,435			
Gross tax revenues	65,492	82,427	81,850	84,425	88,250	91,600	95,250	+ 3.7	+ 2.9	+ 3.8
Net tax revenues	39,816	50,372	49,378	51,023	53,231	55,202	57,464	+ 3.6	+ 2.7	+ 3.7
	As a percentage of GDP									
Revenues and receipts ¹	20.2	21.4	20.4	20.2	20.2	20.2	20.2			
Expenditures and disbursements ¹	22.8	21.9	21.7	21.3	21.1	20.8	20.8			
Administrative balance	– 2.7	– 0.5	– 1.3	– 1.2	– 0.9	– 0.6	– 0.5			
Maastricht balance ²	– 3.4	– 1.2	– 1.6	– 1.4	– 1.0	– 0.8	– 0.6			
Gross tax revenues	22.2	24.3	23.2	23.3	23.6	23.7	23.8			
Net tax revenues	13.5	14.8	14.0	14.1	14.2	14.3	14.4			

Source: Federal Ministry of Finance (2016A, 2016B), Statistics Austria, WIFO calculations. Up to 2015: outturn, as from 2016: draft federal budget, as from 2018: Federal Fiscal Framework. – ¹ As from 2013 (second stage of budgeting legislation reform): change in terminology. – ² Federal government: including other units.

The trend of federal expenditure and revenue in 2017 and the following years will still be influenced by the three consolidation "packages"² adopted between 2010 and 2014. After a temporary decline caused by the tax reform 2015-16, revenue growth will resume as from 2017, albeit at a moderate pace: reasons are in 2017 a reduction of the stability levy³, lagged revenue shortfalls from the tax reform 2015-16 and a cut in the contribution rate for the Family Burden Equalisation Fund by 0.4 percentage points (with revenues of 500 million € foregone in 2017 and a further 300 million € in 2018).

Federal expenditure will grow somewhat less than revenue. Noteworthy are nevertheless a number of additional spending items. Already the Federal Financial Framework of April 2015 provided for extra spending on internal security and defence, which has now been stepped up once again for the period from 2017 to 2020. As from 2017, the minimum retirement benefit ("Ausgleichszulage") is raised to 1,000 € per month⁴, and a one-off payment of 100 € was granted in December 2016 to all retirees in the social security system, retired civil servants of the federal and part of the Länder governments (budgetary cost of 180 million €, including civil servants of 210 million €).

2.2 Medium-term trends for key economic variables until 2020

As a consequence of the financial market crisis and the recession, the general government expenditure ratio rose to 54.5 percent⁵ in 2009. According to the draft federal budget 2017, the ratio will edge down to 50.5 percent of GDP in 2017 (Table 3). From 2019 onwards, it should drop below 50 percent, pursuant to the Federal Financial Framework. The general government revenue ratio which climbed above

² A detailed analysis of planned and actually implemented consolidation measures since 2010 is presented in *Budgetdienst* (2016).

³ The reduction of the stability levy implies a revenue shortfall of 450 million €, which will in part be counter-financed for several years by banks' one-off payment of 1 billion € in gross terms (750 million € net after allowing for lower corporate tax revenues due to the tax deductibility of this one-off payment from 2017 to 2020).

⁴ Applies to single persons having accumulated at least 360 months of retirement contributions, otherwise 889.94 € per month.

⁵ The highest expenditure ratio ever recorded was in 1995 at 55.9 percent of GDP.

50 percent of GDP in 2014 and 2015⁶, fell back below 50 percent in 2016 and keeps somewhat above 49 percent of GDP as from 2017. The tax burden (which had reached a maximum of 44.2 percent of GDP in 2001) rose to nearly 44 percent of GDP in 2014 and 2015; with the tax reform of 2015-16, it abated to just below 43 percent of GDP in 2016 and will remain broadly constant until 2020, according to the Federal Financial Framework.

Table 3: Key macroeconomic indicators until 2020

	2015	2016	2017	2018	2019	2020
	As a percentage of GDP					
<i>Federal Medium-Term Expenditure Framework 2017 to 2020 of April 2016</i>						
Expenditure ratio ¹	51.7	51.0	51.6	50.1	49.8	49.6
Revenue ratio	50.6	49.4	49.2	49.2	49.2	49.2
Tax burden ²	43.9	42.9	42.7	42.8	42.9	43.0
Maastricht balance general government	- 1.2	- 1.6	- 1.5	- 0.9	- 0.7	- 0.4
Federal government	- 1.3	- 1.8	- 1.6	- 1.1	- 0.8	- 0.6
Länder, municipalities	0.1	0.0	0.0	0.0	0.0	0.0
Social security agencies	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	1.2	0.6	0.6	1.0	1.1	1.2
Structural budget balance	0.0	- 0.9	- 1.0	- 0.5	- 0.5	- 0.4
Public debt	86.2	84.3	82.6	80.8	78.7	76.6
<i>Draft federal budget for 2016 and federal budget outline for 2017 of October 2016</i>						
Expenditure ratio ¹	51.6	50.7	50.5	.	.	.
Revenue ratio	50.6	49.3	49.3	.	.	.
Tax burden ²	43.8	42.6	42.7	.	.	.
Maastricht balance general government	- 1.0	- 1.4	- 1.2	.	.	.
Federal government	- 1.2	- 1.6	- 1.4	.	.	.
Länder, municipalities	0.1	0.0	0.0	.	.	.
Social security agencies	0.1	0.1	0.1	.	.	.
Primary balance	1.3	0.8	0.8	.	.	.
Structural budget balance I ³	0.1	- 0.9	- 0.9	.	.	.
Structural budget balance II ⁴	0.3	- 0.5	- 0.5	.	.	.
Public debt	85.5	83.2	80.9	.	.	.

Source: Statistics Austria, Federal Ministry of Finance (2016A, 2016B, 2016C). – ¹ Harmonised (excluding Swaps). – ² Indicator 2, hence without imputed social contributions. Figures do not add up due to rounding. – ³ Including additional outlays for refugee support and fight against terrorism. – ⁴ Excluding additional outlays for refugee support and fight against terrorism.

In 2015, the general government deficit (Maastricht definition) fell from 2.7 percent of GDP in the previous year to 1 percent, due inter alia to extra revenues (carried forward in the context of the tax reform 2015-16) and a significant decline in financial support for ailing banks. Because of the not entirely counter-financed tax cuts of 2015-16, subsidies for banks and additional expenditure for immigrant refugees, the draft federal budget for 2017 shows an ex-post deficit for 2016 of 1.4 percent of GDP. In 2017, the deficit ratio is projected to edge down to 1.2 percent. The Federal Financial Framework foresees a further steady decline to 0.4 percent of GDP by 2020. Already since 2011, the general government deficit has consistently kept below the Maastricht ceiling of 3 percent of GDP.

The structural budget balance, which abstracts from cyclical variations and one-off measures, was slightly positive (+0.1 percent of GDP) in 2015, for the first time since that figure was first released (in 2010). Without the additional expenditure on refugees and fight against terrorism, the structural surplus would have been equivalent to 0.3 percent of GDP. For the years from 2016 onwards, the structural balance is likely to swing back towards deficit: from today's perspective, to -0.9 percent of GDP respectively in 2016 and 2017 and to at most -0.5 percent of GDP in the following years until 2020. Spending on refugees and anti-terrorism measures apart, the

⁶ The revenue ratio reached its peak at 51.5 percent of GDP in 1993 and steadily declined thereafter, with the exception of 1996 and 2001, to a ratio of 48.5 percent of GDP in 2011. Since then, it has moved again above 50 percent of GDP.

budgetary path would be in line with ex-ante plans also in 2016 and 2017. Subject to the application of the EU flexibility provisions and tolerance margins, compliance with the EU fiscal rules should be ensured⁷.

With the exception of 2014, the primary balance has been consistently positive in all years since 2011. Pursuant to the draft federal budget for 2017, the primary surplus will decline from 1.3 percent of GDP in 2015 to 0.8 percent respectively in 2016 and 2017, and increase thereafter to an annual 1.2 percent of GDP until 2020.

Before the financial market crisis and the recession, the government debt ratio recorded a peak of 68.6 percent of GDP in 2005 and edged down to 65.1 percent until 2007. By 2015, it had jumped to an all-time high of 85.5 percent of GDP. A large part of the massive increase was caused by the direct and indirect effects of the financial crisis and the subsequent recession. The item of subsidies to banks in distress by itself accumulated to 38.5 billion € (11.3 percent of GDP) by the end of 2015 (*Fiscal Council, 2016A*); in the absence of this special factor, the debt ratio would have headed down already in 2015. To this added the liabilities from the operation of automatic stabilisers and the cyclical stimulation measures (including the tax reform 2009-10) as well as the debt-enhancing impact of the EU financial stabilisation facility. Finally, several statistical revisions have in the last years raised the government debt level: thus, the migration towards the updated EU National Accounts (ESA 2010) in autumn of 2014 led to an increase in the debt ratio by 7.3 percentage points⁸. According to the draft federal budget for 2017 and the Federal Financial Framework, the debt ratio is set to decline gradually as from 2016. The projection for 2016 is a ratio of 83.2 percent, for 2017 of 80.9 percent of GDP. In both years, debt-reducing effects derive mainly from the unwinding of asset portfolios of nationalised banks, the settlement concluded with HETA creditors, and from low interest rates (*Fiscal Council, 2016A*). By 2020, the government debt ratio should have subsided to 76.6 percent of GDP, a projected path that would abide by EU regulations.

The progressive (re-)integration of off-budget debt (mainly Austrian Federal Railway Infrastruktur AG – ÖBB, Federal Real Estate Agency, Hospital Management Agencies of the Länder) into the stock of government debt led eo ipso to markedly lower off-budget debt levels. This has greatly enhanced the validity of officially reported debt figures with regard to actual public sector liabilities⁹, in particular at the federal and the Länder level. Finally, for a comprehensive assessment of potential budgetary risks, also the guarantees extended at the different government levels need to be taken into account. The latter, according to Statistics Austria, declined from nearly 86 billion € (26 percent of GDP) in 2014 to less than 78 billion € (around 23 percent of GDP) in 2015.

2.3 Expenditure in areas crucial for long-term growth

Since 2011, starting with the first consolidation "package" ("*Loipersdorf package*" adopted in 2010), the moves for deficit reduction have been accompanied by repeatedly reinforced spending in strategic forward-looking areas (*Budgetdienst, 2016*). Such target areas were notably universities and higher vocational colleges (Fachhochschulen), children's pre-school education and extension of pupils' day-care facilities as well as the development of the broadband network. In the context of the tax reform 2015-16, the research premium was increased. In summer 2016, the government adopted a "start-up package" to the tune of 185 million €, and in autumn of the same year an incremental investment premium ("*Investitionszuwachsprämie*") for small and medium-sized companies for 2017 and 2018 of 87.5 million € respectively, as well as measures to facilitate the participation of employees in their

⁷ Details on the recognition of expenditure overruns caused by the wave of refugee immigration as "exceptional circumstance" by the European Commission in its assessment of compliance with the EU fiscal rules are discussed in *Fiscal Council (2016A)*.

⁸ The most recent statistical revision of September 2016 has led to a cut in the Maastricht deficit for 2015 by 0.11 percent of GDP and of the debt ratio by 0.68 percent of GDP.

⁹ For example, off-budget public debt in 2013 amounted to 32.4 billion € or 10.3 percent of GDP (*Schatzenstaller, 2015A*).

companies' equity capital. Granting of the craftsmen's bonus ("Handwerkerbonus") has been extended into 2017 (at a cost of 20 million €), and 130 million € are foreseen for the development of the broadband network. These moves are supplemented by "active" labour market measures, such as employment promotion for older workers, training guarantees for unemployed aged 19-24, grants for qualified professional training and by subsidies for short-time work.

These contributions from fiscal policy towards strengthening the potential for medium-term growth and job creation ought to be reinforced in the next few years, since the budgetary objectives will not be fully achieved on the basis of current plans. Admittedly, the ratio of research expenditure to GDP may have reached 3.07 percent in 2016, such that the target of 3.76 percent of GDP should be met by 2020 (Hranyai – Janger, 2016). However, reaching the expenditure target of 2 percent of GDP by 2020 for higher education will require greater efforts. The recently agreed reform of the education system with the aim of strengthening the autonomy of individual schools and extending all-day schooling facilities provides for an additional expenditure of 428 million € for reinforcing the infrastructure and day-care of pupils, 248 million € for teaching staff at compulsory schools and 74 million € for general secondary education (Fiscal Council, 2016A)¹⁰. Yet, the structural financing gap of the education system that has existed for years is not being closed in a lasting way by these measures. The priority target set until 2017 of extending child-care facilities ought to be prolonged. While from today's perspective the "Barcelona"-target of a child-care coverage ratio of 33 percent for under-3-year olds will be achieved by 2017, sizeable supply gaps will nevertheless remain as well as the need for raising the quality of child-care services.

From the perspective of sustainability, developments in two other areas are unsatisfactory: First, expenditure on environmental purposes will once again be trimmed, by 25.7 million € or 4.2 percent from 2017 to 2020. Second, the roadmap announced in the Government Programme towards raising the expenditure on development cooperation to the internationally agreed target ratio of 0.7 percent of Gross National Income (GNI) has still not been adopted so far. In 2015, Austria spent 0.35 percent of GNI on development cooperation (2014: 0.26 percent; *Federal Ministry for European and International Affairs*, 2016); this ratio is close to the OECD average of 0.3 percent of GNI, though significantly below the EU average of 0.47 percent of GNI. According to the Federal Financial Framework 2017-2020, the allocation for development cooperation will rise by some 0.5 billion € until 2020. The draft federal budget for 2017 provides for an increase in the funds for development cooperation including foreign emergency relief from 97 million € in 2016 to 113 million €. The planned upward trend can, however, close only partially the persistent sizeable gap towards the benchmark of 0.7 percent of GNI¹¹. A further reinforcement of development aid has become all the more urgent with the latest wave of refugee immigration since it can effectively contribute towards addressing the causes in the countries of origin. By way of comparison with the additional funds for development cooperation (and for material and personnel resources for the integration of asylum seekers), those for internal security and national defence are rather generously allocated.

3. Draft federal budget 2017 – selected aspects of expenditure and revenue composition

3.1 Federal government transfers

The major federal government transfers follow a long-term upward trend, both in absolute terms and as a share of total expenditure. According to the draft federal budget 2017, they have increased between 2000 and 2017 from one-third to nearly

¹⁰ These items are to be financed by the one-off payment of 750 million € (net) by the commercial banks in return for the cut in the stability levy.

¹¹ Moreover, the increase in the ratio in 2015 was primarily due to the concession of including part of the expenditure on refugee care; this one-off factor was no longer effective in 2016.

45 percent of total spending, gradually levelling off in recent years. Since 2000, the average annual increase of 3.5 percent has been twice the rate of total federal expenditure, with the momentum decelerating in the last few years.

Table 4: Major items of federal government spending on transfers

	2000	2010	2014	2015	2016	2017	2015	2016	2017	2000-2017	2010-2017
	Million €						Percentage changes from previous year			Average year-to-year percentage changes	
Expenditures and disbursements, total	58,247	67,287	74,653	74,590	76,452	77,457	- 0.1	+ 2.5	+ 1.3	+ 1.7	+ 2.0
Federal transfer expenditure, total	19,347	29,481	33,394	33,618	34,635	34,675	+ 0.7	+ 3.0	+ 0.1	+ 3.5	+ 2.3
As a percentage of total expenditure	33.2	43.7	44.7	45.1	45.3	44.8					
Retirement	11,901	18,135	20,680	20,403	21,218	21,341	- 1.3	+ 4.0	+ 0.6	+ 3.5	+ 2.4
Federal employees pensions	2,499	3,429	4,009	4,061	4,111	4,205	+ 1.3	+ 1.2	+ 2.3	+ 3.1	+ 3.0
Reimbursement to Länder for pensions of teachers	697	1,138	1,635	1,604	1,641	1,679	- 1.9	+ 2.3	+ 2.3	+ 5.3	+ 5.7
Postal employees pensions	872	1,199	1,242	1,243	1,244	1,269	+ 0.1	+ 0.1	+ 2.0	+ 2.2	+ 0.8
Austrian Federal Railways employees pensions	1,695	2,068	2,113	2,104	2,103	2,093	- 0.4	- 0.1	- 0.4	+ 1.3	+ 0.2
Subsidies to social retirement insurance ¹	6,139	10,300	11,681	11,391	12,119	12,094	- 2.5	+ 6.4	- 0.2	+ 4.1	+ 2.3
Families	4,322	6,528	6,834	7,023	7,073	6,876	+ 2.8	+ 0.7	- 2.8	+ 2.8	+ 0.7
Family benefits	2,787	3,447	3,132	3,379	3,359	3,419	+ 7.9	- 0.6	+ 1.8	+ 1.2	- 0.1
Maternity, child care benefits ²	421	1,155	1,204	1,239	1,235	1,182	+ 2.9	- 0.3	- 4.3	+ 6.3	+ 0.3
Retirement contributions for child care periods	77	825	928	822	883	892	-11.4	+ 7.4	+ 1.0	+15.5	+ 1.1
Other	1,037	1,101	1,535	1,584	1,597	1,384	+ 3.2	+ 0.8	-13.3	+ 1.7	+ 3.3
Unemployment benefits	1,859	2,962	3,597	3,869	4,029	4,128	+ 7.6	+ 4.1	+ 2.5	+ 4.8	+ 4.9
Old-age care benefits	1,264	1,855	2,283	2,323	2,314	2,330	+ 1.8	- 0.4	+ 0.7	+ 3.7	+ 3.3
	Percentage shares										
Retirement	61.5	61.5	61.9	60.7	61.3	61.5					
Families	22.3	22.1	20.5	20.9	20.4	19.8					
Unemployment benefits	9.6	10.0	10.8	11.5	11.6	11.9					
Old-age care benefits	6.5	6.3	6.8	6.9	6.7	6.7					
Total	100.0	100.0	100.0	100.0	100.0	100.0					

Source: Federal Ministry of Finance, WIFO calculations. Until 2015: outturn, as from 2016: draft federal budget. – ¹ Including minimum pension supplements and transfers to the balancing fund of the social retirement insurance agencies. – ² Including small-children support.

Federal government outlays for retirement benefits (sub-group 22, essentially the federal subsidy to the social security retirement system; sub-group 23 pensions of retired civil servants) claim a share of around 60 percent that has been virtually stable since 2000. The draft federal budget 2017 exhibits a downward revision from the Federal Financial Framework of April 2016, due to the impact of measures to raise the effective retirement age and of low inflation on the regular benefit adjustment. With retirement contribution revenues rising briskly at the same time, the required federal subsidy to cover the gap between expenditure and insurance contributions diminishes.

Despite the repeated increases in family benefits since 2008 (Schratzstaller, 2014), federal expenditure on this item have expanded only moderately, by an annual 0.7 percent since 2010, and considerably less than the 2.8 percent p.a. increase recorded over the entire period from 2000 to 2017. Accordingly, the share of family support in total federal transfer spending drops below one-fifth in 2017. Factors behind are demographic trends as well as a certain shift from cash towards benefits in kind, notably the development of child care facilities.

Mounting unemployment is the driver behind the sustained increase in the share of income maintenance expenditure for jobless persons, i.e. from 9.6 percent of total federal transfers in 2000 to 11.9 percent in 2017. The annual average pace of nearly 5 percent is significantly above the overall trend.

The share of old-age and nursing care outlays has been stable below 7 percent of total transfer expenditure, explained inter alia by the moderate benefit adjustments past and planned.

Gross federal expenditure on retirement benefits is projected at 21.3 billion € for 2017, accounting for 27.6 percent of total federal government outlays, a share virtually equal to that observed in 2010. In net terms, expenditure of 19.1 billion € will claim a share of 24.6 percent in 2017, slightly below the one of 2010, since pension contributions received by the federal government over the period have been rising above-average.

Table 5: Federal government expenditure on retirement benefits

	2000	2010	2014	2015	2016	2017	2015	2016	2017	2000-2017	2010-2017
	Million €						Percentage changes from previous year			Average year-to-year percentage changes	
<i>Total gross expenditures¹</i>	11,901	18,135	20,680	20,403	21,218	21,341	- 1.3	+ 4.0	+ 0.6	+ 3.5	+ 2.4
Federal employees pensions	2,499	3,429	4,009	4,061	4,111	4,205	+ 1.3	+ 1.2	+ 2.3	+ 3.1	+ 3.0
Reimbursement to Länder for pensions of teachers	697	1,138	1,635	1,604	1,641	1,679	- 1.9	+ 2.3	+ 2.3	+ 5.3	+ 5.7
Postal employees pensions	872	1,199	1,242	1,243	1,244	1,269	+ 0.1	+ 0.1	+ 2.0	+ 2.2	+ 0.8
Austrian Federal Railways employees pensions	1,695	2,068	2,113	2,104	2,103	2,093	- 0.4	- 0.1	- 0.4	+ 1.3	+ 0.2
Subsidies to social retirement insurance	4,152	8,206	9,333	8,953	9,742	9,650	- 4.1	+ 8.8	- 0.9	+ 5.1	+ 2.3
Minimum pension supplements	741	990	1,022	988	983	974	- 3.3	- 0.5	- 0.9	+ 1.6	- 0.2
Transfers to the balancing fund of the social retirement insurance agencies	1,246	1,105	1,326	1,450	1,394	1,470	+ 9.4	- 3.9	+ 5.5	+ 1.0	+ 4.2
Gross retirement expenditure as a percentage of total expenditure ²	20.4	27.0	27.7	27.4	27.8	27.6	- 1.3	+ 1.5	- 0.7		
<i>Total revenues¹</i>	1,412	1,491	2,256	2,296	2,257	2,256	+ 1.8	- 1.7	- 0.0	+ 2.8	+ 6.1
Sovereign administration including off-budget institutions	.	849	1,301	1,330	1,331	1,364	+ 2.2	+ 0.1	+ 2.5	.	+ 7.0
Postal administration	.	211	243	240	238	214	- 1.0	- 1.0	-10.3	.	+ 0.2
Austrian Federal Railways	.	390	422	431	382	385	+ 2.1	-11.3	+ 0.6	.	- 0.2
Teachers employed by the Länder	.	41	289	294	306	294	+ 1.8	+ 3.9	- 3.9	.	+32.3
Net retirement expenditure	10,490	16,644	18,424	18,107	18,961	19,084	- 1.7	+ 4.7	+ 0.6	+ 3.6	+ 2.0
As a percentage of total expenditure ²	18.0	24.7	24.7	24.3	24.8	24.6	- 1.6	+ 2.2	- 0.7		

Source: Federal Ministry of Finance, WIFO calculations. Basis: draft financing account. Until 2015: outturn, as from 2016: draft federal budget. –
¹ Including old-age care expenditure. – ² Break in the series in 2009, due to the adjustment of the balance sheet extension concerning the item of personnel offices in the new budget legislation.

3.2 Support for banks in distress

After the outbreak of the financial market crisis and the recession, the government decided on a support "package" for banks in difficulty, to an original amount of 100 billion €¹² and containing a variety of measures. First, it provided reinforcement of the equity base via in principle reimbursable participation capital in return for dividend payments, and capital injections (shareholder grants, capital increases, assumption of liabilities). Second, financial institutions were entitled to claim guarantees for securities issues, in return for profit-independent guarantee fees.

The bank subsidies raised the general government deficit in all years of the period from 2008 to 2015 (Table 6). The heaviest financial burden was the 5.3 billion € (1.6 percent of GDP) recorded in 2014. Until the end of 2015, the deficit-increasing amount added up to 13.6 billion €, of which 12 billion € was allotted to Hypo Alpe-Adria-Bank International AG, 2.3 billion € to Kommunalkredit Austria AG (including KA Finanz AG), 0.7 billion € to Österreichische Volksbanken-AG and 0.1 billion € to Hypo Tirol Bank AG¹³. The financial support for the private banks, however, provided on balance budgetary relief since the dividends paid for the participation capital temporarily made available to them significantly exceeded the refinancing cost incurred by the federal government.

¹² Details on the support measures and on the assessment and implications for the "Maastricht" deficit and debt are presented in *Fiscal Council* (2016B) and *Schatzenstaller* (2013, 2015A, 2016).

¹³ For details see *Fiscal Council* (2016A), BAWAG PSK AG and Raiffeisen Zentralbank Österreich AG, like other banks that claimed participation capital, created cost for the federal government to raise such capital; however, no breakdown of this cost by individual banks is available. The overall financing cost over the period from 2008 to 2015 added up to some 3.4 billion €.

Table 6: Impact of the financial support for Austrian banks in distress on the general government balance (Maastricht definition)

As of end-2016

	2008	2009	2010	2011	2012	2013	2014	2015
	Billion €							
Government revenues	± 0.0	+ 0.1	+ 0.9	+ 0.9	+ 0.8	+ 0.7	+ 0.6	+ 0.6
Guarantee fees	± 0.0	+ 0.1	+ 0.1	+ 0.2	+ 0.1	+ 0.1	+ 0.1	± 0.0
Loan interest payments	± 0.0	+ 0.1	+ 0.5	+ 0.4	+ 0.3	+ 0.3	+ 0.3	+ 0.5
Dividends shareholder capital	± 0.0	± 0.0	+ 0.3	+ 0.3	+ 0.3	+ 0.3	+ 0.3	± 0.0
Fines ¹	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0
Government expenditure	± 0.0	+ 2.8	+ 1.2	+ 1.2	+ 2.1	+ 2.2	+ 6.0	+ 2.8
Financing cost	± 0.0	+ 0.2	+ 0.5	+ 0.5	+ 0.5	+ 0.4	+ 0.4	+ 0.9
Capital transfers ²	± 0.0	+ 2.7	+ 0.7	+ 0.7	+ 1.6	+ 1.8	+ 5.4	+ 1.8
Other expenditure	± 0.0	± 0.0	± 0.0	± 0.0	+ 0.1	± 0.0	+ 0.1	+ 0.2
Impact on Maastricht balance	± 0.0	- 2.7	- 0.3	- 0.3	- 1.3	- 1.5	- 5.3	- 2.2
As a percentage of GDP	± 0.0	- 0.9	- 0.1	- 0.1	- 0.4	- 0.5	- 1.6	- 0.6
Maastricht deficit cumulated	± 0.0	- 2.7	- 3.0	- 3.3	- 4.6	- 6.1	-11.5	-13.6
Stock-Flow-Adjustment ³	+ 0.9	+19.3	- 1.0	- 2.1	- 2.9	- 3.8	+ 6.2	+ 8.2
Change in debt level	+ 0.9	+21.9	- 0.7	- 1.8	- 1.5	- 2.4	+11.6	+10.4
Maastricht debt cumulated	+ 0.9	+22.8	+22.2	+20.4	+18.8	+16.5	+28.1	+38.5
As a percentage of GDP	+ 0.3	+ 8.0	+ 7.5	+ 6.6	+ 5.9	+ 5.1	+ 8.5	+11.3
Stability levy for banks	-	-	-	0.5	0.6	0.6	0.6	0.6

Source: *Fiscal Council* (2016A). Figures do not add up due to rounding. – ¹ Hypo Alpe-Adria-Bank International AG due to undershooting of equity capital threshold. – ² Stakeholder subsidies, -capital transfers, capital increases and reductions, guarantees granted and called, depreciation from shareholder capital, asset sales. – ³ including net debt of 898 million € carried forward from 2008.

The federal government receipts from the financial support for banks (essentially guarantee fees for securities issued, dividends for participation capital and interest on loans) were in all years lower (substantially even in some of them) than the related federal outlays (capital transfers and financing cost). The receipts from the bank stability levy exceeded bank subsidies and thus had a deficit-reducing effect only in 2011. The Federal Financial Framework for 2017 to 2020 provides for a deficit-increasing impact of bank subsidies of 650 million € in 2017, 500 million € in 2018 and 300 million € in 2019. This item raises the nominal (Maastricht) deficit, but not the structural deficit, as it is classified among the one-off measures.

By the end of 2015, the financial support for banks had pushed up government debt by 38.5 billion € (11.3 percent of GDP). The largest part of the increase (23.2 billion €) was caused by Hypo Alpe-Adria-Bank International AG, 13.1 billion € by KA Finanz AG and Kommunalkredit Austria AG. The difference between the cumulated deficit effect of 13.6 billion € and the debt increase of 38.5 billion € approximately reflects potential (not yet realised) revenues from the liquidation of "bad bank" assets; the actual revenues may, however, turn out lower, due to valuation changes or political decisions (debt relief, handling of guarantees extended by the Länder; *Fiscal Council*, 2016B).

3.3 Development of revenue and its composition

Federal government total revenue is projected to progress by an annual average 2.2 percent between 2015 and 2020, markedly more slowly than the +3 percent p.a. respectively recorded for the periods 2010-2017 and 2010-2020 (Table 7). Gross federal tax receipts are expected to post an above-average increase: indeed, with an annual rate of +3¼ percent for 2010-2017 as well as 2010-2020, they exhibit buoyant growth despite crisis-related tax revenue shortfalls and two rounds of tax cuts (2009-10 and 2015-16). Part of the explanation is that almost half of the consolidation measures introduced since 2010 (*Schratzenstaller*, 2015A, *Budgetdienst*, 2016) and the larger part of the counter-financing of the tax cuts 2015-16 consisted of tax increases.

The draft federal budget anticipates gross tax revenues for 2017 at 84.4 billion € (compared with 85.1 billion € foreseen in the Federal Financial Framework of April 2016). After a decline of 0.7 percent in 2016 as a result of the tax reform 2015-16, tax revenues will thus rebound by over 3 percent in 2017. Over the period 2010-2020, receipts from wage tax rise by an annual average 4 percent; despite two rounds of

tax cuts that primarily targeted wage tax and assessed income tax, revenues grew above average, mainly for two reasons: first, despite subdued GDP growth and rising unemployment, employment followed a firm upward trend; second, the latest reform of the tax scale has altogether reinforced its progressive schedule (Schratzstaller, 2015C).

With the reduction of the wage and income tax rates by the reform of 2015-16 and the measures to combat indirect tax fraud, VAT has in 2016 become the single tax yielding the highest receipts. With an expected annual increase of 4.2 percent over the period 2015-2020, VAT revenues will prove distinctly more dynamic than overall gross tax revenues (+2.9 percent).

Table 7: Trends in federal government revenues

	2000	2010	2015	2016	2017	2018	2019	2020	2015	2016	2017	2010-2017	2015-2020	2010-2020
	Million €								Percentage changes from previous year			Average year-to-year percentage changes		
Total revenues	55,393	59,434	72,728	71,828	73,159	75,566	78,072	80,893	+ 1.8	- 1.2	+ 1.9	+ 3.0	+ 2.2	+ 3.1
Gross tax revenues	50,387	65,492	82,427	81,850	84,425	88,250	91,600	95,250	+ 5.0	- 0.7	+ 3.1	+ 3.7	+ 2.9	+ 3.8
Wage tax	14,468	20,433	27,272	24,800	25,700	27,100	28,600	30,200	+ 5.1	- 9.1	+ 3.6	+ 3.3	+ 2.1	+ 4.0
Assessed income tax	2,818	2,668	3,617	4,150	4,000	4,200	4,400	4,600	+ 6.9	+14.7	- 3.6	+ 6.0	+ 4.9	+ 5.6
Corporate tax	3,865	4,633	6,320	6,300	7,500	7,700	8,000	8,400	+ 7.0	- 0.3	+19.0	+ 7.1	+ 5.9	+ 6.1
Capital gains taxes (including EU withholding tax)	1,945	2,658	3,937	3,100	3,025	3,550	3,800	4,100	+36.4	-21.3	- 2.4	+ 1.9	+ 0.8	+ 4.4
Stability levy and special contribution	.	.	554	500	352	386	386	386	- 5.5	- 9.8	-29.6	.	- 7.0	.
VAT	17,056	22,467	26,013	28,200	28,800	30,200	31,100	32,000	+ 2.1	+ 8.4	+ 2.1	+ 3.6	+ 4.2	+ 3.6
Consumption taxes	4,239	5,684	6,305	6,530	6,560	6,500	6,500	6,550	+ 1.4	+ 3.6	+ 0.5	+ 2.1	+ 0.8	+ 1.4
Transportation taxes	3,593	4,763	6,582	6,577	6,741	6,807	6,967	7,127	+ 6.4	- 0.1	+ 2.5	+ 5.1	+ 1.6	+ 4.1
Other	2,145	2,186	1,826	1,693	1,747	1,807	1,847	1,887	- 5.0	- 7.3	+ 3.2	- 3.2	+ 0.7	- 1.5
Transfers to Länder, municipalities etc.	-17,345	-23,340	-29,603	-29,472	-30,402	-31,919	-33,198	-34,486	+ 4.7	- 0.4	+ 3.2	+ 3.8	+ 3.1	+ 4.0
Transfers to EU budget	.	- 2,336	- 2,452	- 3,000	- 3,000	- 3,100	- 3,200	- 3,300	-10.9	+22.3	± 0.0	+ 3.6	+ 6.1	+ 3.5
Net tax revenues	33,041	39,816	50,372	49,378	51,023	53,231	55,202	57,464	+ 6.1	- 2.0	+ 3.3	+ 3.6	+ 2.7	+ 3.7

Source: Federal Ministry of Finance (2016A, 2016B). Figures do not add up due to rounding. Until 2015: outturn, as from 2016: draft federal budget, as from 2018: Federal Fiscal Framework.

In this way, the share of VAT in total gross tax revenues moves above 34 percent as from 2016, while the share of wage tax declines towards 30 percent (Table 8). The revenue proportion of environmental taxes (mainly car registration tax, energy levy and mineral oil tax), which in 2003 had reached a high of 11.4 percent, has been stable at just below 10 percent since 2013. The contribution of wealth taxes (in 1990 around 4 percent of gross tax revenues) remains at a low 1.3 percent.

The introduction of the tax reform 2015-16, while taking an important step towards lowering the tax burden on labour, hardly touched upon the unsatisfactory composition of the tax system from the perspective of employment, environmental and distribution policy. A fundamental realignment of the tax structure is therefore still missing. Such a realignment, apart from easing the overall tax burden and radically weeding out tax exemptions (including the environmentally counter-productive ones; Kletzan-Slamanig – Köppl, 2016), ought to shift the tax burden away from labour towards the consumption of energy and environmental resources, large inheritances, property and real estate wealth with the aim of rendering the tax system less complicated, more transparent, socially effective and environmentally responsible¹⁴.

¹⁴ Reform needs and options for the Austrian tax system are examined by Köppl – Schratzstaller (2015A, 2015B).

Table 8: Composition of tax revenues

	Total	Income taxes			Consumption taxes			Property taxes
		Assessed income tax	Corporate tax	Wage tax	Total	VAT	Environmental taxes	
Percentage shares in gross tax revenue								
1960	37.6	11.1	6.4	10.0	49.1	33.8	6.2	3.5
1970	39.9	11.2	4.4	16.3	49.2	30.9	8.9	3.7
1980	44.6	8.8	4.1	25.8	49.8	35.1	7.7	3.2
1990	42.9	7.9	3.2	24.8	50.6	36.3	7.0	4.1
1995	46.7	5.8	5.4	28.8	50.8	34.5	9.3	1.7
2000	47.1	5.6	7.7	28.7	50.5	33.9	9.9	1.4
2001	50.8	7.1	11.1	27.9	47.1	30.9	9.9	1.3
2002	48.5	5.7	8.3	29.5	49.3	32.1	10.6	1.2
2003	49.5	5.0	8.1	31.7	49.2	30.8	11.4	1.3
2004	48.0	5.0	8.0	30.5	50.3	32.3	11.2	1.3
2005	46.6	4.4	7.7	29.6	51.7	34.0	11.2	1.4
2006	47.1	4.2	8.0	30.0	50.4	33.4	10.5	1.5
2007	49.5	4.1	8.9	30.4	48.5	32.2	10.2	1.5
2008	50.5	4.0	8.7	31.1	47.6	31.9	9.9	1.3
2009	47.8	4.1	6.1	31.4	51.0	34.2	10.4	1.4
2010	47.6	4.1	7.1	31.2	50.8	34.3	10.3	1.4
2011	48.5	3.8	7.6	31.2	49.8	33.5	10.5	1.3
2012	48.7	3.6	7.3	32.0	49.4	33.6	10.2	1.5
2013	50.6	4.1	7.9	32.2	47.8	32.6	9.8	1.2
2014	50.8	4.3	7.5	33.0	47.8	32.4	9.9	1.3
2015	51.8	4.4	7.7	33.1	46.5	31.6	9.8	1.5
2016	48.7	5.1	7.7	30.3	49.9	34.5	9.9	1.3
2017	49.3	4.7	8.9	30.4	49.3	34.1	9.8	1.3

Source: Federal Ministry of Finance, WIFO calculations. Until 2015: outturn, as from 2016: draft federal budget.

4. Budgetary risks

The draft federal budget for 2017 again carries a number of upward risks which, however, would appear lower than the uncertainties identified in the past few years. Hence, the leeway for the general government deficit (according to the 2017 draft federal budget projected at 1.4 percent of GDP for 2016 and 1.2 percent for 2017) should suffice for abiding by the Maastricht deficit ceiling of 3 percent of GDP even in the event of these risks occurring. However, no "safety margin" exists for the structural deficit that, according to the national debt brake in force since the beginning of 2017 and the EU fiscal rules must not exceed 0.45 percent of GDP (Medium-Term Objective – MTO). This upper limit will just be respected, provided that the expenditure overruns for refugee immigration and fight against terrorism are considered "exceptional events" for the assessment of compliance (the draft federal budget for 2017 projects the structural deficit at 0.9 percent of GDP). The additional expenditure items decided in November 2017, after the adoption of the budget, i.e. one-off payment of 100 € for pensioners and one-off transfer of 300 million € to Länder and municipalities as part of the newly settled Federal Fiscal Agreement, will complicate compliance with the deficit targets.

Adherence to the structural deficit target could also be undermined by the possibility that the measures designed to offset the revenue losses from the tax reform, which in 2016 according to an estimate by the *Fiscal Council* (2016A) fell 900 million € short of expectations, will again fail to produce the projected yield in 2017.

A second risk relates to the possible deterioration of the currently exceptionally favourable financing conditions. Yet, higher interest rates impact on the (re-)financing of government debt only with a certain time lag: the share of long-term-financed government liabilities is high (almost 55 percent of government debt in 2015 carried a term of 5 years and more), and the residual maturity of the entire debt portfolio

has steadily increased in the last few years (reaching 8.4 years at the end of 2015)¹⁵; the need for new borrowing keeps trending down, and the share of debt taken up at fixed interest rates is as high as 96 percent (*Fiscal Council, 2016A*).

Table 9: Government ratios in a European comparison

	Expenditure		Revenue		Tax burden		Maastricht balance		Structural budget balance		Maastricht government debt	
	2007	2017	2007	2017	2007	2017	2007	2017	2010	2017	2007	2017
	As a percentage of GDP											
EU 28 ¹	44.6	46.6	43.7	44.9	38.2	39.2	- 0.9	- 1.7	- 4.6	- 1.6	57.5	85.1
EU 15 ¹	44.9	47.1	44.1	45.4	38.6	39.8	- 0.8	- 1.7	- 4.5	- 1.5	59.2	88.2
Belgium	48.2	53.2	48.3	50.9	42.9	44.6	0.1	- 2.3	- 3.9	- 2.0	87.0	107.1
Germany	42.8	44.4	43.0	44.8	37.7	39.1	0.2	0.4	- 1.9	0.4	63.5	65.7
Greece	47.1	49.3	40.4	48.3	31.8	37.5	- 6.7	- 1.0	- 9.9	2.7	103.1	179.1
Spain	38.9	41.6	40.9	37.8	36.4	33.2	2.0	- 3.8	- 7.2	- 3.8	35.5	99.9
France	52.2	56.3	49.7	53.4	42.6	45.8	- 2.5	- 2.9	- 5.8	- 2.3	64.4	96.8
Ireland	35.8	27.6	36.1	27.1	30.8	24.1	0.3	- 0.5	- 9.8	- 1.0	23.9	73.6
Italy	46.8	49.3	45.3	46.9	41.4	42.6	- 1.5	- 2.4	- 3.4	- 2.2	99.8	133.1
Luxembourg	38.2	41.2	42.4	41.2	36.6	35.7	4.2	0.0	0.5	0.4	7.8	23.3
Netherlands	42.5	44.0	42.7	43.8	36.0	38.8	0.2	- 0.3	- 3.5	- 0.2	42.4	61.3
Austria	49.5	50.5	48.1	49.2	40.9	42.7	- 1.4	- 1.3	- 3.2	- 0.9	64.8	81.1
Portugal	44.5	46.1	41.5	44.0	31.8	34.2	- 3.0	- 2.2	- 8.5	- 2.4	68.4	129.5
Finland	46.8	56.9	51.9	54.4	41.6	43.7	5.1	- 2.5	- 1.1	- 1.6	34.0	67.1
Denmark	49.6	53.9	54.6	51.9	47.4	45.9	5.0	- 2.0	- 0.8	- 0.8	27.3	38.3
Sweden	49.7	50.0	53.0	49.9	45.7	44.1	3.3	- 0.1	0.7	- 0.3	38.3	39.9
UK	41.3	42.1	38.3	39.3	34.5	35.2	- 2.9	- 2.8	- 7.3	- 2.9	42.2	88.9
Bulgaria	37.7	38.1	38.8	37.3	31.6	29.9	1.1	- 0.8	- 2.7	- 0.8	16.3	26.3
Czech Republic	40.0	41.1	39.3	40.5	34.4	35.0	- 0.7	- 0.6	- 4.0	- 0.8	27.8	39.1
Estonia	34.1	40.6	36.8	40.2	31.3	34.0	2.7	- 0.4	0.1	- 0.2	3.7	9.5
Croatia	45.0	46.1	42.5	44.3	37.1	37.6	- 2.4	- 1.8	- 5.3	- 2.3	37.7	84.3
Cyprus	37.4	38.1	40.6	37.7	36.1	32.1	3.2	- 0.4	- 4.9	- 1.3	53.5	103.7
Latvia	34.0	37.5	33.3	36.4	28.2	30.6	- 0.7	- 1.1	- 2.3	- 1.7	8.4	37.2
Lithuania	35.3	35.6	34.4	35.0	30.0	29.7	- 0.8	- 0.8	- 3.2	- 1.4	15.9	43.3
Hungary	50.1	49.4	45.0	47.0	39.5	39.4	- 5.1	- 2.3	- 3.4	- 2.9	65.6	72.5
Malta	41.2	40.2	38.9	39.6	32.8	33.9	- 2.3	- 0.6	- 4.0	- 0.7	62.4	59.9
Poland	43.1	42.4	41.3	39.5	34.6	33.4	- 1.9	- 3.0	- 8.0	- 3.1	44.2	55.0
Romania	38.2	34.7	35.4	31.5	29.0	25.5	- 2.8	- 3.2	- 5.6	- 3.4	12.7	40.2
Slovenia	42.2	44.8	42.1	42.8	37.1	36.3	- 0.1	- 2.0	- 4.4	- 2.3	22.8	78.3
Slovakia	36.3	41.8	34.4	40.3	29.1	33.0	- 1.9	- 1.5	- 7.1	- 1.4	29.8	52.7
EU 28 ²	42.4	44.2	42.1	42.7	36.0	36.3	- 0.3	- 1.5	- 4.3	- 1.4	43.0	71.0
EU 15 ²	44.9	47.1	45.1	45.5	38.5	39.1	0.2	- 1.6	- 4.3	- 1.1	53.5	85.6

Source: European Commission, Autumn 2016 forecast. Structural budget balance data only available since 2010. – ¹ Weighted average. – ² Simple average.

A third risk derives from the projections of spending on support for refugees. The Federal Financial Framework figures amounts equivalent to 0.1 percent of GDP for 2015 and 0.4 percent for 2016. According to the *Federal Ministry of Finance (2016C)*, aid for refugees and fight against terrorism (external and internal security) together claim a share of 0.6 percent of GDP in 2017 (2.2 billion €). The WIFO short-term forecast of December 2016 expects an amount of 2.3 billion € for 2017, abating to 1.95 billion € in 2018. The Fiscal Council projection is for 2.3 billion € each in 2016 and 2017, of which 1.3 billion € respectively (0.4 percent of GDP) will be taken into account for the assessment of the Stability Programme and the Budget Plan, i.e. to that amount, a cumulated deviation of the structural deficit from the base year 2014 will be tolerated (*Fiscal Council, 2016A, Federal Ministry of Finance, 2016C*). The speedier the applications for asylum will be processed and the better the integration of the asylum seekers into the education system and the labour market will be achieved, the sooner the budgetary cost will diminish.

Finally, continued uncertainty – albeit probably less than in the past years – surrounds the need for further bank support. The overall amount of the budget burden

¹⁵ The residual maturity edged down in 2015 for the first time in several years (from 8.7 years in 2014).

caused by transfers to banks in distress will only become clear in a couple of years from now, as it will depend inter alia on the returns from the liquidation of assets.

5. Austria's fiscal policy in the European context

The Autumn 2016 Economic Forecast by the European Commission projects above-average government/GDP ratios for Austria also for 2017. Yet, the key figures on government indebtedness will undershoot the EU average. In 2017, the government revenue ratio, the expenditure ratio, the tax burden (as percent of GDP) and the government debt ratio for Austria will all be higher in 2017 than in the pre-crisis year 2007; the same is true for the EU average. According to the European Commission, the structural deficit for 2017 (EU average –1.6 percent of GDP) will be higher in 17 member countries than in Austria (projected at –0.9 percent of GDP).

Glossary of terms

Administrative balance (net balance): revenue minus expenditure on a cash basis; equivalent to current net borrowing.

Maastricht balance: administrative balance adjusted (according to ESA 2010 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 one-off items and the cyclical component; resulting independently from the level of economic activity. Benchmark for the commitment under the European Fiscal Compact.

Financing household: includes receipts and disbursements of a fiscal year on a cash basis.

Operational household ("Ergebnishaushalt"): includes receipts and disbursements of a fiscal year essentially on the basis of ESA accounting rules, but in addition depreciation allowances of fixed assets.

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

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

Reserves: amounts not spent during a fiscal year and therefore disposable for the following year; reserves exonerate the budget balance in the year they are accumulated and burden the balance in the year they are liquidated.

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.

6. Outlook

With the new Federal Financial Agreement (Finanzausgleich) for the period from 2017 to 2021, concluded in November 2016, first steps towards raising the efficiency of fiscal federal relations have been taken (*Fiscal Council, 2016A*): the task-oriented allocation of funds for kindergartens as from 2018, the transfer of the responsibility for the homebuilding promotion contribution (Wohnbauförderungsbeitrag) to the Länder starting from 2018, as well as agreed uniform liability ceilings and a "ban on

speculative financial transactions". Yet, important elements of a comprehensive reform of the federal fiscal architecture still need to be addressed: in particular, a fundamental and critical review and disentangling of government responsibilities, the granting of greater taxation autonomy to Länder and municipalities, including a reform of real estate taxation, as well as a streamlining of revenue sharing aligned to the distribution of government tasks. On these matters, several task forces have been established and it was agreed to prepare for a comprehensive reform of fiscal federal relations by 2018. Also for the areas of health care, the operation of hospitals, the system of public subsidies and formal education it will be necessary to define objectives and elaborate reform strategies with the aim of raising economic efficiency while avoiding losses of service quality.

The implementation of such reforms is a key condition for creating the fiscal margin required for the reinforcement of spending in areas crucial for longer-term growth as well as for a reduction of the overall tax burden. It is likewise necessary for ensuring adherence to the projected budgetary path. In order to support a more effective and efficient use of resources, the new methods of budgetary planning and legislation introduced in the last few years should be strictly applied and pursued, in particular the output- and gender-equality-oriented approaches. The introduction of "spending reviews", as announced on the occasion of the draft federal budget 2017 submission as well as of the conclusion of the Federal Fiscal Agreement 2017-2021 of November 2016 should be aligned to the output-oriented evaluation. Finally, further steps towards a comprehensive reform of the revenue composition ought to be taken. Such a reform should go beyond the regular adjustment of income taxation for fiscal drag that has been in principle agreed to take effect in 2018. While such adjustment is commendable as a means of strengthening the purchasing power notably of middle-income earners, it does not address the fundamental imbalances in the structure of taxes and public contributions.

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