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**COMMISSION OPINION**

**of 15.11.2013**

**on the Draft Budgetary Plan of AUSTRIA**

{SWD(2013) 610 final}

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#### GENERAL CONSIDERATIONS

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

#### CONSIDERATIONS CONCERNING AUSTRIA

3. On the basis of the Draft Budgetary Plan for 2014 submitted on 15 October by Austria, the Commission has adopted the following opinion in accordance with Article 7 of the Regulation (EU) No 473/2013.
4. Austria is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for Austria on 2 December 2009 and recommended to correct the excessive deficit by 2013 at the latest by pursuing an average annual structural adjustment of  $\frac{3}{4}\%$  of GDP. After the correction of the excessive deficit, Austria will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO.
5. The macroeconomic scenario underlying the Draft Budgetary Plan, assumes a bottoming out of the economy in 2013 and a consolidation of the recovery in 2014. Compared to the Stability Programme from April 2013, the growth forecast for 2013 has been revised significantly downwards and real GDP is projected to grow by 0.4% in 2013. This reflects the worse-than-projected performance in the first half of the year. The estimated postponement of the recovery affects only marginally the projection for 2014, which forecast real GDP to grow by about 1.7%, broadly unchanged in qualitative terms compared to the projection of the Stability programme. The macroeconomic projections of the Draft Budgetary Plan are broadly in line with the Commission 2013 Autumn Forecast. The Commission forecast is nevertheless more conservative with regard to the speed of the recovery of investment and foreign demand.
6. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the Austrian Institute of Economic Research (WIFO). It has been a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecasts produced by the Institute. WIFO is a non-profit association and its governing board is composed of representatives of, financial institutions, including the Austrian National Bank, businesses, business associations and the academia

7. The Draft Budgetary Plan confirms the 2013 deficit target indicated in the latest Stability Programme pointing to a deficit of 2.3% of GDP. The Commission 2013 Autumn forecast, meanwhile, shows a slightly higher deficit. For 2014 the Draft Budgetary Plan also confirms the objective of a deficit at 1.5% of GDP set out in the Stability Programme. The Commission forecast, however, estimates a deficit 0.4% of GDP higher than the projections of the Draft Budgetary Plan. This is mainly due to higher expenditure forecast by the Commission, partly explained by the inclusion in the forecast of some preliminary estimates over the support required by Hypo Alpe Adria bank in 2014.
8. The fiscal projections made in the Draft Budgetary Plan are subjected to downside risks mainly stemming from possible additional support to the financial sector in particular in relation to the restructuring of Hypo Alpe Adria Bank (HGAA). The size of this support is still unclear and depends on different factors such as market developments and a pending decision over the creation of a bad bank. To this extent, also the preliminary estimates made by the Commission can be subject to significant revisions. The effect of these contingent factors on the deficit is still uncertain. While the correction of the deficit in 2013 seems secured, in the following years a rise in the deficit, which might even affect the durability of the correction of the excessive deficit required by the Council cannot be excluded.
9. The Draft Budgetary Plan projects higher debt ratio with respect to the Stability Programme by about 1 pp. in 2013 to 74.6% of GDP. In 2014 the debt ratio is expected to decline by about 0.6% of GDP on the back of a stronger negative contribution from the primary balance. The debt path projected by the Commission is somehow higher however the inversion in the trend is confirmed in 2014. Higher debt expected by the Commission in 2014 is mainly due to the projected lower primary balance.
10. The Draft Budgetary Plan reports the effects of past discretionary measures approved with the "Stability Package" in spring 2012. These measures are expected to contribute to an overall net improvement in the deficit by 0.8% of GDP in 2013 and by an additional 0.4% of GDP in 2014.
11. The general government deficit is expected to stand below the 3% threshold in 2013 by both the Draft Budgetary Plan and Commission forecast, in line with the Council's EDP recommendation to correct the excessive deficit by 2013. It has to be noticed that the deficit turned out unexpectedly below the 3% threshold also in 2012. Nevertheless, the uncertainty over the cost of the support for Hypo Alpe Adria Bank could possibly jeopardise the requirement of a durable correction of the deficit. The Commission expects to receive additional information in the coming months shedding lights over the size and the timeline of the support needed by Hypo Alpe Adria.
12. Austria will be in transition period in 2014 for compliance with the debt criterion and, based on an overall assessment of the Draft Budgetary Plan, is making sufficient progress to comply with it.. The risk of this assessment also arises from a possible increase in the debt in 2014 due to support to the financial sector.
13. In case the Council abrogates the EDP procedure in spring 2014 Austria will be subject to the preventive arm of the SGP, therefore Austria will be required to pursue an annual structural adjustment towards the MTO by more than 0.5% The Draft Budgetary Plan estimates a change in the structural balance by 0.2% in 2014, whereas the Commission forecasts no change in the structural balance. Furthermore,

although the Draft Budgetary Plan envisages compliance with the expenditure benchmark, expenditure growth will contribute to deterioration in the structural balance of 0.1% of GDP according to Commission's forecast. Therefore, the analysis of the two indicators used to assess the compliance with the adjustment path towards the MTO shows, according to Commission's forecast, a significant deviation in terms of the change in the structural balance while the deviation from the expenditure benchmark is non-significant. However in order to assess the compliance with the expenditure benchmark it is crucial that Austria provides more information about the methodology used to compute some elements of the expenditure benchmark, in particular concerning revenue increase mandated by law.

14. The measures included in the Draft Budgetary Plan, although most of them implemented before its presentation, involve actions in other policy areas addressed by the Council's recommendations made in the context of the European Semester. In the area of pensions savings arising from tighter requirements for the access to early old-age pensions and invalidity schemes also meet the purpose to increase older worker participation. In the area of education resources will be spent to enhance professional qualifications and labour market potential of migrants. The expansion of the supply of full-day school, although not yet satisfactory with respect to the demand for these services, will help sustaining the full-time integration of women in the labour market. However, no measures are included in the Draft Budgetary Plan to reduce the tax burden on low income earners by a shift to other tax base less detrimental to growth.
15. Overall, Austria submitted on 15 October a Draft Budgetary Plan based on a no-policy change scenario, due to general elections taking place just before the submission of the Draft Budgetary Plan. The Commission, based on the 2013 Autumn Forecast, is of the opinion that the Draft Budgetary Plan of Austria sent on 15 October is broadly compliant with the rules of the SGP. In particular, while the Commission forecast shows a durable correction of the excessive deficit in 2013, the current no-policy change scenario points to some deviation from the adjustment path towards the MTO in 2014. The Commission is also of the opinion that Austria has made some progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the European Semester. The Commission invites the authorities to ensure full compliance with the SGP within the national budgetary process for the 2014 budget and to make further progress towards implementation of the fiscal recommendations under the European Semester.
16. As soon as a new government takes office, national authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan taking into account the present Opinion.

Done at Brussels, 15.11.2013

*For the Commission*  
*Olli REHN*  
*Vice-President*