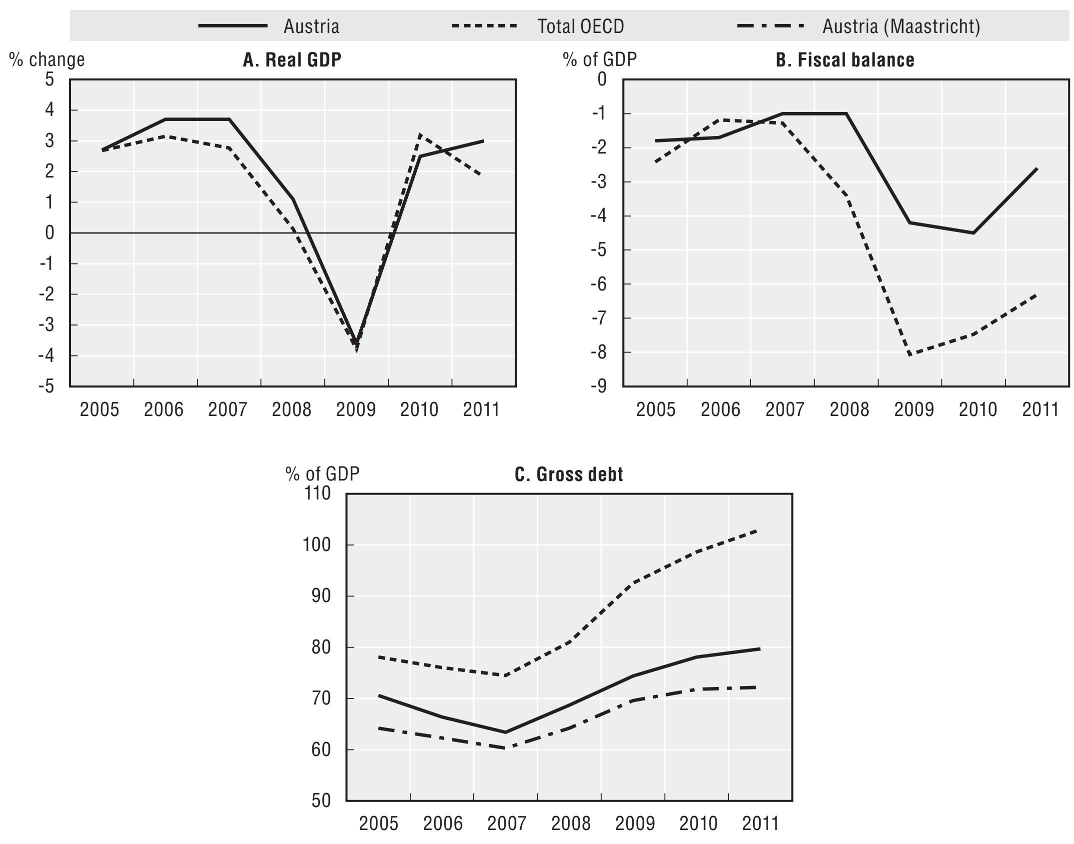
Austria

1. Economic situation

After the sharp contraction by 3.6% of real GDP in 2009 during the world-wide recession, the Austrian economy – a small open economy depending on exports – began to recover in 2010, showing strong growth in 2011 driven by exports and investment (Figure 1A). Austria's budget deficit peaked at 4.5% of GDP in 2010 as stimulus measures were adopted in response to the recession and automatic stabilisers played their role. The deficit contracted to 2.6% of GDP in 2011 due to both the resumption of external demand and the well-performing labour market (Figure 1B). The increase of gross debt reached a moderate level in 2010 with the implementation of a medium-term expenditure framework (MTEF) and the budget law reform of 2009 (Figure 1C).

Figure 1. **Key economic indicators: Austria**



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Note: Fiscal balance is the general government financial balance and gross debt is general government gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2012), *OECD Economic Outlook*, Vol. 2012/1 (No. 91), OECD Publishing, *doi: 10.1787/eco_outlook-v2012-1-en*.

The OECD expects that economic activity will return to trend growth by mid-2013 in the wake of a re-invigorated economy driven by exports and investment.

2. The government's fiscal consolidation plan

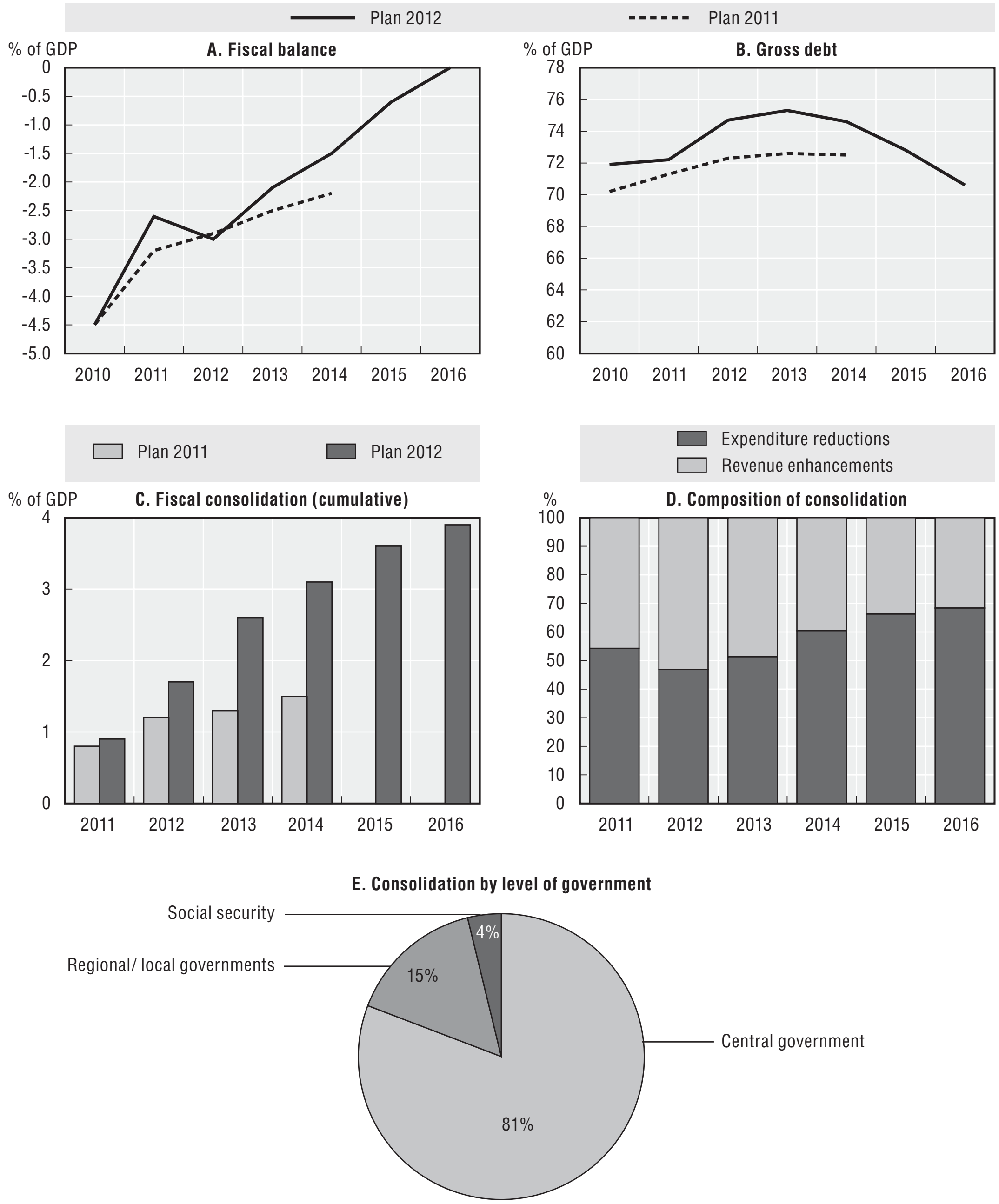
Since 2009, Austria's fiscal management has been based on an MTEF which is legally binding for four years for the federal government budget. The MTEF sets the general government deficit at 1.5% of GDP and gross debt at 74.6% of GDP in 2014 (Figure 2A and 2B). To accelerate consolidation efforts, the federal government and sub-national governments agreed on a debt brake rule on 9 May 2012.

According to this new rule, the Austrian budget has to be structurally balanced by 2017, meaning that the structural deficit of the federal level has to be below 0.35% and that of states and municipalities below 0.1% of nominal GDP. Deviations from this structural deficit will be accumulated in a control account. If the accumulated deviations reach a threshold of 1.25% of GDP for the federal government and 0.35% for states and municipalities, they have to be reduced in line with the economic cycle. Consequently, the projected fiscal deficit will fall to 1.5% of GDP in 2014 (Figure 2A). Likewise, in line with EU obligations, annual expenditure growth of all governments must not exceed a rate below a reference medium-term rate of potential GDP growth, and an appropriate adjustment towards the medium-term objective must be ensured unless the excess is matched by discretionary revenue measures.

As a step to implement the debt brake rule, the Austrian federal government agreed upon a consolidation programme for 2012-16 including the federal government, the states, the municipalities, and social insurance. The fiscal consolidation volume will reach 3.9% of GDP in 2016 (Figure 2C) and the portion of consolidation efforts on the expenditure side will increase during 2011-16 reaching around 70% in 2016 (Figure 2D). Breaking down by level of government, EUR 11.2 billion will be contributed by the central government, EUR 2.1 billion by the states and municipalities and EUR 0.5 billion by social security in 2016 (Figure 2E). The austerity package also includes four main points:

- The effort will be socially balanced, as all groups of society contribute to the consolidation.
- Economic growth and investments will not be constrained.
- Jobs will be preserved.
- Urgent problems will be faced (reforms regarding pensions, subsidies, the public administration, and the health-care sector).

Figure 2. **The government's planned fiscal consolidation: Austria**



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Notes: Fiscal balance is the general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). The consolidation by level of government is based on an average of impact of consolidation.

Sources: OECD Fiscal Consolidation Survey 2012 and "Restoring Public Finances: Fiscal Consolidation in OECD Countries" (OECD, 2011, *doi:10.1787/budget-v11-2-en*).

Table 1. **The government's fiscal consolidation plan: Austria**[1]

	2011	2012	2013	2014	2015	2016
Fiscal consolidation volume and path, per cent of nominal GDP						
Total fiscal consolidation volume	0.9%	1.7%	2.6%	3.1%	3.6%	3.9%
Fiscal balance, deficit (-)/surplus (+)	-2.6%	-3.0%	-2.1%	-1.5%	-0.6%	0.0%
Gross debt	72.2%	74.7%	75.3%	74.6%	72.8%	70.6%
GDP growth rate in per cent, year on year						
Nominal GDP growth forecasts	5.3%	2.2%	2.9%	3.6%	3.8%	3.8%
Fiscal consolidation through expenditure reductions and/or revenue enhancements (total = 100%)						
Expenditure reductions	54.3%	46.9%	51.3%	60.5%	66.3%	68.4%
Revenue enhancements	45.7%	53.1%	48.7%	39.5%	33.7%	31.6%
Fiscal consolidation, billion EUR						
Expenditure reductions	1.4	2.5	4.2	6.2	8.1	9.4
Revenue enhancements	1.2	2.8	3.9	4.1	4.1	4.4
Total consolidation	2.6	5.3	8.1	10.3	12.2	13.8

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1. Fiscal balance is the general government financial balance and gross debt is general government gross financial liabilities (Maastricht basis) as a per cent of nominal GDP projected by the government. Fiscal consolidation is the cumulative consolidation volume as a per cent of nominal GDP projected by the government. The composition of consolidation is expenditure reductions and revenue enhancements in the actual year (cumulative, total 100%). Nominal GDP growth forecasts are the government's estimates of nominal GDP. Fiscal consolidation in the national currency is based on the government's quantified measures (cumulative), except the latest bank rescue package.

Sources: OECD Fiscal Consolidation Survey 2012; "Stability Programme 2012" (Austrian Ministry of Finance, 2012); and OECD calculations.

3. Major consolidation measures

Table 2 shows the major consolidation measures. The main areas of expenditure cuts are in public administration, pensions, the health-care sector, and subsidies to agriculture and transport.

With regards to the revenue side, tax evasion will be more difficult and the tax base will be expanded. Main measures to enhance revenue are related to personal income tax, corporate income tax and excise duties.

Table 2. **Major consolidation measures: Austria**[1]

Million EUR

		2011	2012	2013	2014	2015	2016
I. Expenditure reduction measures		**1 392**	**2 507**	**4 179**	**6 221**	**8 067**	**9 451**
	% of nominal GDP	*0.46%*	*0.81%*	*1.32%*	*1.90%*	*2.37%*	*2.67%*
A. Operational measures		**290**	**707**	**1 119**	**1 282**	**1 517**	**1 536**
	% of nominal GDP	*0.10%*	*0.23%*	*0.35%*	*0.39%*	*0.45%*	*0.43%*
A1. Public sector reforms (public staff)	Reduction of recruitment, lower wage increases and other personnel measures.	50	136	489	647	882	901
A2. Operating expenditures	Reduction of operating expenditure of all ministries and less procurement.	240	571	631	635	635	635
B. Programme measures		**1 001**	**1 559**	**2 992**	**4 177**	**5 591**	**6 470**
	% of nominal GDP	*0.33%*	*0.51%*	*0.94%*	*1.27%*	*1.64%*	*1.83%*
B1. Pension measures	Limiting the increase of pensions, abolition of the pension adjustment in the first year, reducing special payments; halt of parallel accounting, increased requirement for corridor pensions, changed protection of activities, harmonisation of pension contributions, increased contributions, moderate pension increases, experience rating, etc.	340	404	1 381	2 025	2 061	3 033
B2. Subsidy measures	Lowering subsidies for economy, labour market policy, agriculture, transport, stricter controls on research subsidies, reform of subsidy system, decrease of pension subsidies to Austrian Federal Railways, etc.	190	405	515	604	1 139	1 174
B3. Health measures	Reform of health sector.	0	79	144	256	392	520
B4. Interest gained		0	12	122	272	486	742
B5. Family allowances	Reduction of family benefits.	246	278	278	278	278	278
B6. Other social expenditure	Long-term care, unemployment insurance, health care.	130	177	214	254	254	254
B7. Investment expenditures	Re-dimension investment (especially federal railway infrastructure).	95	204	339	488	441	469
C. Other measures		**102**	**241**	**67**	**762**	**958**	**1 446**
	% of nominal GDP	*0.03%*	*0.08%*	*0.02%*	*0.23%*	*0.28%*	*0.41%*
C1. Other initiatives	Additional consolidation efforts by states and municipalities.	102	241	67	762	958	1 446
II. Total revenue enhancement measures		**1 172**	**2 839**	**3 964**	**4 059**	**4 109**	**4 359**
	% of nominal GDP	*0.39%*	*0.92%*	*1.25%*	*1.24%*	*1.21%*	*1.23%*
A. Income taxes	Tax on income after re-zoning of property and taxes on real estate and immovable property sales; decreased tax privileges for 13th and 14th salaries, beforehand taxation of private pension funds.	0	900	385	485	535	785
B. Corporate income taxes (bank levy)	Restrictions on group taxation laws, other measures broadening the tax basis, mark-up on bank levy.	500	658	718	753	753	753
C. Value-added tax	Stricter rules for construction projects and extension of VAT deductions.	0	40	300	300	300	300
D. Excise duties	Increase in tobacco tax, CO^2 supplement to mineral oil tax, plane ticket duty. Abolishing of tax privileges on mineral oil tax for city buses, railway vehicles, and farmers, etc.	572	805	905	915	915	915
E. Financial transaction tax	Financial transaction tax.	0	0	0	500	500	500
F. Other tax measures	Withholding tax on income of securities, reduction of tax expenditures for household saving schemes and private pension insurance, etc.	0	236	356	656	656	656
G. Fighting tax fraud	Various anti-fraud measures, flat rate withholding tax on capital gains in Switzerland.	100	200	1 300	450	450	450

StatLink http://dx.doi.org/10.1787/888932698661

1. The percentage of nominal GDP is calculated by the OECD, based on the government's GDP forecasts.

Source: OECD Fiscal Consolidation Survey 2012.

4. Institutional reforms

The government has introduced essential changes in several areas of its fiscal institutional framework:

- **Long-term projections:** By 2013, long-term projections covering 30 years, according to second stage of budget law reform.
- **Fiscal rules:** Federal and sub-national debt brake rule (May 2012).
- **Medium-term expenditure framework (MTEF):** Legally binding MTEF for four years (first stage of budget law reform since 2009).
- **Performance and results:** Second stage of budget law reform starting in 2013.
- **Budget execution practices:** New rules for reserves: introduction of carrying forward the unused funds at the end of the fiscal year (implemented during first stage of budget law reform since 2009).
- **Legal basis of the framework:** Budget law reform in two stages (2009-13); federal and sub-national debt brake rule approved in May 2012.
- **Other:** Accrual accounting and budgeting for the federal level as of 2013 (second stage of budget reform).