

BUDGET

REFORM

Putting tax money to effective use for citizens.

Reforming Fiscal Frameworks

The Austrian case

Ministry of Finance, Austria

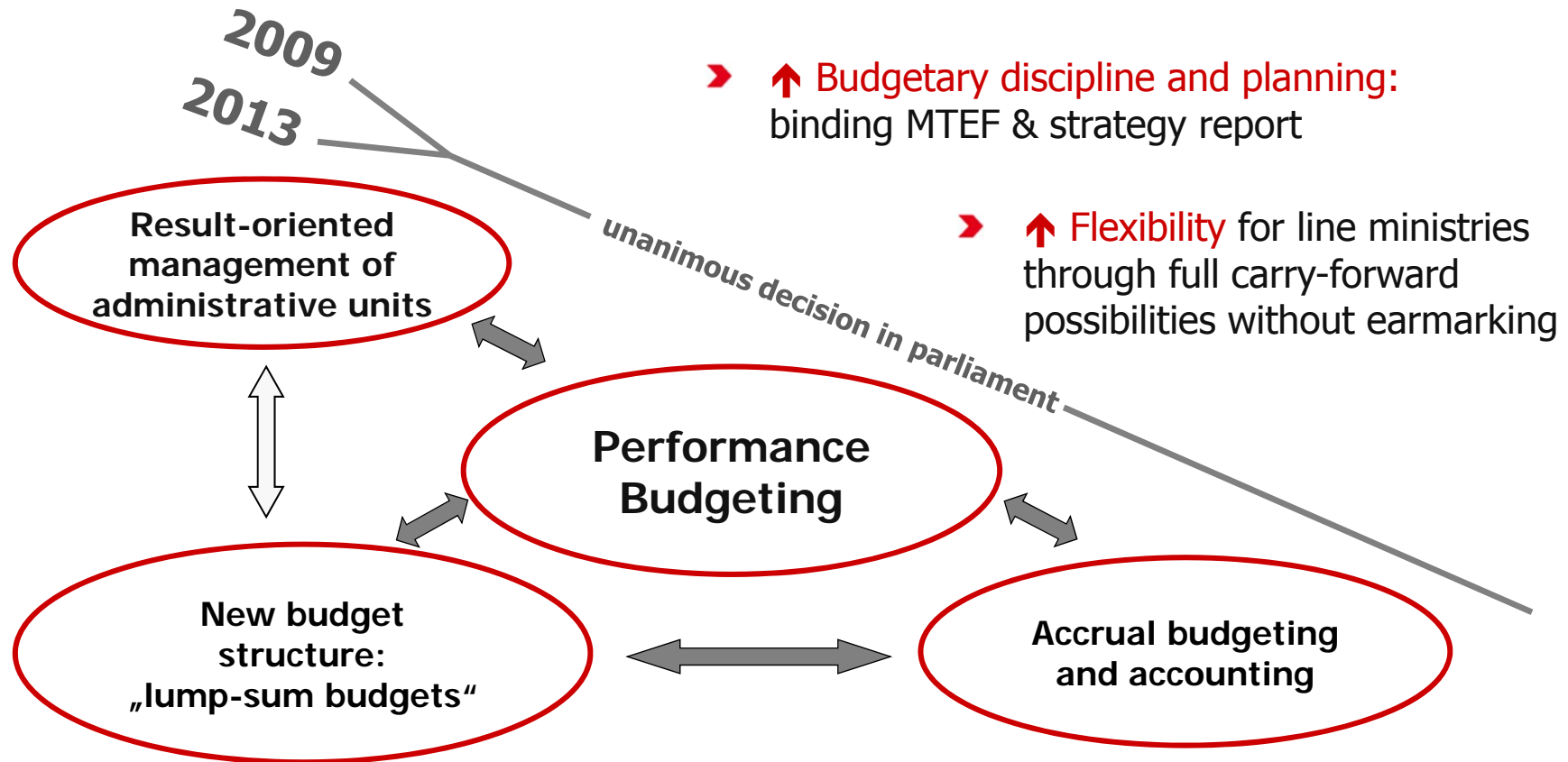
EPC meeting, 16 november 2011, Brussels

Topics covered



- A** Austrian Federal Budget Reform
(including a medium-term expenditure framework)
- B** Independent fiscal institutions
- C** Performance of MTEFs
- D** Numerical fiscal rule
(national stability pact)

Austrian Federal Budget Reform - Overview



new budget principles: outcome-orientation; efficiency; transparency; true and fair view

Austrian Federal Budget Reform - MTEF



- **↑ Budgetary discipline and planning:**
legally binding MTEF (medium-term expenditure framework)
& strategy report

	Heading	n+1	n+2	n+3	n+4
1	General Government Affairs, Court and Security				
2	Employment, Social Services, Health and Family				
3	Education, Research, Art & Culture				
4	Economic Affairs, Infrastructure and Environment				
5	Financial Management and Interest				

- **↑ Flexibility** for line ministries through full carry-forward possibilities without earmarking
- **↑ Saving of interest expenditure** as carried-forward expenditure not to be financed till they are realized

Win-Win-Situation for MoF and Line Ministries

Medium-Term Expenditure Framework – details

BUDGET

REFORM

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- **MTEF law sets expenditure ceilings**
 - for 4 years (n+4 is added annually)
 - for 5 headings (cover several ministries) and
 - for about 30 budget chapters (following the organization of ministries)

- **2 kinds of expenditure ceilings**
 - nominally fixed: ~75% of expenditure
 - variable according to predefined indicators for expenditure areas with high sensitivity to the business cycle, directly linked to tax receipts, refunded by EU and payments from due liabilities

- **MTEF-law sets also annual ceilings for staff capacity**

Austrian MTEF combines budget discipline, sensitivity to the business cycle and focus on expenditure

Win-Win-Situation for Budget Sustainability and Ministries

- **Clear commitment to medium-term fiscal discipline,**
in exchange for

- **increased flexibility and improved medium-term planning for ministries, since:**
 - unused funds at the end of the year may be carried forward to future periods
 - same rules apply for certain receipts (not for tax revenue !)
over budget during the current year
 - no earmarking of these reserves

- **very positive results:** containment of the „december-fever“, considerable savings, better prioritisation, saving of interest expenditure through postponing some line expenditure

Austrian 2012 - 2015 MTEF at budget-chapter level



Category	Chapter	Labels of Budget Chapters	2012 mill. €	2013 mill. €	2014 mill. €	2015 mill. €
1	1	Presidential office	8,102	7,821	7,521	7,636
	2	Federal Parliament	173,916	137,016	139,402	140,770
	3	Constitutional Court	12,684	12,810	12,957	13,146
	4	Administrative Court	16,940	16,043	16,124	16,460
	5	Ombudsman Board	7,279	7,128	6,948	7,166
	6	Court of Audit	30,891	29,800	29,850	30,333
	10	Federal Chancellery	328,389	329,113	327,832	315,855
		of which fixed	233,189	240,613	239,332	227,353
		of which variable	95,200	88,500	88,500	88,502
	11	Internal Affairs	2,468,882	2,393,595	2,439,886	2,484,179
	12	External Affairs	418,815	404,118	393,500	400,628
	13	Justice	1,185,854	1,173,200	1,188,836	1,205,209
	14	Military Affairs and Sport	2,240,344	2,167,835	2,168,327	2,099,000
	15	Finance Administration	1,215,885	1,176,269	1,088,443	1,106,748
	16	Public Charges (accounting for tax receipts)	0,000	0,000	0,000	0,000
	2	20	Employment	5,946,391	5,921,247	5,930,570
		of which fixed	1,427,991	1,405,289	1,396,654	1,404,776
		of which variable	4,518,400	4,515,958	4,533,916	4,568,574
21		Social Affairs and Consumer Protection	2,976,691	2,942,219	2,980,837	2,357,075
22		Social Insurance (total chapter is variable)	10,479,500	10,926,000	11,246,785	11,452,278
23		Pensions (for civil servants)	8,895,477	8,684,300	8,910,500	9,212,626
24	Health	918,461	933,124	959,532	977,089	
		of which fixed	336,810	334,700	328,700	330,425
		of which variable	581,651	598,424	630,832	646,664
	25	Family and Youth	6,331,051	6,430,068	6,645,499	6,881,539
	30	Education	7,970,139	7,774,300	7,857,500	7,999,124
3	31	Science and Research	3,810,632	3,778,800	3,730,400	3,729,267
	33	Economy (only exp. on research)	100,800	97,900	101,600	101,600
	34	Transport, Innovation & Technology (only exp. on research)	382,400	381,100	399,200	399,200
4	40	Economy	442,499	426,096	419,538	421,352
	41	Transport, Innovation & Technology	2,902,522	2,967,600	3,272,300	3,470,855
	42	Agriculture, Forestry and Water Supply	2,139,898	2,122,490	2,165,192	2,094,941
		of which fixed	825,898	802,890	845,592	775,341
		of which variable	1,314,000	1,319,600	1,319,600	1,319,600
	43	Environmental Care	867,945	685,479	657,843	659,138
	44	Financial Equalisation	761,632	786,866	828,081	866,089
		of which fixed	36,773	31,863	28,963	28,063
		of which variable	724,859	755,003	799,118	838,026
	45	Federal Assets	1,723,883	1,262,249	1,100,082	1,159,938
	of which fixed	1,723,880	1,262,246	1,100,079	1,159,935	
	of which variable	0,003	0,003	0,003	0,003	
46	Stabilisation of Financial Markets	80,202	79,400	5,135	5,107	
	of which fixed	80,200	79,398	5,133	5,105	
	of which variable	0,002	0,002	0,002	0,002	
5	51	Cash Management	357,640	360,911	316,698	305,702
	58	Financial Funding, Swaps	8,359,891	8,748,031	9,174,183	9,544,254

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Independent fiscal institutions



- **independent research council** (Austrian Institute of Economic Research – WIFO) delivers the economic forecast for budget planning (MTEF) and annual budget

- **Government Debt Committee** as a “watchdog”:
 - most members are academics or represent social partners
 - financed by the central bank
 - publishes recommendations to the government on fiscal sustainability every year
 - undertakes studies in this context

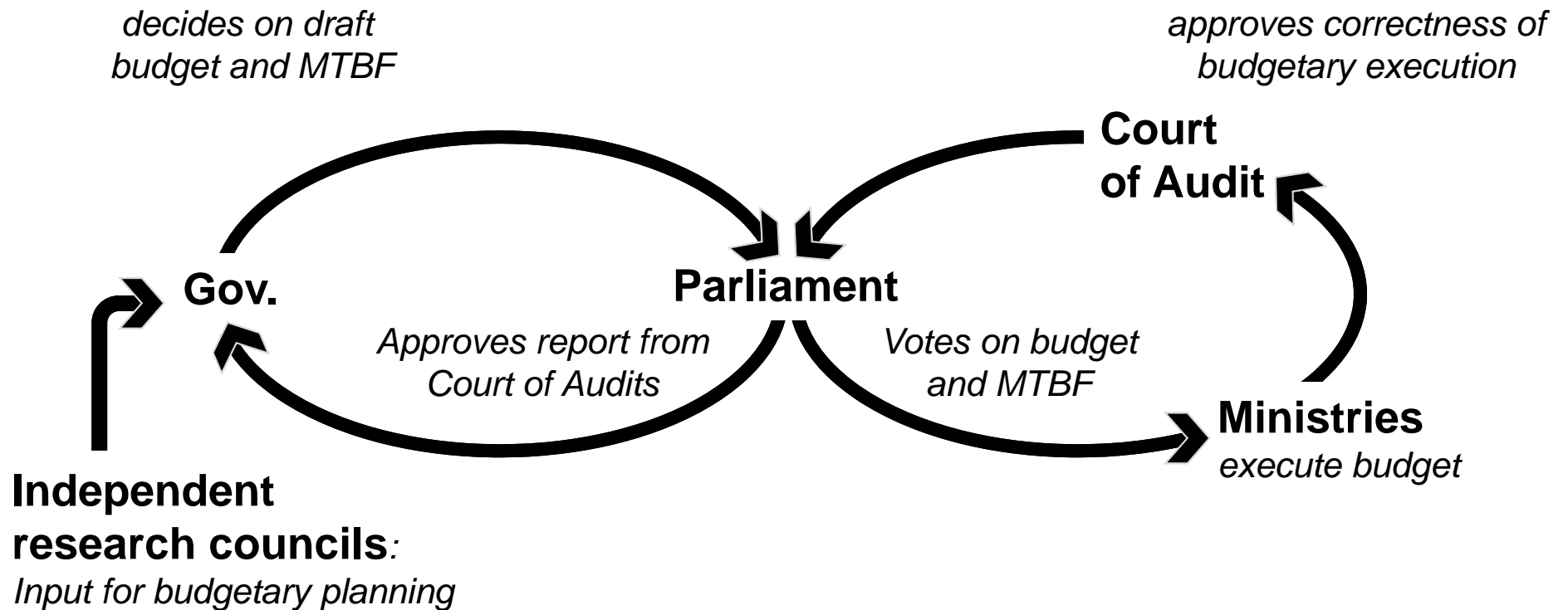
Independent fiscal institutions



➤ Court of Audit:

- Independent, annexed to Parliament
- Ex-Post analysis of annual budget and MTBF
- Analysis of enterprises held or controlled by public entities
- Analysis of books from Municipalities (> 10 000 Citizens)
- Reports to Parliament

Budgetary Cycle



Performance of MTEFs 1

Exp. grow clearly less than GDP



Austria, federal budget (operational basis)

budget expenditure	Outcome	Outcome	Budget	Expenditure	Ceilings acc. to MTEF	2012 -2015		mean increase
Millions of Euro	2009	2010	2011	2012	2013	2014	2015	per year
Expenditure	69.457	67.287	70.162	73.606	73.213	74.571	75.488	1,4%
<i>of which</i>								
<i>Category 1: General Government Affairs, Court and Security</i>	7.510	7.613	7.914	8.118	7.865	7.830	7.837	0,7%
<i>Category 2: Employment, Social Services, Health and Family</i>	31.462	33.252	33.195	35.558	35.847	36.684	36.864	2,7%
<i>Category 3: Education, Research, Art and Culture</i>	11.363	11.543	11.951	12.274	12.042	12.099	12.239	1,2%
<i>Category 4: Economic Affairs, Infrastructure and Environment</i>	12.096	8.522	8.788	8.929	8.340	8.458	8.687	-5,4%
<i>Category 5: Financial Management and Interest</i>	7.026	6.357	8.315	8.728	9.119	9.501	9.860	5,8%
GDP (Mill. Euro)	274.818	286.197	300.280	309.140	320.939	333.777	347.128	4,0%

Performance of MTEFs 2

MTEF ceilings adhered



data in mill. €	2009	2010	2011	2012	2013	2014	2015	2011	2012	2013	2014	
								differences to previous MTEF				
<i>growth of real GDP (% to prev. year)</i>	-2,2	0,5	1,5	2,0	2,3							
1. MTEF 2009 - 2013	77.520	70.817	71.271	73.369	74.734							
Category 1: General Government Affairs, Court & Security	7.974	8.007	8.113	8.192	8.328							
Category 2: Employment, Social Services, Health & Family	31.366	33.010	33.532	34.201	34.572							
Category 3: Education, Research, Art & Culture	11.463	11.870	11.933	12.023	12.116							
Category 4: Economic Affairs, Infrastructure & Environment	18.363	9.120	7.997	8.424	8.324							
Category 5: Financial Management & Interest	8.355	8.811	9.697	10.528	11.394							
<i>growth of real GDP (% to prev. year)</i>			1,6	2,0	2,0	1,9						
2. MTEF 2011- 2014			69.099	70.144	70.931	72.253		-2.172	-3.225	-3.803		
Category 1: General Government Affairs, Court & Security			7.920	7.831	7.900	7.881		-192	-361	-428		
Category 2: Employment, Social Services, Health & Family			32.650	32.924	33.297	33.775		-881	-1.277	-1.275		
Category 3: Education, Research, Art & Culture			11.766	11.754	11.803	11.823		-167	-269	-313		
Category 4: Economic Affairs, Infrastructure & Environment			7.744	8.014	7.862	8.165		-253	-410	-462		
Category 5: Financial Management & Interest			9.019	9.622	10.070	10.609		-678	-907	-1.324		
<i>growth of real GDP (% to prev. year)</i>				2,0	2,1	2,2	2,2					
3. MTEF 2012- 2015 (2011: budget) *			70.162	73.591	73.213	74.571	75.488		3.447	2.282	2.318	
Category 1: General Government Affairs, Court & Security			7.914	8.103	7.865	7.830	7.837		272	-35	-52	
Category 2: Employment, Social Services, Health & Family			33.195	35.558	35.847	36.684	36.864		2.634	2.551	2.909	
Category 3: Education, Research, Art & Culture			11.951	12.274	12.042	12.099	12.239		520	239	276	
Category 4: Economic Affairs, Infrastructure & Environment			8.788	8.929	8.340	8.458	8.687		915	479	293	
Category 5: Financial Management & Interest			8.315	8.728	9.119	9.501	9.860		-894	-951	-1.108	
<i>growth of real GDP (% to prev. year)</i>	-3,9	2,3	2,9	0,8								
	outcome	outcome	current estim.	draft budget				*) reasons for higher exp. in comp. with previous MTEF: a) mere book-keeping effects: 2012 1,3 bn € in course of introduction stage 2 budget reform; 2012-2014: nursing care allowance (383 mio. € p.a.), surplus family allowance fund (2012: 60 mio. €, 2013: 65mio. €, 2014: 250 mio. €) b) other : credit to Greece (2012: 518 mio. €, 2013, 120 mio. €), offensiv program (330 mio. € p.a.), under-estimation of (variabel) pension expenditure, planned exp. of reserves (e.g. in budget 2011: 1,227 mill. €)				
OUTCOME	69.456	67.287	69.093	73.585								
Category 1: General Government Affairs, Court & Security	7.510	7.613	7.950	8.133								
Category 2: Employment, Social Services, Health & Family	31.462	33.253	32.786	35.613								
Category 3: Education, Research, Art & Culture	11.363	11.543	12.278	12.346								
Category 4: Economic Affairs, Infrastructure & Environment	12.095	8.522	8.865	9.124								
Category 5: Financial Management & Interest	7.026	6.357	7.214	8.370								

Performance of MTEFs 3 deficit & debt improve



Defizits corresponding to MTEFs in % of GDP	2009	2010	2011	2012	2013	2014	2015
1. MTEF 2009 to 2013 (law passed on 17. june 2009; corresponds to stability program 2008 -2013 from 21. april 2009)							
Assumptions for real growth of GDP (%-change to prev. year)	-2,2	0,5	1,5	2,0	2,3		
deficit, central state	-3,2	-4,1	-4,1	-4,2	-3,7		
deficit, regional gvt, local gvt. and social security	-0,3	-0,6	-0,6	-0,5	-0,2		
deficit, general government	-3,5	-4,7	-4,7	-4,7	-3,9		
<i>debt, general government</i>	<i>69,1</i>	<i>74,3</i>	<i>78,0</i>	<i>81,1</i>	<i>83,2</i>		
2. MTEF 2011 to 2014 (law passed on 11. june 2010; corresponds to stability program 2009 - 2013 from 26. jan. 2010)							
Assumptions for real growth of GDP (%-change to prev. year)	-3,4	1,5	1,5	1,9	2,0	1,9	
deficit, central state			-3,4	-2,75	-2,1	-1,7	
deficit, regional gvt, local gvt. and social security			-0,6	-0,55	-0,6	-0,6	
deficit, general government			-4,0	-3,3	-2,7	-2,3	
<i>debt, general government</i>	<i>66,5</i>	<i>70,2</i>	<i>72,6</i>	<i>73,8</i>	<i>74,3</i>	<i>74,2</i>	
3. MTEF 2012 to 2015 (law passed on 30. may 2011; corresponds to stability program 2010 - 2014 from 27. april 2011)							
Assumptions for real growth of GDP (%-change to prev. year)	-3,9	2,0	2,5	2,0	2,1	2,2	2,2
deficit, central state			-2,9 *	-2,7	-2,4	-1,9	-1,6
deficit, regional gvt, local gvt. and social security			-0,7 *	-0,6	-0,5	-0,5	-0,4
deficit, general government			-3,6 *	-3,3	-2,9	-2,4	-2,0
<i>debt, general government</i>	<i>69,5</i>	<i>71,8</i>	<i>72,4 *</i>	<i>75,0</i>	<i>75,5</i>	<i>75,1</i>	<i>74,4</i>
OUTCOME							
real growth of GDP (%-change to prev. year)	-3,9	2,3	2,9 *	0,8			
deficit, central state	-3,2	-3,4	-2,9 *	-2,6			
deficit, regional gvt, local gvt. and social security	-0,9	-1,0	-0,7 *	-0,6			
deficit, general government	-4,1	-4,4	-3,6 *	-3,2			
<i>debt, general government</i>	<i>69,5</i>	<i>71,8</i>	<i>72,4 *</i>	<i>74,6</i>			

*) notification from oct 2011

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Numerical fiscal rule

Austrian national Stability Pact (ASP) :

- is a law
- intends to foster budget consolidation according to EU-rules
- covers all levels of government (general, regional, local)
- sets deficit targets within a multiannual budgetary setting
- targets not flexible considering the business cycle
- includes rules for coordination and reporting
- sanctions, if targets are not met

Success:

- up to the financial crisis the system worked well on the level of general government
- therefore, contributed to fiscal improvement

New ASP 2011 – 2014 adopted in Spring 2011:

- targets had to be adapted (fiscal crisis)
- further improvement of budget coordination
- tighter sanctions

Austria's new Internal Stability Pact 2011-2014



- After financial crisis → necessity to improve Austria's budget coordination across levels of government:
 - Internal Stability Pact, internal treaty of governments, ratified by all parliaments;
- **Key elements:**
 - **New Limits** for the deficits of respective governments
 - adding up to Austria's Stability Program
- **Rendez-vous-clause**
 - f.e. EU-Fiscal Framework Directive → negotiations and transparency: reconciliation tables, publication of all data

Austria's new Internal Stability Pact 2011-2014



➤ Tighter sanctions:

- reputational: public report by Court of Audit
- financial: similar to EU-system
- reform of the deciding body, a political committee of all governments

➤ Improvements in coordination of fiscal policies and medium term budgetary planning:

- Target-performance comparison
- Multi-annual perspective
- Mutual information obligation
- New Limits for contingent liabilities

Last news: The Austrian Debt Brake (1)



- **Govt. proposal** (presented yesterday to the Parliament):
- **Regulation at Constitutional level**
- **covers all levels of government**
- **Main target:**
General government budget structural balanced as of 2017
- **details:**
 - **Federal budget (including social security) structural balanced at max. 0,35% GDP**
 - **States and municipalities: max 0 %**

Austrian Debt Brake (2)

- **Control account** (following the german model)
 - allowed cumulative deviations, to be reimbursed
 - federal budget at max 1,5% GDP
 - States and municipalities at max 0,25 % GDP
- **Cyclical component of the public deficit: automatic stabilizers can work; symmetric rule**
- **Escape clause for natural disasters**
- **As to 2014: Budgetary frameworks of states and municipalities to be shaped according to the federal budget reform, esp. compulsory MTEFs.**
- **Implementing rules:**
 - in general: by Austrian Stability Pact (unlimited; agreement by end of 2012)
 - federal structural balance: by federal budget act

Thank you for your attention!