Austria: A fiscal gamble

The Austrian government tries to square the circle by presenting fiscal plans which combine austerity and stimulus measures

Source: istock

After three days of parliamentary discussion, the Austrian budget for 2018 and 2019 has finally been adopted with the votes of the government parties. The new government is trying to square the circle by presenting fiscal plans which include expenditure cuts, tax relief and a fiscal surplus. To reach its goal, the Austrian government seems to be relying on a very (if not overly) optimistic growth scenario. A bit of a gamble.

Expenditure cuts and tax relief

Major expenditure cuts will be made in the area of asylum and migration by reducing spending for integration measures and guaranteed minimum income for refugees. Administrative costs are to be reduced by tackling unused over-budgeted positions without curtailing public services. Also, previous initiatives like an employment scheme for people aged 50 or older and infrastructure investments will be scaled back (total planned reduction of up to 800mln euro).

These expenditure cuts, amounting to 2.5bn euro in total for 2018 and 2019, should provide sufficient fiscal space to deliver the promised tax relief for tax-paying families with children and those in low-income brackets. The “Family Bonus Plus”, which will come into force on 1 January

2019, will either cancel the tax burden for a family in full or grant a tax bonus of up to 1,500 euro per child and year (estimated costs of 1.5bn euro). People on low incomes benefit from the reduction of the unemployment insurance contribution, amounting to an annual relief of 310 euros on average (estimated costs of 140 mln euro). In addition, the VAT on overnight stays will be reduced to 10% from 13% as of November 2018, repealing a resolution by the former grand coalition from 2016 in order to finance the preceding payroll tax reduction.

Are the government's plans realistic?

While the government aims at a fiscal deficit of 0.4% GDP this year, 2019 should be the first year with a small fiscal surplus since 1974, at least according to the government's plans. Last year, the government still expected a deficit of -0.5% GDP for 2019. Thanks to the booming economy, public finances have clearly benefited from windfall revenues. The declining number of refugees has also reduced expenditures more than previously expected.

However, as much as we like the idea of magically squaring a circle, the government's plans to combine fiscal consolidation and tax relief are to a large extent built on wishful thinking. The sharp upward revision of the growth assumptions (from 1.8% to 3.2% for 2018 and from 1.7% to 2.2%) is clearly benefiting the government's attempt to square the circle. A risky game as the new GDP forecasts are higher than consensus forecasts and our own assessment.

Given that the government's forecasts are even a bit higher than the already optimistic European Commission forecasts, selling the new plans to Brussels will not be an easy task.

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