

## 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 800mIn 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.

### Author

#### Inga Fechner

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.