

**FISKALRAT**

*Austria* ■

# Economic Outlook and the Role of the Austrian Fiscal Advisory Council

**Prof. Dr. Bernhard Felderer**

**President of the Austrian Fiscal Advisory Council**

**JVI, 5<sup>th</sup> of December 2014**

# Current economic outlook

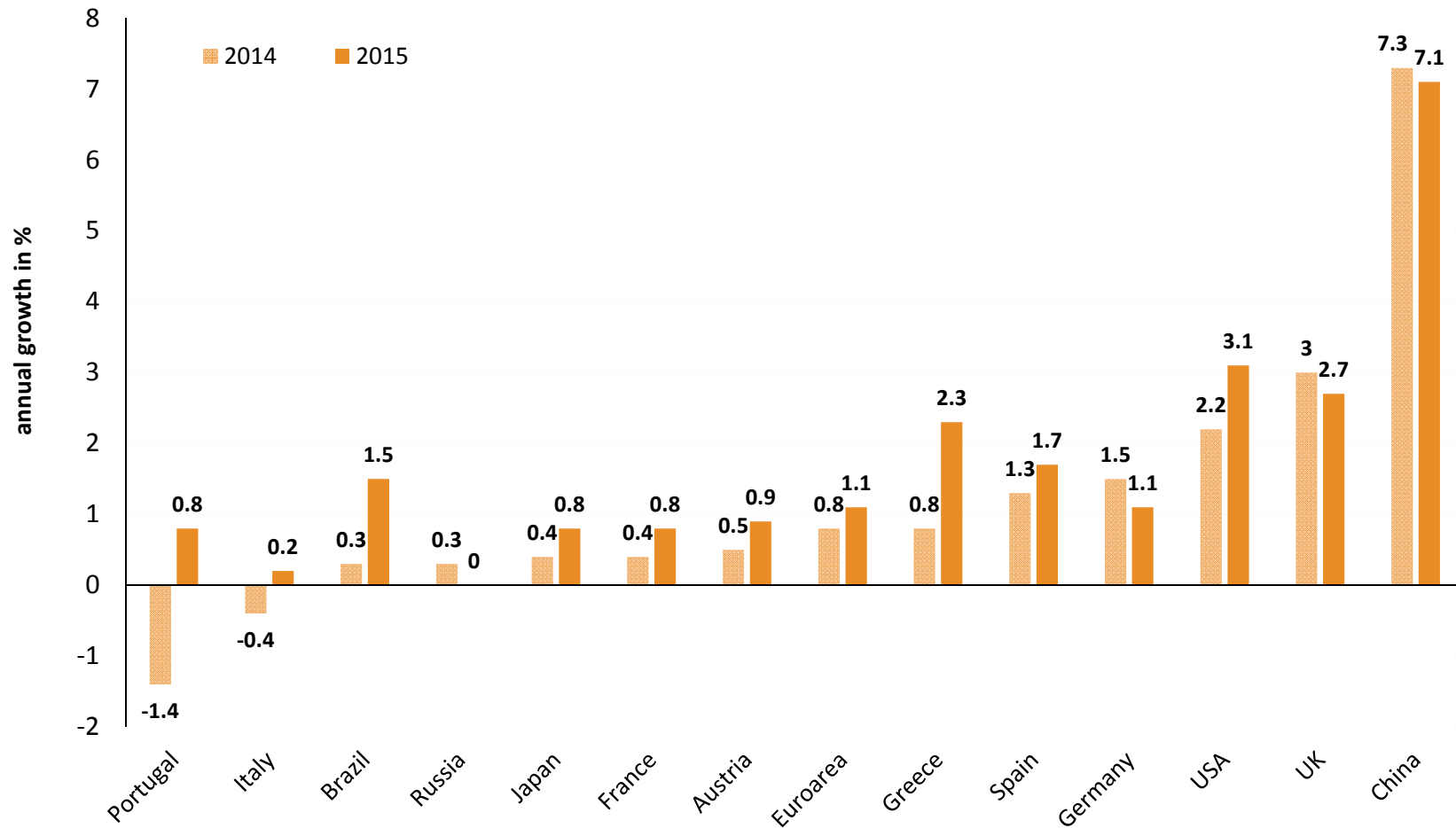
International Economy



Source: [sonofadud.com](http://sonofadud.com)

# Global growth projections

Growth of real GDP, in %

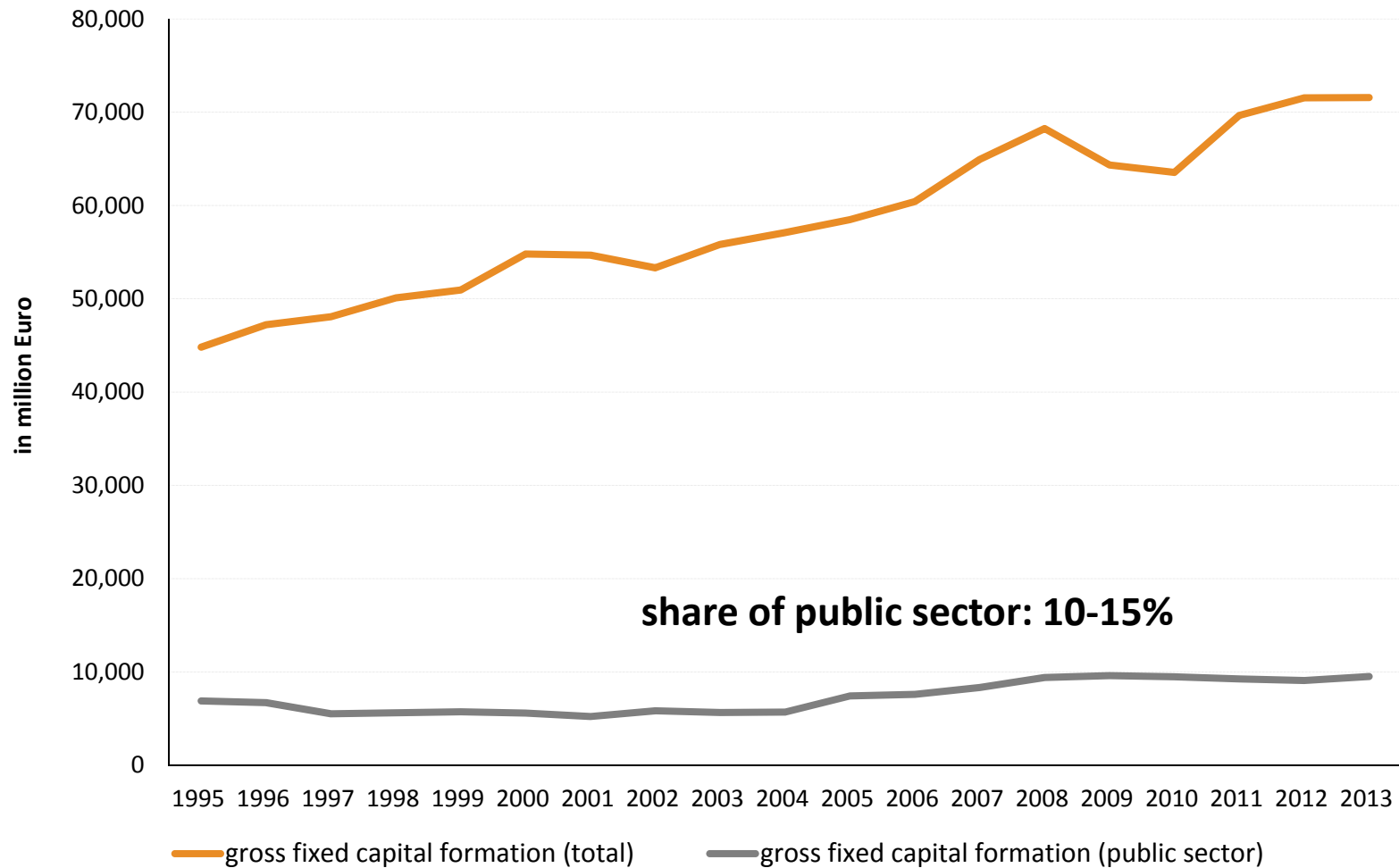




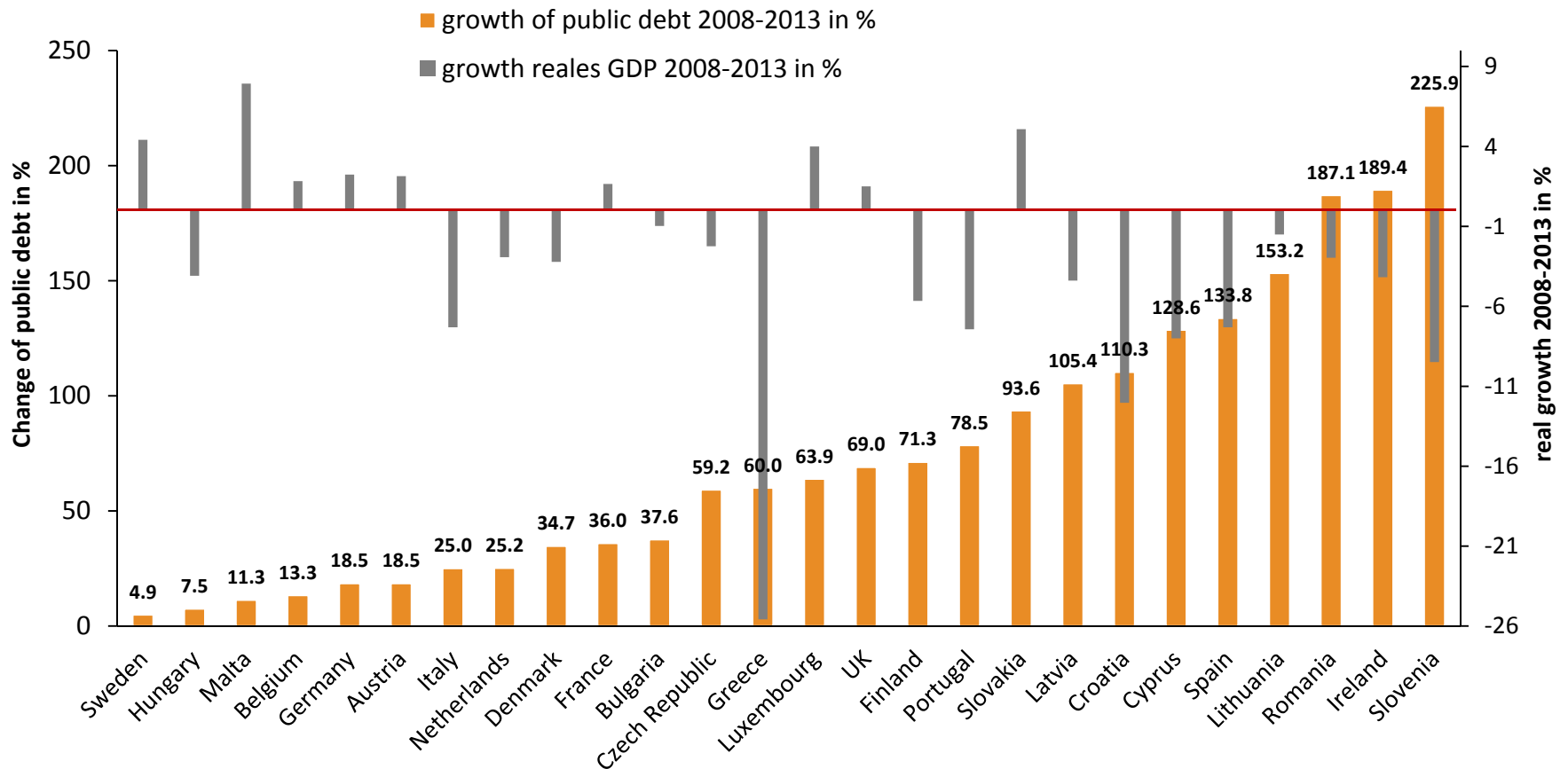
# Fiscal policy

# Share of public investments relatively low

Gross fixed capital formation in Austria, total and public sector



# Public debt 2008-2013



# Monetary policy

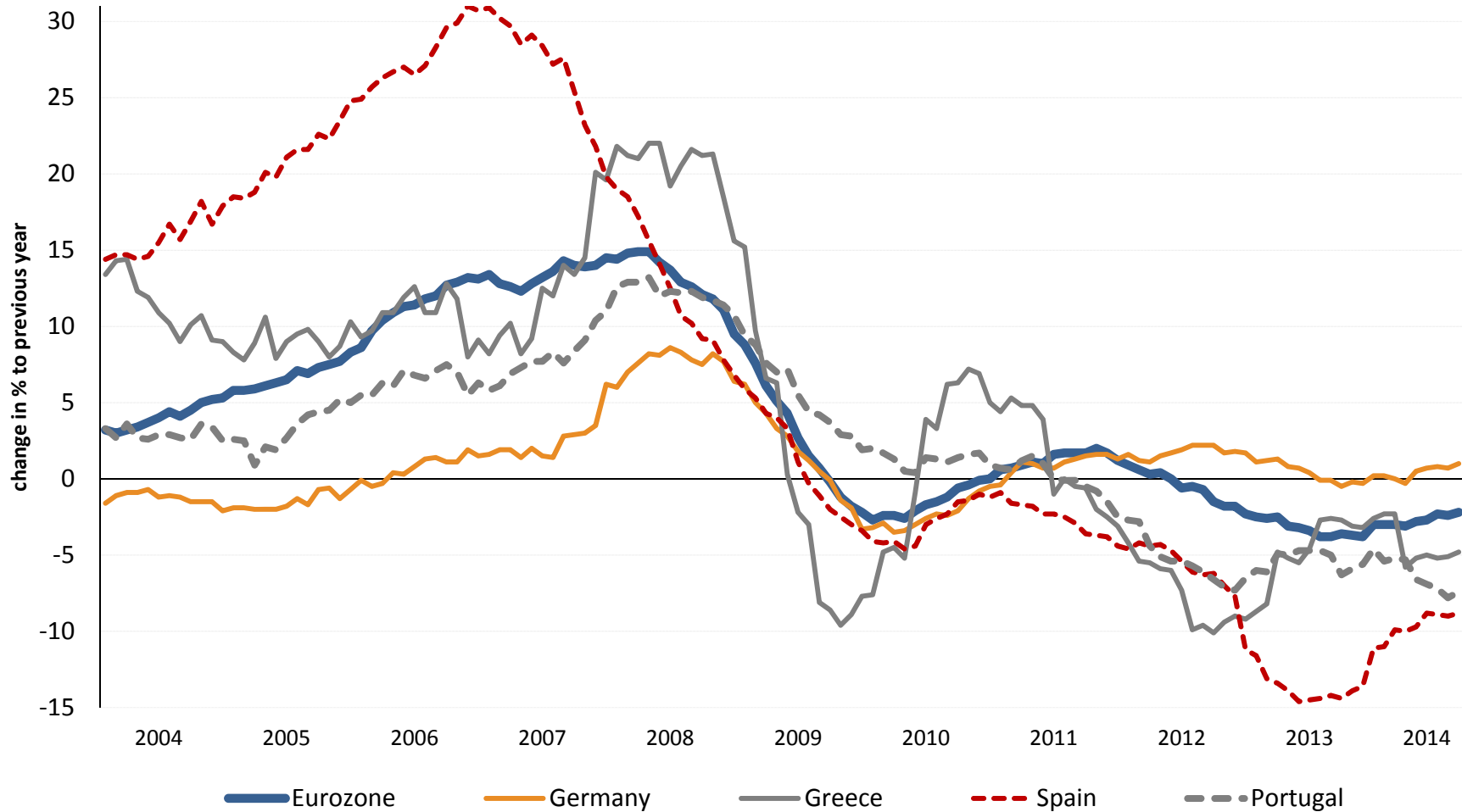
The ECB at the end of its possibilities?

Can we avoid deflation by quantitative easing?



# Cheap money does not reach real economy

Loans to non-financial corporations, monthly change rates to previous year in %



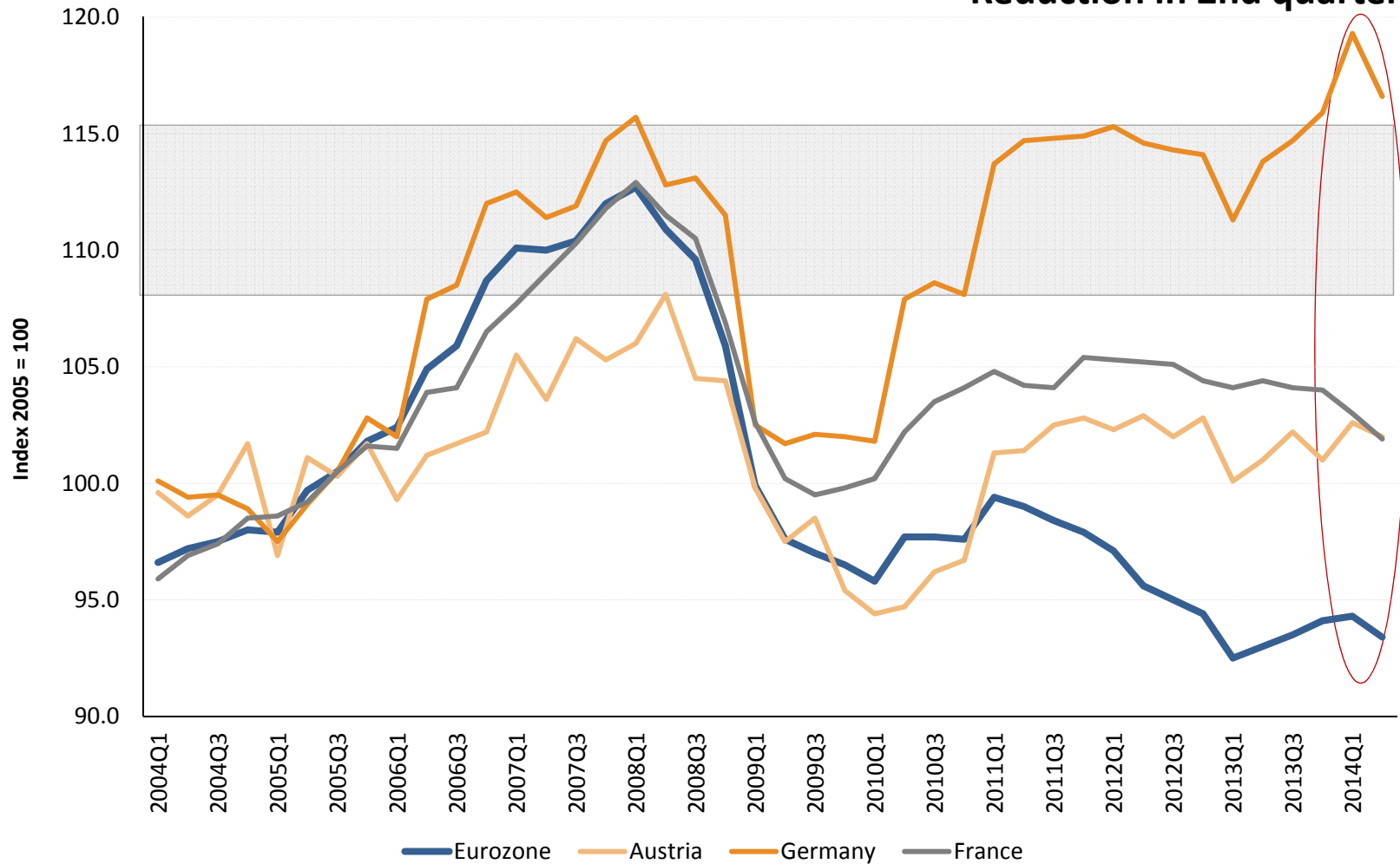
Source: ECB.



# Investments not at level before crisis

Real gross fixed capital formation, seasonally and working day adjusted data

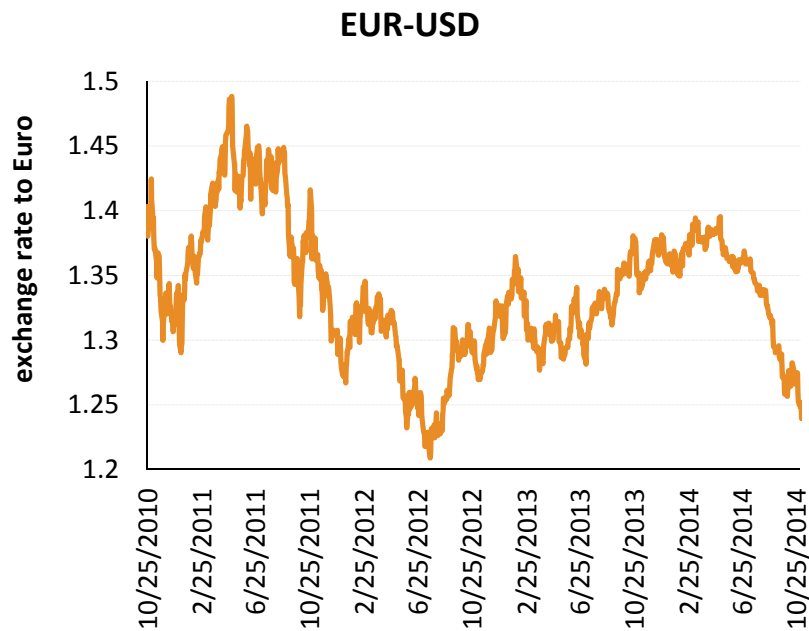
Reduction in 2nd quarter 2014



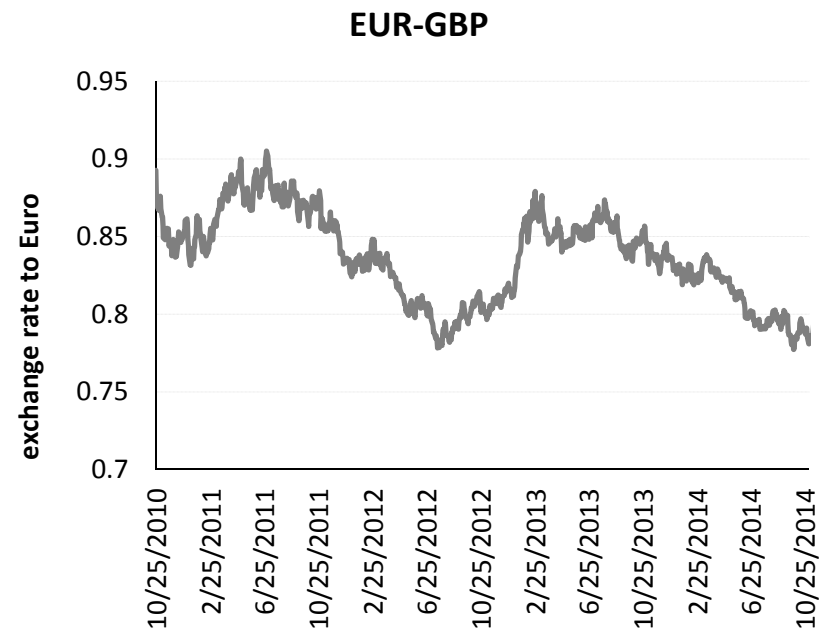
# Short run perspectives

Exchange rates and oil price as a possible growth aid

# Euro exchange rates (1)



**Depreciation since February 2014: -9,7%**

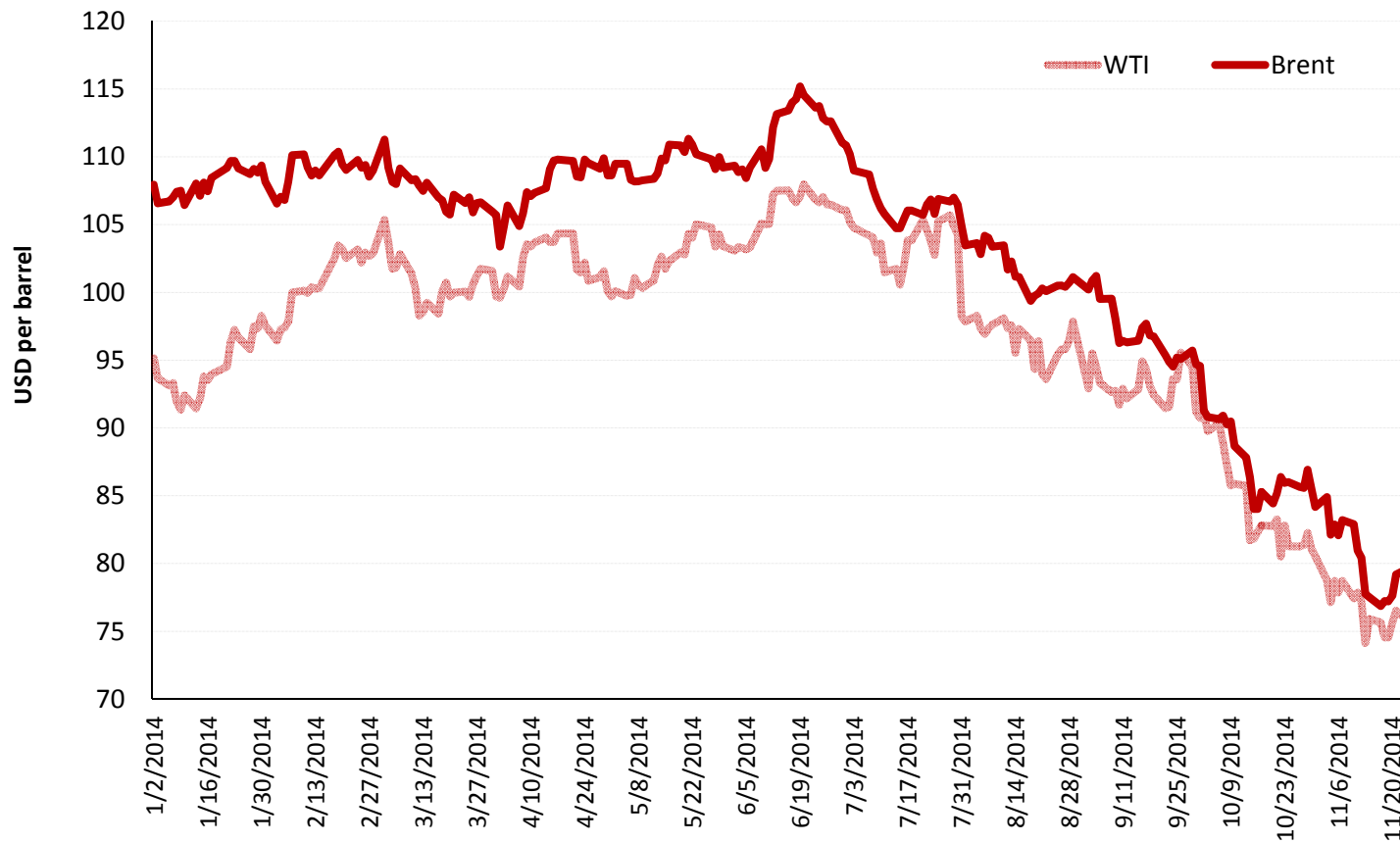


**Depreciation since beginning of 2014: -4,5%**

**Depreciation of the Euro may be a chance to foster exports!**

# Decreasing oil price

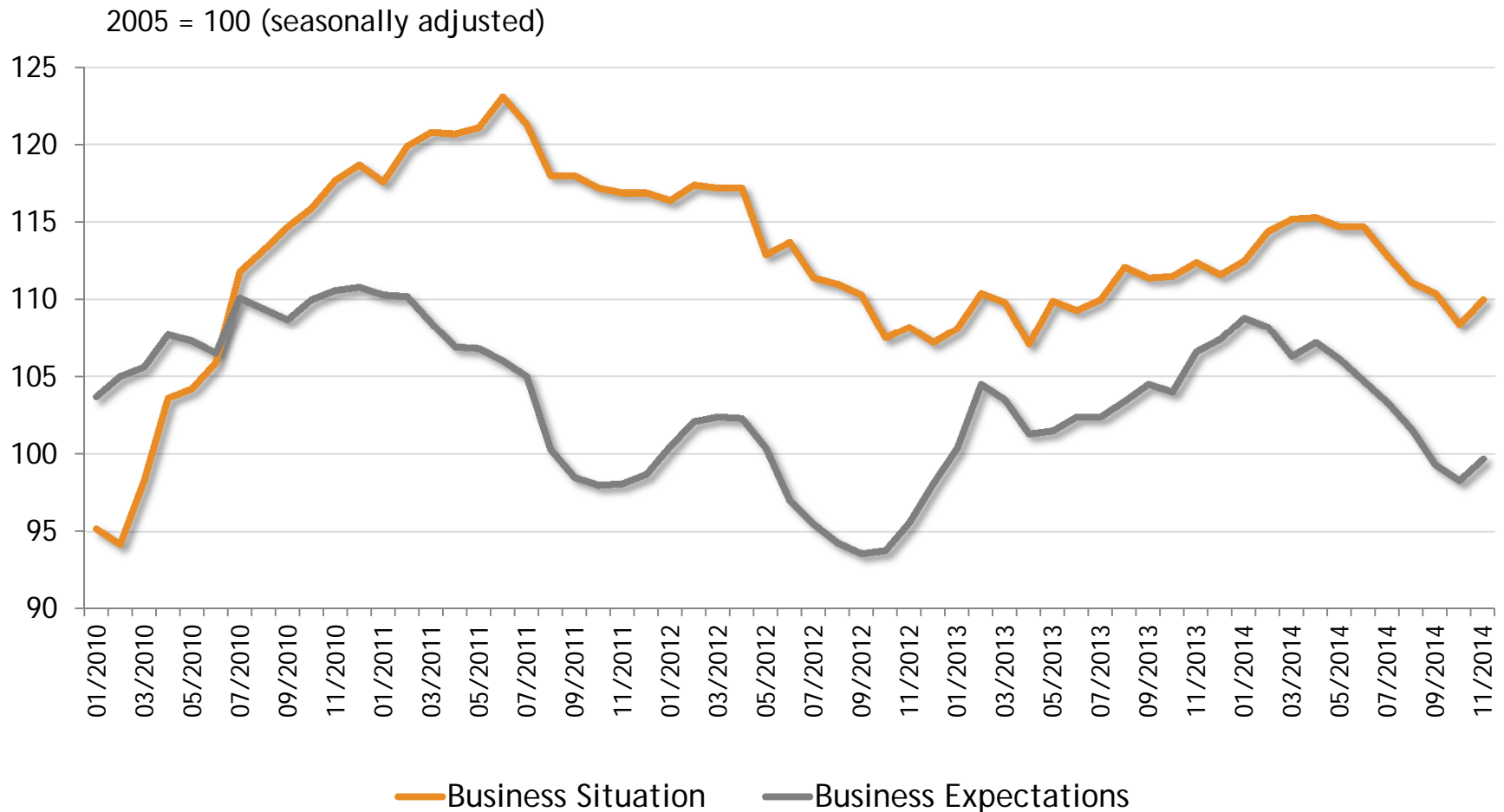
Spot price, dollar per Barrel, since January 2014



Source: Thomson Reuters, EIA.

# ifo-Index

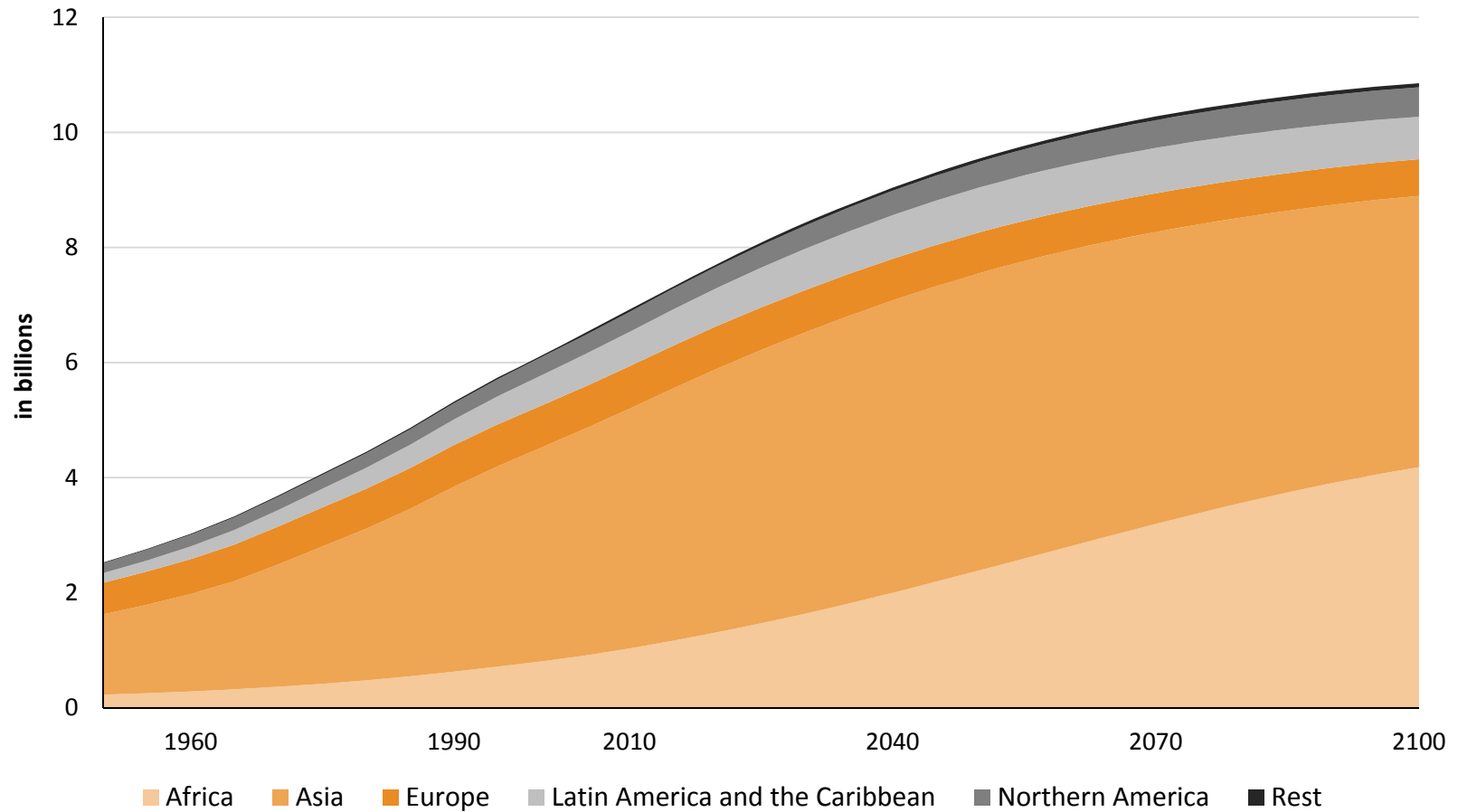
## Positive expectations after negative trend of six months



# Long run perspectives

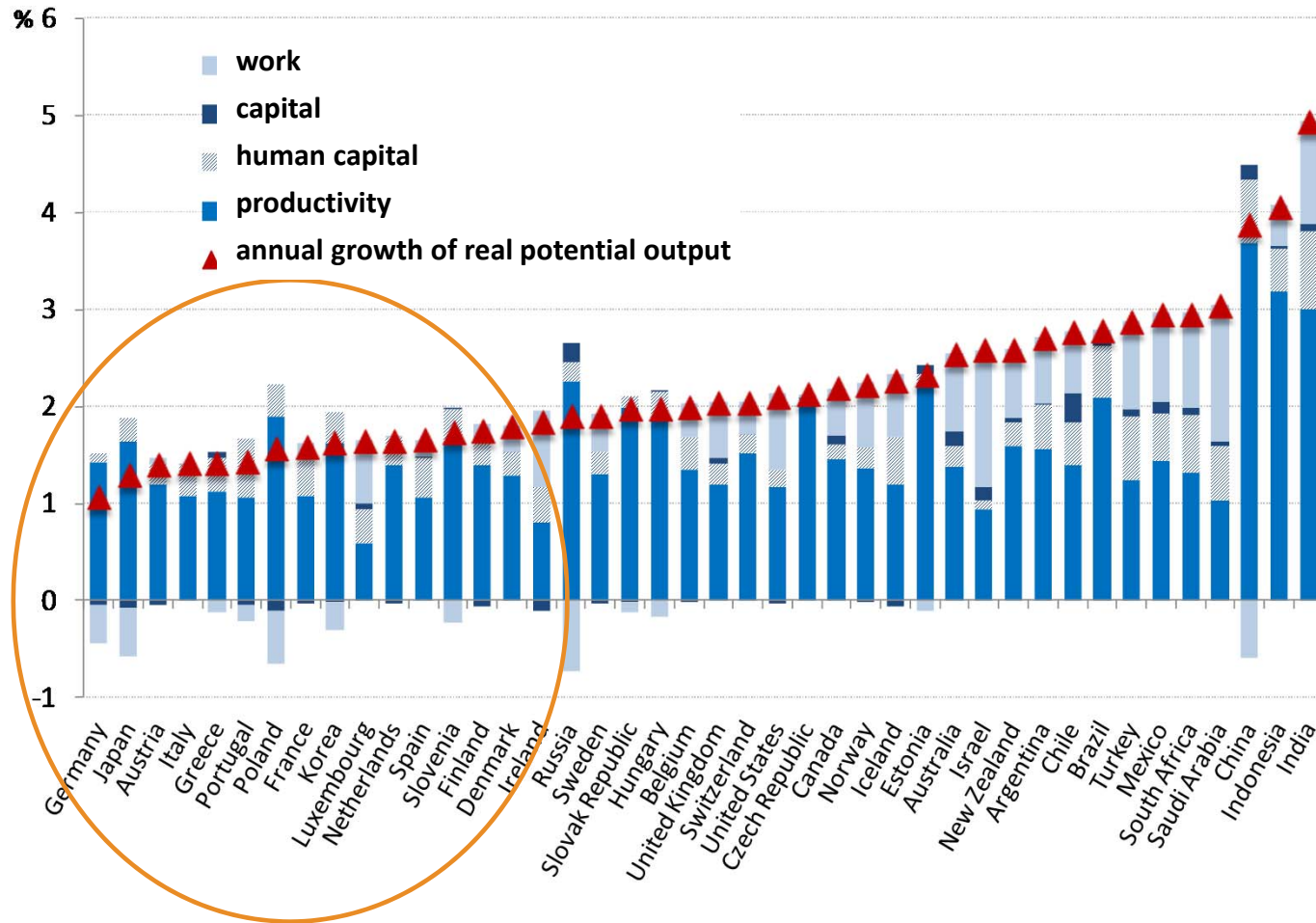
Structural reforms are unavoidable

# Long-term population growth



# Long-term potential output

Growth contribution, Period 2011-2060



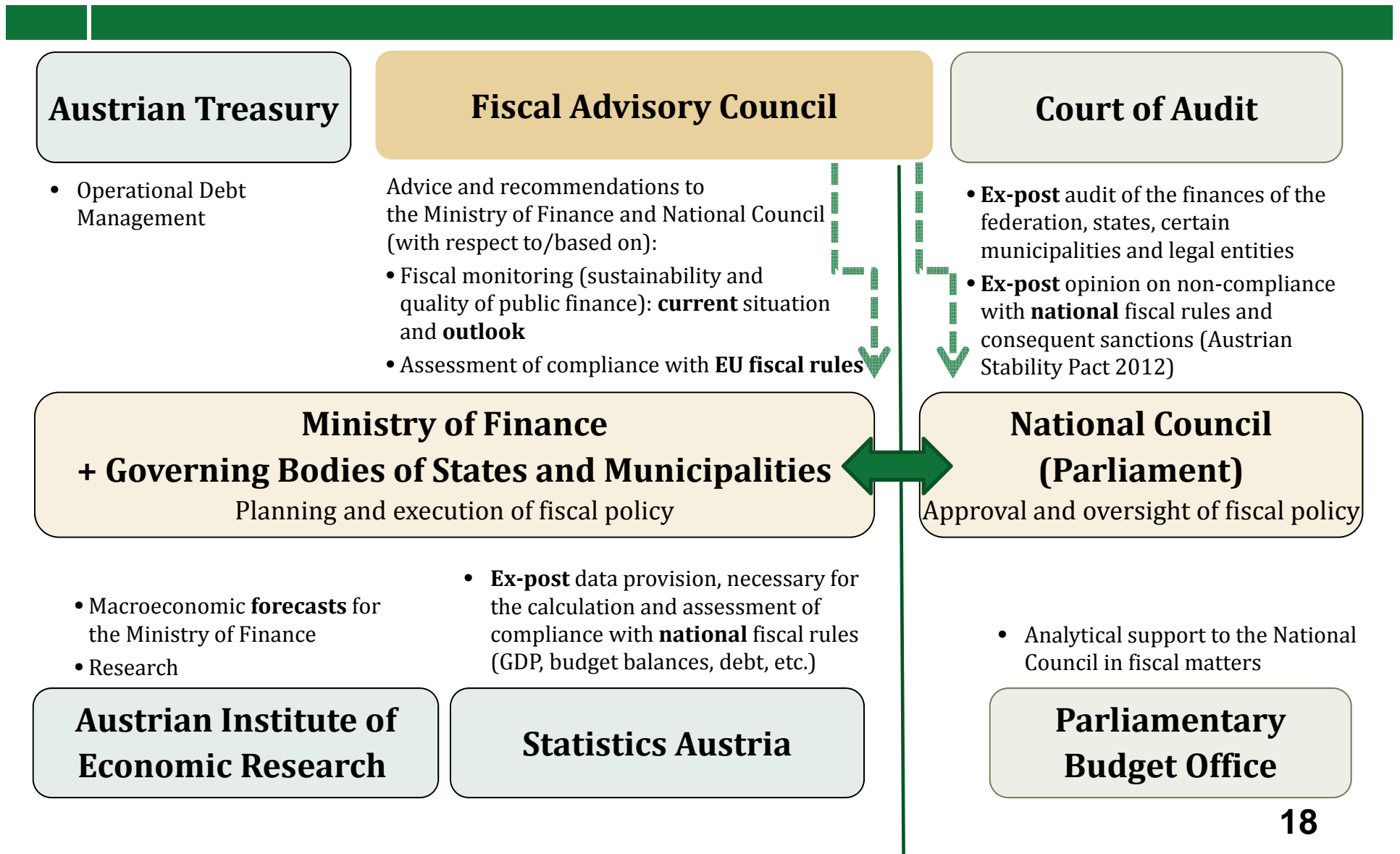
Source: OECD (2012).





# The Role of the Austrian Fiscal Advisory Council

# Austrian Fiscal Institutional Framework



# ■ Main Elements of the Austrian Fiscal Framework

## Domestic (EU) fiscal rules

- **Austrian Stability Pact 2012: EU-rules to all levels of government** (nominal and structural budget rule, debt rule, expenditure rule)
- **Different structural deficit targets, starting 2017:** (-0,45% of GDP in total)
- -0,35% of GDP: central government
- -0,1% of GDP: state and local government
- **Correction mechanism, starting 2017:** max. deviation: 1,6% of GDP

## Multi-annual budgetary planning

- **Federal medium-term expenditure framework (4 years)** for the adoption in **Parliament**
- Mid-term budget plans of state governments
- **Guarantee limits** (central, local and state government)

## Budgetary procedures

- Preparation, approval and implementation of budget plans (i. g. Federal **Budget Law**)
- **Coordination committees** between subsectors


## Austrian Fiscal Advisory Council

fiscal „watch-dog“ for domestic fiscal rules

## The role of fiscal councils

### Deficit-bias of fiscal policy, due to/manifested by:

- ❑ Political business cycles
- ❑ Short-sightedness, pro-cyclicality in good times
- ❑ Moral hazard/free riders
- ❑ Informational asymmetry/lack of transparency/fiscal illusion
- ❑ Biased official forecasts

 **Fiscal Councils** = important independent “watch-dogs” to strengthen fiscal discipline

### Possible ways forward:

- ❑ Fiscal rules
- ❑ Improving policymakers’ incentives by raising reputational and electoral costs of unsound policies
- ❑ Raising public awareness to address fiscal illusion and contribute to a stability culture
- ❑ Independent forecasts/assessments and analyses
- ❑ Closing “technical loopholes” through independent expertise

## FC within European fiscal governance

### Independent Fiscal Institutions (IFI): a compulsory element in the 'new' European fiscal governance framework

- **EU Six-pack** (*2<sup>nd</sup> update of the Stability and Growth Pact, 'SGP 3.0'*)
  - Effective and timely surveillance of fiscal rules by independent body.
- **Two-pack** (*even stronger surveillance for EA MS*)
  - Independent or endorsed macroeconomic and fiscal forecasts
  - Surveillance of EU/national numerical fiscal rules by independent body
- **Fiscal Compact** (*Articles 3-8 of the Treaty on Stability, Coordination and Governance; transposition of SGP into national rules*)
  - Surveillance of national numerical fiscal rules by independent body

## Key elements of EU fiscal rules (simplified)

**Main Elements of SGP: a preventive and a corrective arm**

□ **Medium-Term Objective (MTO):**

budget balance, adjusted for the effect of the business cycle („cyclically adjusted balance“) and excluding one-off measures („**structural balance**“)

□ level: **min. -0.5%** of GDP for EA MS

□ adjustment path towards it: **min. 0.5%** of GDP p.a.

□ **Budget balance: min. -3%** of GDP

□ **Public debt: max. 60%** of GDP, or **diminishing at a satisfactory pace**

□ **Expenditure benchmark:**

**real growth rate of public expenditure\* < medium-term potential GDP growth** (\*excluding interest payments and unemployment related expenditure and expenditure offset by discretionary revenue measures)

## Austrian Fiscal Advisory Council: Tasks

### Reflecting national co-ordination and advisory body (pre-IFI-tasks):

- **Assess current fiscal situation including outlook**
- **Analyze sustainability and the quality** of fiscal policies
- **Analyze economic effects of public debt**
- **Written recommendations** on fiscal policies
- **Ex-post documentation/evaluation** of fiscal policy
- **Shape public opinion** [fiscal policy issues]

### Reflecting European fiscal framework ('new'-IFI-tasks, as of 1.11.2013):

- **Monitor compliance** with national/EU fiscal rules in a timely manner
- **Provide recommendations** on **medium-term budget objectives**

## AT Fiscal Advisory Council: Organization

**15 members, independent fiscal experts appointed for 6 years by:**

- ❑ **Members with voting rights:** Federal government (6, including the President), Austrian Federal Economic Chamber in agreement with Chambers of Agriculture (3), Austrian Federal Chamber of Labor (3).
- ❑ **Members without voting rights:** Austrian Association of Municipalities (1), Association of Austrian Towns and Cities (1), Conference of Provincial Governors (1); **members with advisory capacity:** the Oesterreichische Nationalbank (1) and the Parliamentary Budget Office (1).

### **Office of the Fiscal Advisory Council**

- ❑ Provides **analytical** and **administrative support** to FISK
- ❑ 5 economists, ½ research assistant/statistician, ½ secretary
- ❑ Staff provided by and costs borne by **the Oesterreichische Nationalbank**



## FISK products

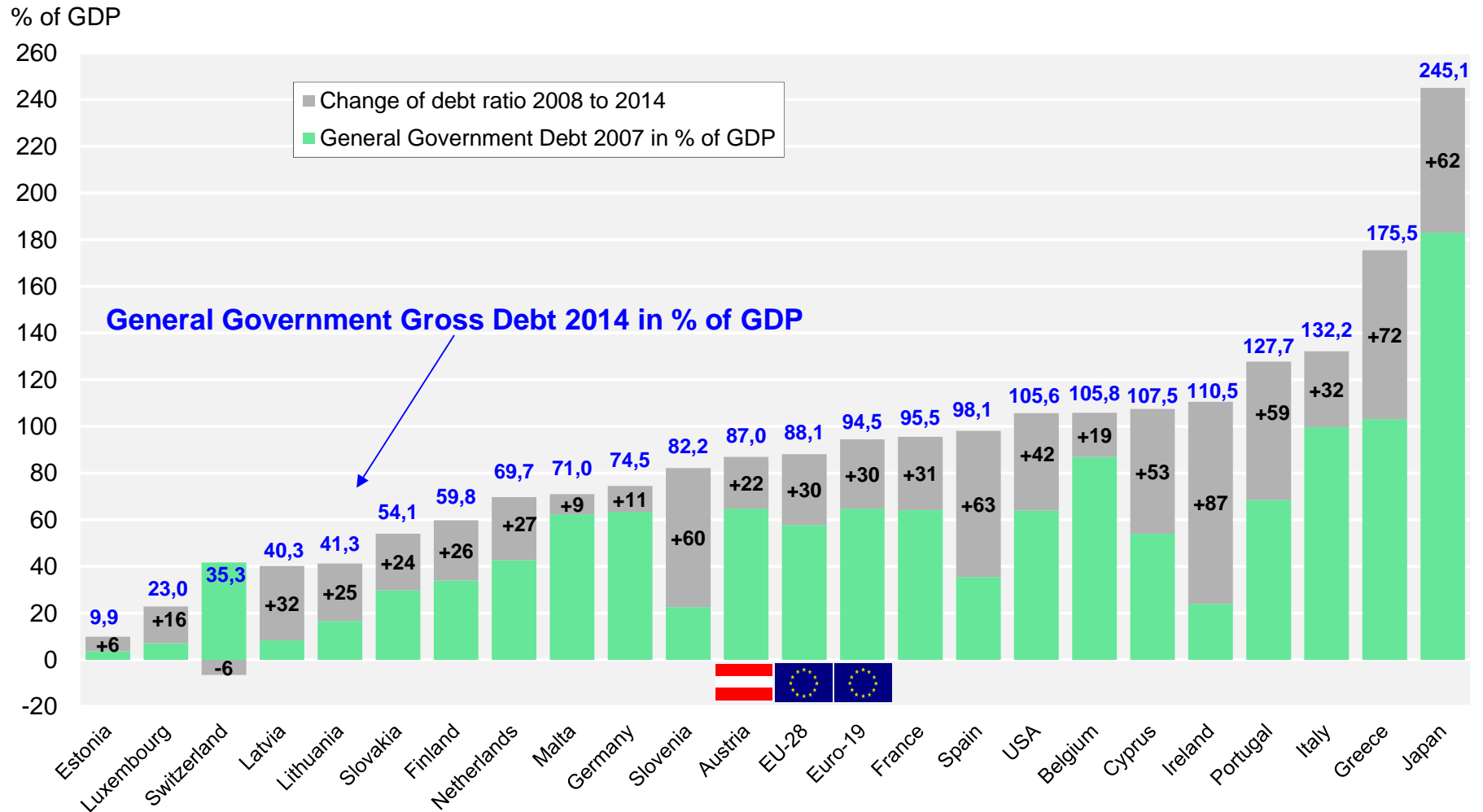
### Already finished/scheduled products:

- ❑ **Fiscal Rules Compliance Report:** published in May; evaluates **compliance** of AT Stability Programme with European/national **fiscal rules** and results from the **FISK-forecasting-exercise**.
- ❑ **Report on the FISK-Budgetary Outlook for t and t+1:** published in December; evaluates AT budgetary developments of t and t+1 based on **FISK-forecasting-exercise**.
- ❑ **FISK Annual Report:** published in July; **ex-post documentation and evaluation of fiscal policy** and main fiscal policy indicators (deficit, debt, their structure, etc.), including extra-budgetary liabilities.
- ❑ **Recommendations:** published bi-annually in July and December; includes a macro economic outlook.
- ❑ **Other (ad-hoc)** analyses and position documents (e.g. press releases). **25**

## FISK-Assessment – Austria

- ❑ **Discretionary measures characterize fiscal consolidation path since 2011:**
  - **Changing contributions** of measures on the expenditure and on the revenue side (relationship 2014: 40% to 60%; 2018: 55% to 45%).
  - **Latest consolidation efforts** of early 2014 were mostly **revenue-side measures**
  - **Missing data and explanations** make checks sometimes difficult
- ❑ **Banking rescue measures** were high (budgetary impact up to 4,1 bn (2014) p. a.)
- ❑ **Sustainability** and **quality** of AT public finances should be supported by **structural reforms**
- ❑ **MTO** will have to be met for about **12 years to reach debt-target** of 60% of GDP in Austria (nom. GDP-growth of +3,4% p. a.) **26**

# Fiscal performance 2014: public debt



Source: European Commission (November 2014); IMF (Japan, USA; November 2014), national data (Switzerland; September 2014) and own calculations

# Thank you for your attention!

**Contact:**

Büro des Fiskalrates / Office of the Fiscal Advisory Council

c/o Oesterreichische Nationalbank  
Otto-Wagner-Platz 3 | 1090 Vienna  
P.O. Box 61 | A-1011 Vienna, Austria  
Email: [office@fiskalrat.at](mailto:office@fiskalrat.at)

**Useful links:**

[www.fiskalrat.at](http://www.fiskalrat.at)

[http://ec.europa.eu/economy\\_finance/economic\\_governance/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/index_en.htm)