Economic Outlook and the Role of the Austrian Fiscal Advisory Council

Prof. Dr. Bernhard Felderer
President of the Austrian Fiscal Advisory Council
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Current economic outlook

International Economy

Source: sonofadud.com
Global growth projections
Growth of real GDP, in %

Source: OECD.
Fiscal policy
Share of public investments relatively low
Gross fixed capital formation in Austria, total and public sector

Source: Statistik Austria.
Public debt 2008-2013

Source: Eurostat, Economica.
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

Index 2005 = 100

Source: Eurostat
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!

Source: OeNB.
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

2005 = 100 (seasonally adjusted)

Source: ifo.
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

Austrian Treasury
- Operational Debt Management

Fiscal Advisory Council
- Advice and recommendations to the Ministry of Finance and National Council (with respect to/based on):
  - Fiscal monitoring (sustainability and quality of public finance): **current** situation and **outlook**
  - Assessment of compliance with **EU fiscal rules**

Court of Audit
- **Ex-post** audit of the finances of the federation, states, certain municipalities and legal entities
- **Ex-post** opinion on non-compliance with **national** fiscal rules and consequent sanctions (Austrian Stability Pact 2012)

Ministry of Finance
+ Governing Bodies of States and Municipalities
Planning and execution of fiscal policy

- Macroeconomic **forecasts** for the Ministry of Finance
- Research

- **Ex-post** data provision, necessary for the calculation and assessment of compliance with **national** fiscal rules (GDP, budget balances, debt, etc.)

Austrian Institute of Economic Research

Statistics Austria

National Council (Parliament)
Approval and oversight of fiscal policy

- Analytical support to the National Council in fiscal matters

Parliamentary Budget Office
### 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.e., Federal Budget Law)

- **Coordination committees** between subsectors

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**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 disciplin

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** *(2nd 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
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).
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.)
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

Useful links:
www.fiskalrat.at