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Recommendation for a

COUNCIL DECISION

abrogating Decision 2010/282/EU on the existence of an excessive deficit in Austria

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2010/282/EU of 2 December 2009, following a recommendation from the Commission, it was decided that an excessive deficit existed in Austria. The Council noted that the general government deficit planned for 2009 was 3.9% of GDP, thus above the 3% of GDP Treaty reference value, while the general government gross debt was planned to reach 68.2% of GDP in 2009, thus above the 60% of GDP Treaty reference value[1].

(2) On 2 December 2009, in accordance with Article 126(7) TFEU and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[2], the Council, based on a recommendation from the Commission, addressed a recommendation to Austria with a view to bringing the excessive deficit situation to an end by 2013 at the latest. The recommendation was made public.

(3) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[3].

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1 The general government deficit and debt for 2009 were subsequently revised to 5.5% and 116.4% of GDP respectively.

2 OJ L 209, 2.8.1997, p. 6.

3 OJ L 145, 10.6.2009, p. 1.

(4) When considering whether a decision on the existence of an excessive deficit should be abrogated, the Council should take a decision on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the 3% of GDP threshold over the forecast horizon[4].

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2014 notification by Austria, the 2014 Stability Programme and the Commission 2014 spring forecast, the following conclusions are warranted:

– After peaking at 4.5% of GDP in 2010, Austria's general government deficit fell below the 3% of GDP Treaty reference value already in 2011. This improvement, compared to the initially planned fiscal outcome, was related to the recognition of government expenditure measures for the recapitalisation of the "bad bank" KA Finanz (about 0.4% of GDP) in the 2012 government accounts, when the resultant impacts were confirmed based on the bank's financial statements. To a smaller extent, the fall in deficit stemmed from lower than planned expenditure at all levels of government and more favourable economic conditions, resulting in higher than projected revenue growth. In 2012, in contrast with both national and Commission forecasts the general government deficit continued to remain below 3% of GDP. However, due to looming risks related to possible further financial sector repair operations, which could have resulted in a deficit above 3% of GDP in following years, the Commission did not recommend early abrogation of the EDP. These risks have, however, not materialised and for 2013, Austria has notified a deficit of 1.5% of GDP. This further fall in the deficit was largely due to the unexpected size of the one-off measures, involving the sale of mobile phone spectrum, which accounted for almost 0.6% of GDP.

– The stability programme for 2014-18, adopted by the Austrian government on 29 April 2014, plans the general government deficit to increase to 2.7% of GDP in 2014 and then decrease to 1.4% of GDP in 2015. The 2014 Commission Spring Forecast projects a deficit of 2.8% of GDP in 2014 and 1.5% of GDP in 2015. Thus, the deficit is set to remain below the reference value of 3% of GDP over the forecast horizon. Moreover, in the framework of the Regulation (EU) No. 473/2013 the government announced, and confirmed in a letter to the Commission, a set of additional savings and higher revenues which the Commission has assessed to amount to 0.2% of GDP in order to avoid a planned significant deviation from the required adjustment path towards the MTO.

– The increase in the general government deficit in 2014 is caused by the establishment of a defeasance structure (Liquidation Entity, *Abbaueinheit*) to wind-down the impaired assets of Hypo Alpe Adria. The impact of the establishment of the Liquidation Entity for Hypo Alpe Adria is estimated by an

[4] In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

external expert group of advisors, appointed by the government, to amount to up to EUR 4 billion (1.2% of GDP) including the effect of a capital injection of EUR 750 million already undertaken in 2014. The final recording of the deficit-increasing impact will depend on an independent asset quality review of Hypo Alpe Adria's assets, which will be undertaken later this year in order to allow Eurostat to evaluate the statistical effect of this operation. The current evaluation made by the expert group seems to be characterised by a reasonable degree of caution and therefore can be regarded as plausible; however; a larger deficit impact stemming from this operation cannot be excluded. This represents the main downside risk to the 2014 deficit projection. At the same time, also taking into account the additional discretionary measures announced by the government after the publication of the Commission forecast, which should lead to a further reduction of the headline deficit, risks to the 2014 deficit appear overall balanced.

– The structural balance i.e. adjusted for the economic cycle and net of one-off and other temporary measures has improved on average by almost 0.7% of GDP each year between 2011 and 2013, broadly in line with Council recommendations. According to the Commission spring forecast, its assessment of the updated draft budget plan submitted on 29 April 2014 and of the additional measures announced by the government on 12 May 2014, the structural balance is projected to improve slightly in 2014. In this context, it appears that there is currently an emerging gap of 0.5% of GDP relative to the required adjustment of the structural balance towards the medium-term objective in 2014, suggesting that there is a need to reinforce the budgetary measures in order to ensure full compliance with the preventive arm of the pact in view of the emerging risk of a significant deviation from the required adjustment path.

– The debt-to-GDP ratio rose from 69.2% to 74.5% between 2009 and 2013. The gross government debt is forecast to increase to around 80% of GDP in 2014 mainly due to the inclusion in the general government debt of liabilities incurred in connection with the transfer of the impaired assets of Hypo Alpe Adria to the Liquidation Entity.

(6) The Council recalls that, as from 2014, which is the year following the correction of the excessive deficit, Austria is subject to the preventive arm of the Stability and Growth Pact and should progress towards its medium-term objective at an appropriate pace, including respecting the expenditure benchmark, and make sufficient progress towards compliance with the debt criterion in accordance with Article 2(1a) of Council Regulation (EC) 1467/97 of July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

(7) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(8) In the view of the Council, the excessive deficit in Austria has been corrected and Decision 2010/282/EU should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Austria has been corrected.

Article 2

Decision 2010/282/EU is hereby abrogated.

Article 3

This Decision is addressed to the Austrian Republic.

Done at Brussels,

For the Council
The President