

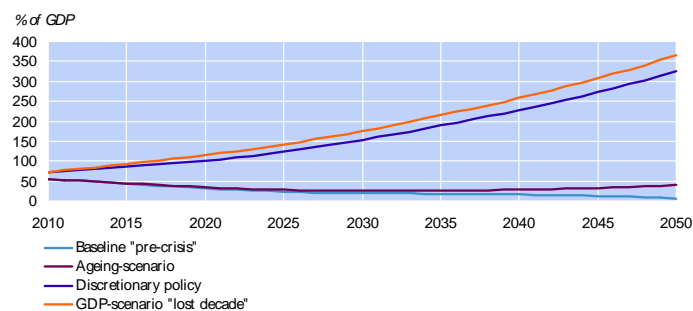
# Discussion of D. Franco's „Fiscal Sustainability: Review of Issues and New Developments“ from an Austrian Point of View

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## New developments and conditions for Austria

Debt-to-GDP ratios (without policy changes)



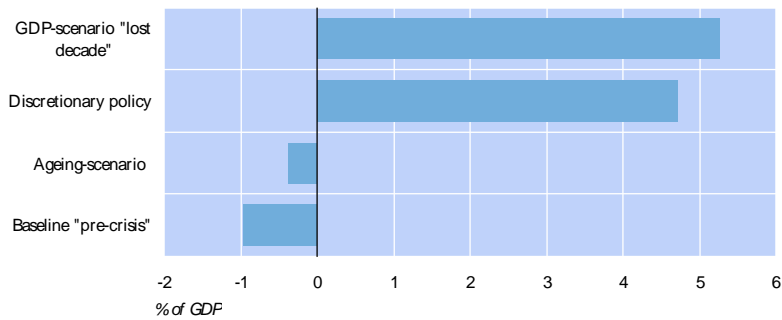
Source: Author's calculations.

Notes:

- I) Baseline: Growth expectations/ageing costs - EPC 2006; Fiscal data - Austrian Stability Programme (November 2007).
- II) Ageing-scenario: I), but ageing costs according to EPC 2009.
- III) Discretionary policy: II), but fiscal data according to the Austrian Stability Programme from April 2009.
- IV) GDP-scenario: III), but GDP-growth below average in the medium-term returning to its pre-crisis level in the long run.

## Causes of decreasing sustainability in Austria

### Fiscal adjustment from 2011 onward



Source: Author's calculations.

Note: Permanent, annually adjustment of primary balance to reach debt-to-GDP ratio of 60% in 2050.

## Critical view on projection results

- **Common assumptions for EU-27**
- **Robustness (base year, legal framework, macro assumptions)**
- **No interaction between fiscal and macro variables**
- **No extraordinary debt repayments (bank package)**
- **Valid, if and only if immediate and permanente adjustment**



Roughly reflecting direction and extend of policy measures.

**Austrian public debt: the long way of (no) return?**

Reducing debt-to-GDP ratio from 80% (2011) to 60% of GDP **not before...**

		nominal GDP-growth			
		2%	3%	4%	5%
Budget Deficit (% of GDP)	0%	<b>2026</b>	<b>2021</b>	<b>2019</b>	<b>2017</b>
	1%	<b>2071</b>	<b>2031</b>	<b>2023</b>	<b>2020</b>
	2%	-	-	<b>2044</b>	<b>2027</b>
	3%	-	-	-	-

Source: Author's calculations.

Notes:

1. Assumption: Debt-to-GDP ratio of 80% in 2011.
2. Achieving (and holding) deficit-goal of x% from 2012.
3. Dynamics of expenditures (e. g. interest payments, ageing costs) must be compensated.
4. "-": Assumptions do not allow a debt-to-GDP ratio of 60% (higher limit values).

**Conclusion**

**Austria will have to enter a period of significant consolidation to satisfy criteria of Maastricht Treaty and fiscal sustainability.**



**Future challenge: No matter how to measure sustainability, but how to ensure it (fiscal exit strategies: starting point and measures).**