

Unprecedented fiscal (re)actions to ease the impact of the COVID-19 pandemic in Austria

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Austria's public finances – both, automatic stabilizers and discretionary measures – have played a major role in easing the impact of the COVID-19 pandemic on the Austrian economy. During the two lockdowns in spring and November/December 2020, discretionary fiscal measures were mainly aimed at supporting the health care system and mitigating the effects of the lockdowns. Measures adopted after the first lockdown provided classic stimuli to boost economic activity. Initiatives to promote private and public investments followed, which, ideally, support the transition to new technologies and ways of working and thus increase the Austrian economy's long-term growth potential. Given the high uncertainty surrounding the economic outlook, the measures taken to contain COVID-19 might, however, be less effective than during normal times. Moreover, policy measures must be unwound with caution to avoid that crisis legacy issues, such as tax deferrals or accumulated debt once the moratoria are lifted, hamper the economic recovery. At the same time, the measures should be carefully designed and targeted to avoid overcompensation of private companies at the cost of society. While the unprecedented fiscal measures and automatic stabilizers built into the budget have left their mark on Austria's public finances, their sustainability is currently not at risk. Nevertheless, as low interest rates might not stay around forever, the high debt ratio should be reduced in the medium-term in a socially and environmentally sustainable way.

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Austria's public finances have played a major role in dampening the impact of the COVID-19 pandemic on the economy. Like in other countries, the fiscal measures adopted by the government have supported the domestic health care system, have mitigated the economic damage caused by the lockdowns and have provided economic stimuli. In fact, the fiscal measures adopted during the two lockdowns in spring and in November/December 2020 were aimed at cushioning the intended temporary reduction in (economic) activity and at ensuring that the health care system remains fully operational. Moreover, compensating businesses and households for income losses suffered because of the containment measures has helped maintain the economy's growth potential, which would have otherwise been lost if viable firms and jobs had been permanently destroyed. The fiscal measures adopted since the first lockdown mostly are "standard" stimulus measures to swiftly restart the economy by encouraging (private and public) consumption and investment. In addition to these measures, automatic stabilizers have cushioned parts of the economic downturn. Automatic stabilizers are built into the revenue and expenditure system and reduce fluctuations in economic activity without the

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need for active government action. As a case in point, the existing unemployment insurance scheme helps stabilize income.

These unprecedented fiscal (re)actions – both discretionary and automatic – have left their mark on public finances. As is the case for other EU Member States, Austria is likely to see the largest budget deficit since 1995 in 2020, after considerable budget surpluses in 2018 and 2019. The deficit is expected to amount to 9.2% of GDP,² which is almost twice the level observed during the great economic and financial crisis of 2008/2009. The exact size of the fiscal burden depends on how the COVID-19 pandemic develops, the extent to which government assistance is taken up and whether additional measures are adopted. Nevertheless, the sustainability of Austria's public finances should not be permanently compromised, as Austria went into the crisis with a sound fiscal position. Moreover, the mostly temporary nature of the measures and the assumed rebound in economic activity are expected to reduce high deficit and debt levels in the years ahead.

This study is organized as follows: Section 1 discusses the automatic stabilizers built into government budgets. Section 2 provides a summary of the most important discretionary fiscal measures taken in Austria in response to the COVID-19 crisis and discusses their effectiveness. Section 3 assesses the impact of these measures on public finances and their sustainability. Finally, section 4 concludes.

1 Automatic response of fiscal policy

Automatic stabilizers are mechanisms built into general budgets that cushion the impact of an economic downturn during a recession or prevent the economy from overheating during a boom, without any government intervention. At the same time, they deteriorate the budget balance during a recession and improve it during a boom. They generally act (i) in a timely manner, as they respond automatically without delay; (ii) in a targeted manner, as they support the target groups specified in the budget; and (iii) in a temporary manner, as they automatically kick in when economic conditions deteriorate and taper off as they improve.

The economic literature generally distinguishes between two types of automatic stabilizers (see ECB, 2020a). The first set of automatic stabilizers are those components of the budget that react to the business cycle; hence, they are often referred to as the cyclical components of the budget balance. These cyclical revenue and expenditure items mirror the fluctuations of their macroeconomic base variables. For example, unemployment expenditure increases as the number of unemployed persons rises. Some cyclical components react even more strongly than their macroeconomic bases, which is, for example, the case for wage taxes. Due to the progressivity of the income tax system, an increase in income – which is usually the case during a boom – implies a more than proportional tax increase, as individuals face higher tax rates in higher tax brackets. Thus, the cyclical components cushion the volatility of disposable income and reduce output volatility. The second set of automatic stabilizers comprises (mostly) those expenditure items that remain stable despite a changing economic environment. If governments keep their expenditure, such as wages or investment expenditure, constant, they will, at the same time, stabilize output over the business cycle. The economic literature (see e.g. Fatás and Mihov, 2001; Pisani-Ferry et al., 2008) generally associates

² See the OeNB December 2020 economic outlook for Austria in this issue.

larger governments³ with higher output stabilization in OECD countries – albeit with sometimes decreasing returns and only up to a certain threshold.

It should be noted, however, that the stabilizing properties of government budgets come at the cost of deteriorating the general government budget balance during a downturn; in other words, the budget balance fluctuates with the business cycle. The size of these budgetary fluctuations is estimated by international organizations, such as the OECD and the European Commission, as well as the European System of Central Banks (ESCB), as this information is widely used for fiscal surveillance. Even though the OECD, the European Commission and the ESCB use the same theoretical measurement concept of semi-elasticities, the results for the euro area range from 0.48 (ESCB's estimate) to 0.56 (European Commission's estimate), with the OECD's estimate lying in-between (at 0.54).⁴ Intuitively, these numbers indicate by how many percentage points the budget balance-to-GDP ratio deteriorates (improves) given a 1% decrease (increase) in GDP.⁵ With an estimate of 0.57 (see Bouabdallah et al., forthcoming), Austria is one of the Member States with the highest automatic reaction of the budget balance to the business cycle. The large cyclical reaction is the result of (i) a larger government size including more generous social benefits; and (ii) a more progressive direct tax system compared to that of other EU Member States. In 2020, automatic stabilizers are estimated to account for almost half of the budget balance deterioration observed in Austria.⁶

While the size of automatic stabilizers is subject to some uncertainty, the uncertainty surrounding their effectiveness in smoothing output is even higher. Their effectiveness is not only determined by the exact composition of expenditure and revenue (e.g. higher social security transfers or a higher share of (progressive) direct taxation imply higher stabilization) but also by the nature of the initial shock (e.g. export versus internal demand/supply shock) as well as the reaction of economic agents. Based on model simulations for the euro area, the ECB (2020a) estimates that automatic fiscal stabilizers cushion around 10% to 30% of a standard GDP shock.

The COVID-19 pandemic might have changed the size of automatic stabilizers and might have made them less effective. The size of automatic stabilizers changes if tax and benefits systems are reformed or the structure of the economy changes. In Austria, numerous discretionary measures adopted since the beginning of COVID-19 (see section 2.2) have (temporarily) changed the tax and benefits system. Moreover, the lockdowns have particularly affected Austria's economic structure: Online trading, which generally has a low wage sum and might not be liable to taxation in Austria, has gained importance, while tourism has lost importance. Also, unlike in other recessions, typically stable government revenue of state entities (such as entry fees for museums) has declined during the COVID-19 recession. The automatic stabilizers might have been less effective, as the uncer-

³ Government size is generally measured as the ratio of government expenditure to GDP.

⁴ For a comparison with other concepts, see ECB (2020a). For details on the estimation methods and the estimates, see Mourre et al. (2019), Price et al. (2014) as well as Bouabdallah et al. (forthcoming).

⁵ More technically, the cyclical change in the budget balance is given by the product of the semi-elasticity times the output gap. Hence, the change in the budget balance reflects the change in the output gap.

⁶ These estimates are, however, based on the pre-crisis calibration of the effects.

tainty is currently much higher than in a “normal” recession. The fear of contracting coronavirus when e.g. eating in a restaurant or going shopping as well as the uncertainty about future economic developments have led to larger parts of disposable income, which was supported by automatic stabilizers (and discretionary action), being saved rather than spent on consumption. Moreover, the COVID-19 pandemic was initially a simultaneous demand and supply shock; historically, however, automatic stabilizers have been generally designed to smoothen demand shocks. Given the special nature of the COVID-19 shock, the ECB (2020a) estimates the output smoothing effect of automatic stabilizers to be as much as 25% lower than in normal times.

2 Unprecedented discretionary response of Austrian fiscal policy

2.1 Overview and objectives of the measures

As the COVID-19 shock has not only been different but also faster and deeper than that of the great economic and financial crisis, countries had to resort to unprecedented discretionary action to stabilize their economies.⁷ In the early stages of the COVID-19 crisis and during the second lockdown in November and December 2020, many of the discretionary fiscal measures adopted in Austria were primarily meant to mitigate the health crisis and the damage caused by the intended temporary reduction in (economic) activity. In fact, these measures aimed at ensuring that the health care system⁸ remains fully operational and at supporting businesses and households. Compensating businesses and households for income losses suffered because of the containment measures helps underpin the economy’s production capacity. The latter would be lost if viable firms and jobs were permanently destroyed. From summer 2020 onward, the focus of the policy response has gradually shifted toward “standard” stimulus measures to restart the economy and improve its resilience to future challenges, before the second lockdown kicked in in November 2020. Similar fiscal measures were taken all over Europe and even worldwide (see IMF 2020; OECD 2020; Bruegel, 2020 and Deutsche Bundesbank, 2020).

As stated earlier, various measures were taken to ease the pressure on Austria’s health care system at the beginning of the COVID-19 pandemic. The measures with an impact on public finances include additional expenditure on personal protective equipment, additional testing devices and medical equipment (most of which was ordered via the Austrian Red Cross), campaigns to inform the general public, including the launch of the COVID-19 emergency hotline, and the promotion of R&D expenditure on the development of a vaccine or drug. Moreover, additional resources were allocated to compensating the health care sector for revenue shortfalls and regions for additional care expenditure.⁹ While COVID-19-related additional costs have been relatively contained so far (amounting to less than EUR 1 billion), they are set to increase strongly with each new wave of COVID-19 and the acquisition of a vaccine.

⁷ For details on the most important measures, see section 2.2, Baumgartner et al. (2020), Budgetdienst (2020a–f), Ministry of Finance (2020) as well as the respective laws and regulations.

⁸ Estimates of the overall health-related costs caused by the COVID-19 pandemic are not available at present.

⁹ For further details, see table 7 in Budgetdienst (2020a).

In the initial stage of the COVID-19 crisis and during the second lockdown in November and December (phases Ia and Ib in table 1), important measures were also enacted to protect jobs and support households and families. The use of short-term work – which, in Austria, was a well-established policy tool in certain industries already before the COVID-19 crisis – was generously extended. Subsidies for short-term work not only helped save jobs and ensure that production could be restarted quickly after the end of the lockdown, but also cushioned negative social effects, protecting many employees from large income losses due to unemployment. Likewise, transfers from the hardship fund to micro businesses and self-employed persons and a special fund for artists provided compensation for income losses and can be considered “unemployment benefits” for the self-employed. Furthermore, assistance to long-term unemployed persons, which had previously amounted to 92% of unemployment benefits, was raised to the level of unemployment benefits. Families in need were supported via the family hardship fund and the fund for school event cancellation fees. Moreover, moratoria were introduced for rent payments as well as mortgage and non-mortgage loan repayments.

Support measures for businesses carry the most weight in quantitative terms. This is particularly true if short-term work schemes and transfers from the hardship funds are counted toward support for firms and not for households.¹⁰ Non-profit organizations (NPOs) were supported via a separate fund to enable them to keep up their activities. Additional measures were designed to support businesses through liquidity-enhancing measures, such as deferrals of tax payments and social security contributions, tax debt moratoria and the reduction of tax prepayments. Furthermore, businesses that were healthy before the crisis could apply for a subsidy to cover fixed costs. In addition to the fixed cost grant, firms could take advantage of guarantees for bank loans to strengthen their liquidity position. Moreover, several moratoria were introduced for businesses. During the second lockdown starting in November 2020, businesses that were closed down by law were entitled to payments of up to 80% of the turnover generated during the same period last year.

The fiscal measures adopted since the summer (phases II and III in table 1) extended, on the one hand, existing programs and focused, on the other hand, on “classic” stimulus measures to encourage (private and public) consumption and investment. Cutting income taxes and raising the negative income tax rate increased disposable household income, as did two one-off payments to unemployed people and a one-off child benefit payment. These measures were meant to stimulate consumer demand, in particular from liquidity-constrained households. At the same time, the funds earmarked for active labor market policies were increased. The focus was put on upskilling and reskilling to meet the requirements of a digitalized and knowledge-intensive economy. Investment activity was encouraged by helping businesses avoid liquidity shortages (carryback of 2020 losses to profit earned in the previous year(s), cuts in VAT in the hospitality sector, publications and culture) and by giving them investment incentives (higher short-term tax credits based on accelerated depreciation, investment premium).

¹⁰ *ESA 2010 accounting conventions seem to allow for recording short-term work benefits either as transfers to households or as subsidies to firms. In Austria, they are recorded as subsidies to firms, while transfers from the hardship funds are recorded as social benefits to households.*

Furthermore, the government has announced a number of (investment) measures aimed at increasing the medium- to long-term growth potential and fostering the greening of the economy (phase III). Financial support for regional and local authorities suffering considerable income losses as a result of the COVID-19 containment measures takes inter alia the form of higher federal funding for regional and local projects and investments.

To counter the impact of the COVID-19 pandemic, unprecedented measures were also introduced at the EU level, most importantly the SURE (temporary Support to mitigate Unemployment Risks in an Emergency) and the NextGenerationEU (NGEU) instruments. Under the SURE instrument, financial assistance is provided in the form of loans to Member States (amounting to EUR 100 billion) to fight the negative economic and social consequences of the coronavirus outbreak on their territory. The NGEU, the second temporary recovery instrument (amounting to EUR 750 billion) provides swift loans (of up to EUR 360 billion) and grants (of up to EUR 390 billion) to Member States to support national fiscal measures with a focus on strengthening recovery and resilience (European Council, 2020). The total envelope should be disbursed by 2026 and will initially be financed through the issuance of EU debt which will later be paid back by the receiving Member States (loans) or future EU budgets (grants), respectively. Austria may be allocated grants of approximately EUR 3 billion or 0.8% of GDP (European Commission, 2020).¹¹

2.2 The measures in detail

This section provides a more detailed description of the most important measures in quantitative and economic terms. The quantifications indicated in table 1 are based on established maximum spending amounts, as originally provided for in government budgets, or on estimates, as set out in legislative proposals. However, they do not necessarily correspond to the “most likely” fiscal projections or maximum amounts according to EU state aid provisions. Moreover, the amounts of some measures (e.g. short-term work in 2021) can easily be increased by way of a decree, while the amount of tax deferrals shown in table 1 only reflects the indicative announcement made by the government without the need for budgetary provisions. Some measures, in particular investment measures, have been scheduled for a period of several years; in these cases, the table shows the total amount of expenditure budgeted over time.

¹¹ This amount is derived from European Commission (2020). However, these allocations are based on EU grants amounting to EUR 500 billion, which corresponds to the amount specified in an early European Commission proposal for the NGEU. According to the European Commission (2020), grants allocated to Austria under the Recovery and Resilience Facility (the centerpiece of NGEU) come to EUR 2,995 million and the funds under ReactEU to EUR 207 million. Grants under the Rural Development and Just Transition funds have not yet been allocated. As Austria's gross national income (GNI) share amounts to 3% of the EU's GNI, its share in the financing of the grants comes to approximately EUR 11 billion, to be paid for by future GNI contributions to the EU budget.

Table 1

Largest fiscal measures to strengthen Austria's resilience and support recovery

	Economic phase	Receiving sector according to ESA 2010	2020	2021	2022 or not attributable to years	Payout (cut off December 15 th 2020)	Impact on	
							Maastricht deficit	Maastricht debt
<i>EUR million</i>								
1 Expenditures								
Short-term work (max.)	Phase Ia, Ib & II	C	12,000	1,500		5,168	yes	yes
Corona labor foundation	Phase III	C/HH		700		n.a.	yes	yes
Hardship fund; fund for artists (max.)	Phase I & II	HH	2,000 (90)			709 (24)	yes	yes
Fixed cost grant to businesses that lost sales (max.)	Phase Ia, Ib & II	C	12,000			316	yes	yes
Payments to Austrian Airlines	Phase II	C	150			150	n. a.	yes
Net turnover compensation	Phase Ib	C	3,000			1,422	yes	yes
Funds for NPOs (including sports leagues)	Phase I&II	HH	700	285		172	yes	yes
Investment premium for new investments (7% or 14%)	Phase II	C			2,000	5	yes	yes
Family hardship fund	Phase I	HH	130	70		89	yes	yes
Alignment of long-term unemployment benefits with unemployment benefits	Phase I	HH	90			n.a.	yes	yes
One-off payments of unemployment benefits (spring: EUR 450/person; winter: EUR 150–450/person)	Phase II & Ib	HH	198 + 200			181 + 183	yes	yes
One-off child benefit (EUR 360/child)	Phase II	HH	708			665	yes	yes
2 Revenues								
Cut of personal income taxes in the lowest tax bracket to 20% (before 25%)	Phase II	HH	-1,375	-1,725		automatic	yes	yes
Increase of negative income tax (i.e. reimbursement of social security contributions)	Phase II	HH		-100		automatic	yes	yes
Cut of VAT to 5% for hospitality sector, publications and culture	Phase II	C	-900	-1,250		automatic	yes	yes
Carryback of 2020 losses to 2019/2018	Phase II	C/HH	-2,000	-2,000		automatic	yes, self-reversing	yes, self-reversing
Degrassive depreciation for investment and faster depreciation for immovable property	Phase II	C		-280		automatic	yes, self-reversing	yes, self-reversing
3 Announced public sector investment programs								
Local government investment program (2020–2024)	Phase II & III	HH/C			2,000	155	yes	yes
Master plan for digitalization of education (2021–2024)	Phase III	HH			235	n.a.	yes	yes
Scaling up of renewable energy (2020–2022)	Phase III	HH/C			260	n.a.	yes	yes
Renovation initiative (2020–2022)	Phase III	HH/C			750	n.a.	yes	yes
Ecological investment (incl. single public transport travel pass for Austria)	Phase III	HH		507	740	n.a.	yes	yes
School development plans (2020–2030)	Phase III	HH/C			2,400	n.a.	yes	yes
Climate-friendly investment (2020–2022)	Phase III	HH/C		100	300	n.a.	yes	yes
Start-up initiative (2020–2022)	Phase III	C			450	n.a.	yes	yes
Digitalization (2020–2022)	Phase III	HH/C			100	n.a.	yes	yes
Broadband investment	Phase III	HH/C			1,000	n.a.	yes	yes
4 Guarantees								
Guarantees (max.)	Phase I	C	9,000			2,919	only if called	only if called
Guarantees from the Austrian COVID-19 funding agency COFAG (EUR 15 billion in total for guarantees and fixed cost grant & net turnover compensation)	Phase I	C	7,375			3,712	only if called	only if called
5 Tax deferrals and reduced tax prepayments (announced by Federal Ministry of Finance, but no max. amount or legal ceiling)								
	Phase I	C	-10,000			-6,390	partly	yes

Source: Authors' compilation based on Ministry of Finance and Budget Office information.

Note: All amounts are maximum amounts taken from the impact assessments with regard to the relevant law, from regulations, maximum budgeted amounts as indicated in the government budgets of 2020 and 2021 and announcements made by the government (public investment). HH = household sector; C = corporate sector.

Expenditures

Short-term work scheme, Corona labor foundation (Kurzarbeit, Corona-Arbeitsstiftung): Under the Austrian short-term work scheme, companies pay salary for reduced working hours only, while the remaining costs are covered by the state. The pre-pandemic short-term work scheme was adjusted to meet the needs during the COVID-19 crisis. From March 2020 onward, work time could be cut by as much as 90% during the short-term work period (work time could, temporarily, also be set to zero), with employees receiving 80%, 85% or 90% of their previous net earnings, depending on their original salary (the higher the original salary, the lower the income replacement rate). In October, the short-term work scheme was extended by another six months (until March 31, 2021), with the cut in working hours being limited to 70%. Employees working reduced hours are encouraged to attend education and training activities. During the second lockdown in November/December, initial regulations for short-term work were reinstated, allowing for a reduction in working hours by up to 100% in a given month (indicated as phase Ib in table 1). Overall, a total of EUR 12 billion was budgeted for short-term work payments in 2020. The amount requested and approved until November 15, 2020, amounted to EUR 8 billion, of which EUR 5.2 billion have been paid out so far (Budgetdienst, 2020i). The difference between the amount requested by and the amount disbursed to companies is largely due to the fact that companies requested higher amounts than actually needed, i.e. the reduction in working hours has proved to be lower than anticipated. The Corona labor foundation provides additional means for active labor market policies, focusing, in particular, on the upskilling and reskilling for jobs in the areas of long-term care, education, environment and digitalization. Free time due to short-term work arrangements should be spent on training. Unemployed persons who participated in training activities for at least four months were entitled to a retraining benefit payment in addition to unemployment benefits.

Hardship fund (Härtefallfonds): Transfers from the hardship fund to severely affected micro businesses (including private landlords and farmers) and self-employed persons are intended to compensate for losses in self-employment income. These transfers can likewise be considered “unemployment benefits” for the self-employed, with the possibility of requesting subsidies for each month from March 16, 2020, to March 15, 2021. The maximum total support (income compensation and “comeback bonus”) amounts to EUR 30,000. While applicants received an immediate one-off payment of a maximum of EUR 1,000 in payout phase 1, payout phase 2 grants subsidies of up to EUR 2,000 per month plus a monthly “comeback bonus” of EUR 500. The fund is administered by the Austrian Federal Economic Chamber and Agrarmarkt Austria (for private landlords and farmers); its overall envelope amounts to EUR 2 billion. In addition to the hardship fund, a separate fund amounting to EUR 90 million was set up for artists. Eligibility requirements and payouts are based on applicants’ registration with the artists’ social security fund, without further conditionality.

Fixed cost grant to businesses that lost sales (Fixkostenzuschuss): The fixed cost grant is set up in two phases: In phase 1, companies that suffered sales losses of at least 40% due to the measures adopted to contain the spread of COVID-19 may apply for a grant. To be eligible, companies’ fixed costs must have been incurred between March 16, 2020, and September 15, 2020. Within this period, companies

are free to choose one to three continuous periods over which they calculate the loss in sales and their fixed costs. The grant is scaled according to the sales losses and covers up to 75% of fixed costs up to a maximum of EUR 90 million per company (see table 2). Fixed costs that qualify for the grant include rents, insurance premia, interest for capital costs, electricity/gas bills, loss in value of perishable goods and employer's salary; however, depreciation of investment and credit repayments are not included. The grant is paid out in three tranches, with the first tranche payment coming to 50% of the total grant. While the first tranche is paid out based on companies' estimates of losses, the remaining tranches will only be paid out upon submission of a certificate confirming the sales losses and fixed costs by a tax accountant.

Phase 2 of the fixed cost grant extends from September 16, 2020, to June 30, 2021, and supports companies that suffered sales losses of at least 30% for a single consecutive period of one to 10 months or two consecutive periods. In accordance with European state aid provisions, the extension of the fixed cost grant regime is based on two alternative instruments of the Temporary Framework adopted by the European Commission. These may be chosen freely.

Model 1 offers aid in the form of swift direct grants of up to EUR 800,000 per company¹² and covers the fixed costs of companies facing sales losses of at least 30% (scaling was dropped). Moreover, it allows for an extended catalog of eligible fixed costs (including depreciation of investment, lease payments and frustrated expenses). Applications do not require extended documentation, which reduces the administrative burden for applicants and allows for faster payouts. Given the restricted amount of aid, this model is mainly intended to benefit small businesses. Model 2 provides support of up to EUR 3 million for uncovered fixed costs that are not covered by profit contributions (i.e. revenues minus variable costs). To be eligible, companies must have suffered sales losses of at least 30%; the aid will help them pay 70% of their fixed costs (or 90% in case of small businesses).¹³ Companies may apply for the phase 1 scheme until August 31, 2021, and for the phase 2 schemes until December 31, 2021.

Table 2

Fixed cost grant to businesses

Phase 1 (March 16 to September 15, 2020) for up to 3 months		Phase 2 (September 16, 2020 to June 30, 2021) for up to 10 months	
sales loss	fixed cost grant	sales loss	fixed cost grant
%			
40–60	25 (max. EUR 30 million)	Model 1: 30–100	30–100 (max. EUR 0.8 million)
60–80	50 (max. EUR 60 million)	Model 2: 30–100	70–90 (max. EUR 3 million)
80–100	75 (max. EUR 90 million)		

Source: Ministry of Finance (directives).

¹² European state aid provisions limit the overall amount of subsidies of model 1 to EUR 800,000 (including 100% guarantees, fixed cost grant and net turnover compensation) per company.

¹³ In line with state aid provisions, model 2 is subject to the approval by the European Commission, which was granted in December 2020. Model 1 is not subject to approval, as it is part of an umbrella scheme that was already approved by the European Commission in April 2020. Businesses can switch from model 1 to model 2 once.

For both the phase 1 and the phase 2 schemes, the allocated budget amounts to EUR 12 billion. The national airline company Austrian Airlines received EUR 150 million out of this fund; these transfers were based on additional regulations, however.

Net turnover compensation (Umsatzersatz): Those sectors that were instructed to close by the government during the second lockdown in November/December 2020 are entitled to compensation totaling up to 80% of their turnover based on turnover figures of November 2019. The measure is particularly aimed at those sectors that were already forced to close on November 3, 2020, such as hotels, restaurants as well as cultural and recreational facilities (including betting offices). Businesses that were only closed later (on November 17, 2020) are entitled to 80% of turnover compensation only if their revenue loss cannot be compensated for at a later point in time. This basically holds for businesses offering personal services, such as hairdressers or masseurs. For other businesses, the compensation rate comes to 20%, 40% or, at maximum, 60%, as it is assumed that they can make up for the temporary revenue loss during the lockdown with increased sales later on. While these businesses cannot apply for the fixed cost grant in parallel to the turnover compensation, there is no other conditionality, i.e. any other subsidies, such as short-term work schemes, or turnover generated from delivery/takeaway services or online sales will not need to be offset.¹⁴ Moreover, unlike in Germany, there is no limit to the turnover achieved during the lockdown period to be eligible for turnover compensation. Requests had to be submitted by December 15, 2020; payout should be completed by end-December 2020. Extended net turnover compensation could be claimed by businesses that were still in, and had to go back into, lockdown in December (in particular hotels, restaurants, recreational as well as cultural services, and since December 26, almost all other businesses), which entitles them to compensation of 50% of their revenue loss. An overall amount of EUR 3 billion is budgeted for this measure.

Fund for NPOs including sports leagues (NPO-Unterstützungsfonds inkl. Sportligenfonds): The NPO fund gives subsidies to NPOs operating in all areas of society, such as church organizations, volunteer fire brigades and clubs in top sports leagues that suffered revenue losses due to limited activities. The NPO fund aims to help organizations continue to carry out their statutory activities by basically replacing the same costs as phase 1 of the fixed cost grant did (an additional lump-sum payment of 7% of revenues can be requested). The fund is limited to the amount of loss of income; its funding period originally extended from April 1, 2020, to December 31, 2020, but has recently been extended to March 31, 2021. The overall envelope of this fund amounts to EUR 700 million in 2020 and EUR 285 million in 2021.

Additional one-off payments of unemployment benefits, child benefit payment: In September, people who received (long-term) unemployment benefits for at least 60 days between May and August 2020 received a one-off payment of EUR 450. Moreover, a second one-off payment amounting to up to EUR 450 was disbursed in December, depending on the length of unemployment between September and end-November. Families were supported by an additional one-off child benefit

¹⁴ At the time of writing, compensation for businesses indirectly affected by the lockdown (e.g. businesses in the supply chain of hotels, restaurants, etc.) was also under discussion.

payment amounting to EUR 360 per child. For these measures, an envelope of around EUR 1 billion was budgeted.

Investment premium (Investitionsprämie): The premium is provided via a grant to companies carrying out new investments in tangible and intangible depreciable fixed assets in Austria. Applications for funding may be made between September 1, 2020, and February 28, 2021; during this period, initial measures related to investments have to be carried out. New investments in climate-damaging assets, undeveloped land, financial assets, company takeovers and capitalized own services are explicitly not eligible for funding. For new investments in the areas of digitalization, greening and health/life sciences, the investment premium will be doubled from 7% to 14%. The eligible investment volume ranges from EUR 5,000 (sum total of all investments per funding application) up to a maximum of EUR 50 million. The allocated budget originally amounted to EUR 2 billion for the years up to 2024 but has recently been extended to EUR 3 billion, as the original budget had already been depleted in December 2020.¹⁵

Revenues

*Income tax reform*¹⁶: In July 2020, the income tax reform led to a cut in income tax in the lowest tax bracket (i.e. for taxable incomes from EUR 11,000 to EUR 18,000) from 25% to 20%, which implies a lower entry rate for all incomes. At the same time, to relieve employees who are not liable to tax, the negative income tax was increased by EUR 100¹⁷, which reduced the fiscal burden for low income earners by EUR 100. While the tax cut was only enacted in July 2020, it applies retroactively for the 2020 calendar year. The budgetary impact of the wage tax cut is already materializing in 2020, while that of the income tax cut and the negative income tax will only materialize in 2021 when the income tax returns have been filed.

Temporary reduction in VAT: From July 2020 onward, VAT was reduced to 5% for hotels and restaurants as well as the publication and cultural sector. Previously, VAT for hotels came to 10%, as did VAT on food and publications, while a VAT of 20% and 13% was levied on restaurants and the cultural sector, respectively. The measure was originally scheduled to expire by the end of 2020 but was extended until the end of 2021. At the same time, a reduced VAT rate of 10% for repair services was passed.

Loss carryback: Since July 2020, losses incurred in 2020 can be offset against profits of 2019 and, under certain restrictions, against profits of 2018. A maximum of EUR 5 million in losses may be carried back. This results in a refund of taxes paid in previous years. Previously, losses could only be carried forward and thus offset against profits in subsequent years. By carrying back losses, the latter can be claimed earlier for tax purposes and even if there are no more profits in the future.

¹⁵ Further increases were already requested by opposition parties.

¹⁶ The proposal submitted to the Austrian Council of Ministers (Vortrag an den Ministerrat) on January 30, 2020, already included plans to cut personal income taxes, albeit only from 2021 onward.

¹⁷ Technically, the surcharge on the deduction on transport was increased from a maximum of EUR 300 to a maximum of EUR 400 for low income earners. Together with the corresponding increase of the maximum reimbursement of social security contributions by EUR 100, this implies that the fiscal burden was decreased by EUR 100 for low income earners.

Degressive depreciation for investment: From July 1, 2020, onward, firms can apply the declining-balance depreciation method – as an alternative to straight-line depreciation – when handling movable assets. Up to 30% of an asset’s residual book value can be depreciated, so that a higher proportion of the acquisition costs is depreciated in the first few years of the asset’s useful life. Certain environmentally harmful goods, such as buildings, cars, tank and pump systems as well as aircrafts may not be depreciated using this method. For buildings a separate form of accelerated depreciation was introduced, which allows, in the first year, for three times and, in the second year, for twice the normal depreciation rate.

Tax deferrals and reduced tax prepayments: To provide immediate liquidity to firms, the government introduced tax deferrals, reduced prepayments of individual and corporate income tax and deferred interest payments for tax liabilities. The measure took effect in March 2020 and is announced to remain in effect until the end of March 2021.

Public guarantees

Several measures were adopted by the federal government to assume liability for loans granted by banks to companies. These guarantees were initially approved by the Ministry of Finance and administered by the Austria Wirtschaftsservice Gesellschaft mbH (aws), the Österreichische Hotel- und Tourismusbank (ÖHT) and the Oesterreichische Kontrollbank (OeKB). Since April 15, this role has been taken over by the newly established COFAG, the Austrian COVID-19 funding agency, which grants most of the associated guarantees on behalf of the federal government (except for export guarantees).¹⁸ COFAG guarantees cover between 80% to 100% of the loan amount. The overall budget of COFAG was set at EUR 15 billion for fixed cost grants, other direct grants (such as subsidies for sales losses) and guarantees. The maximum budgeted amount of guarantees currently comes to EUR 7,375 billion but can be, as has already been the case, extended by way of a regulation issued by the Ministry of Finance.¹⁹

Public investment initiatives²⁰

Local government investment program: The federal government cofinances up to 50% of the costs involved in local investment programs with a particular focus on green investment. Investment programs starting between July 2019 and end-2021 are eligible for funding; completion, and hence payout of the funds, is due by the end of 2024. As the federal budget comes to EUR 1 billion, the overall budget of the measure totals EUR 2 billion, assuming full take-up of local governments.

The “*master plan for digitalization of education*” aims at modernizing communication, knowledge transfer and teaching in Austrian schools. The procedural “8-point plan for digital learning” highlights that the means provided for this

¹⁸ The operational work done by COFAG is limited, as it largely remains with the aws, the ÖHT and the OeKB.

¹⁹ In line with state aid provisions, this amount can be extended to up to EUR 9 billion within the existing COFAG budget of EUR 15 billion (at the expense of amounts that may be allocated to subsidy instruments). In case subsidy and guarantee payouts exceed the current COFAG budget of EUR 15 billion, the corresponding legal framework would need to be adjusted.

²⁰ While digital and green investment initiatives already featured prominently in the government program of 2020, the design, scope and timing of public investment initiatives were adjusted in the course of the COVID-19 pandemic.

initiative should be primarily used for modernizing existing and providing new IT infrastructure (e.g. tablets for students). The *school development plan*²¹ comprises school building projects that are based on educational, ecological and demographic aspects.

The budget for *restructuring/renovation investments* was increased to a total of EUR 750 million. Eligible projects have to be implemented between January 2020 and end-June 2022.

Increased funding is provided for *investments in climate-friendly innovations and industries* to help build the Austrian economy on a sustainable basis. Investments in climate-friendly innovations and industries include innovation programs that have a positive effect on the environment and the climate (e.g. research into phasing out fossil fuels). Also, this measure aims to increase Austria's participation in European research initiatives. A budget of EUR 300 million is earmarked for innovations in the field of climate protection and future technologies.

Further support for *greening investments* includes subsidies amounting to EUR 300 million for the expansion of public transport (by introducing the “1-2-3 ticket,” a single public transport travel pass for Austria) and for water ecology. *Record levels of investment* are also expected in other areas of public transport, namely in railway infrastructure (especially large tunnel projects) and in other outsourced public entities (see Ministry of Finance, 2020). Another EUR 1 billion is earmarked for investments in *broadband infrastructure* until 2030. Of this amount, EUR 166 million are budgeted for 2021.

2.3 Effectiveness of the measures, incentives and possible issues in the future

The academic literature²² has long criticized the use of discretionary fiscal policy due to its policy lags: First, it takes time until a problem is recognized (recognition lag); second, time elapses until a decision is taken on the exact action to be taken (decision-making lag); and third, implementing the decision, e.g. by way of legal acts, also takes some time (implementation lag). These long and variable policy lags are usually brought forward as the main arguments against the use of discretionary fiscal policy for stabilization purposes. However, these lags were not an issue during the COVID-19 pandemic, with the first set of financial aid already being implemented in March 2020, right at the beginning of the lockdown. Moreover, given the size of the economic downturn, discretionary measures – which generally have considerable stabilizing power via their high multipliers in downturns – were needed to stabilize the economy and correct market failures.

Effectiveness of the measures

Nevertheless, there still remains a fourth lag with respect to the effectiveness of fiscal policy, namely the effectiveness (or operational/impact) lag, which is the amount of time it takes to produce the desired results. One of the desired results of the policy measures taken to contain COVID-19 was to provide immediate liquidity to firms by either temporary provisions (tax deferrals, credit guarantees) or non-repayable grants (fixed cost grant). Judging from information provided by the Ministry of Finance (2020) and the Budget Office (see monthly reports of the

²¹ This investment initiative already existed before the COVID-19 pandemic.

²² Seminal contributions were made by Ando and Brown (1963) and Taylor (2000).

Budgetdienst (Budget Office), 2020a–e), tax deferrals were granted swiftly, as the number of filed and processed applications corresponds to that of approved applications. This is also the reason why the approved budget amount (“Payout” in table 1) is rather high compared to the original budget estimate. The number of bank guarantees provided is slowly increasing. While state guarantees support the provision of bank loans, banks are increasingly restrictive in providing company loans (see Hubmann, 2020), given that the remaining risk (up to 20%) remains with them in the current period of high economic uncertainty. What remains puzzling, however, is the low payout of the fixed cost grant to companies, which was already implemented in April 2020. Given the low number of filed applications, which – also in this case – broadly matches the number of approved and paid out applications, take-up by companies seems to be very low. This implies, in turn, that the effectiveness of this measure in providing swift liquidity to companies has been very limited. Reasons for this low take-up could include (i) the administrative burden involved; (ii) low payout entitlement in phase 1 of the fixed cost grant; and (iii) optimizing behavior on the part of companies. As regards the (i) administrative burden, the payout can be requested in three tranches. While tranche 1 can be requested based on estimated losses, companies’ eligibility for the remaining tranches needs to be testified by a tax accountant. This might induce companies to only file the requests when submitting their annual financial statements, for which a tax accountant is needed anyway. As far as (ii) low (expected) payout is concerned, in phase 1, the fixed costs eligible for the grant were defined very restrictively. They did not comprise costs for depreciation of investment and lease payments. The low expected payout together with the considerable administrative burden might have deterred companies from requesting the grant. As to (iii) companies’ optimizing behavior, companies might have waited to apply for the grant until the end of the period of eligibility to be able to identify the period with the largest sales losses for sure. We assume that the lockdown phase was the period with the largest sales losses. Whatever the reason for the low take-up might be, it indicates that the instrument has not been very effective in swiftly providing liquidity so far, unless we assume large positive confidence gains from its mere existence.

The financial aid directed to households (also via firms) seems to have been more effective. For short-term work payments, the amount requested and approved until November 15, 2020, amounted to EUR 8 billion, of which EUR 5.2 billion have been paid out so far (Budgetdienst, 2020i). According to the Ministry of Finance (2020), the difference between the amount requested by and the amount disbursed to companies is largely due to the fact that companies requested higher amounts than actually needed. In other words, the reduction in working hours has turned out to be lower than anticipated. Moreover, increased long-term unemployment benefits as well as one-off social benefits and wage tax cuts were immediately effective in increasing disposable household income. However, the measures have been less effective in increasing households’ consumption expenditure – and thereby in stimulating the economy (Budgetdienst 2020g). Due to the high economic uncertainty, precautionary saving has increased considerably (see ECB, 2020b). In Austria, the saving rate rose considerably from 8% in 2019 to roughly 14% in 2020.

Measures intended to influence companies' investment decisions have been partly effective. While recent research (Devereux et al., 2020) has shown that during times of high uncertainty, many companies do not engage in investment projects, investment premium payouts have already depleted the budgeted amount. We assume high deadweight effects (compare also Budgetdienst 2020g), which means that firms would have carried out investment projects anyway, despite the high economic uncertainty. Degressive depreciation means higher depreciation in the first few years of an investment. Higher depreciation reduces profits and thus implies higher tax relief in the first few years, while profits and tax liabilities increase in the following years. However, if companies do not have taxable profits (or if they have large losses to carry forward to offset current profits), such incentives are largely ineffective (Devereux et al., 2020).²³

Public investment initiatives are effective in stimulating the economy, unless they are crowding out private investment. The bulk of public investment appears to be building/infrastructure investment. Although some investment initiatives have a green focus (e.g. investment in public transport or renewable energies), it is unclear to what extent infrastructure investment can support an efficient transition to a knowledge-based, digital society and hence increase potential growth after the crisis. Since there has been considerable private construction activity during the COVID-19 crisis, additional public investment might result in price increases, thus crowding out private investment, without considerable effects on overall economic activity. Moreover, as investment projects typically span over several years, they might end up providing a late fiscal impulse that turns out to be procyclical at last and is therefore not effective as a stabilization measure.

Incentives and possible issues in the future

While being effective, some measures might not provide the right incentives. One matter of concern are the deadweight effects associated with the investment premium, i.e. the fact that companies get subsidies for investments which they would have made anyway (usually replacement investment) (see also Budgetdienst, 2020g). Moreover, the local government investment program does not encourage green investments or fast implementation of projects by providing e.g. higher co-financing rates (see Budgetdienst, 2020h). The stepwise structure of reimbursements in phase 1 of the fixed cost grant might encourage companies to curb their economic activity to stay above the respective thresholds (see table 2) to receive higher subsidies (see Pichler et al., 2020). If a company suffers losses of less than 40% of its pre-corona sales, it cannot apply for a subsidy. By contrast, if the losses come to a little more than 40%, the company is eligible for a grant amounting to 25% of its fixed costs. Losses of up to 60% (80%) entitle the company to a reimbursement of 50% (75%) of its fixed costs instead of 25% (50%) if losses are lower. While the stepwise structure has been replaced with a linear setup in phase two of the fixed cost grant, the eligibility threshold of minimum losses has been maintained, albeit at a lower level (30%). Yet, even a linear grant to cover sales losses acts like a tax, with the corresponding negative incentives. Hence, Baum-

²³ Devereux et al. (2020) indicate that profit-making firms might be incentivized to bring forward investment if degressive depreciation was only provided temporarily. In Austria, however, degressive depreciation is granted permanently.

gartner et al. (2020) suggest linking grant entitlements to the sales losses of the corresponding sector rather than to sales losses of individual companies and to adapt the measure to different sectors. Another concern is that the design of several measures allows for “over-subsidization:” First, replacing 80% of the sales losses of closed businesses which are entitled to provide delivery/takeaway services or of businesses offering, inter alia, online sales allows for a profit increase compared to regular business activity. Also, short-term work schemes allow for lower costs than in the previous year. Thus, sales of even less than 20% result in higher profits compared to last year.²⁴ Second, artists registered with the artists’ social security fund are entitled to payouts without any conditionality (no social security contributions in previous years, no proof of income loss). Hence, in some cases, the payouts might exceed the revenue generated from regular artistic activity. While this over-subsidization is inherent in the design of specific measures, there is also anecdotal evidence that certain sectors will manage to achieve their internal (and sometimes very ambitious) business targets for 2020 – which were set before the outbreak of COVID-19 – thanks to generous subsidies.

Other downsides of the measures include their medium- to long-run effects. Those measures that freeze the production potential (mostly phase I measures: short-term work schemes, fixed cost grant, guarantees, tax deferrals, moratoria) may limit incentives to adjust to changed business conditions and could cause an overall loss in output by limiting the reallocation of employees between companies as well as sectors (Devereux et al, 2020). While this might not be particularly problematic during lockdown, when reallocation is de facto not possible, caution is needed when certain measures expire. For example, if short-term work schemes were terminated before the economic recovery begins, employees might be dismissed and the economic benefits of maintaining employees, and hence production potential, would be lost. These considerations were taken into account when putting into place phase II of short-term work schemes which featured slightly stricter conditions. Support for hiring new workers might also speed up the economic recovery.

Credit moratoria, the suspension of the obligation to file for insolvency and tax deferrals help sustain business until the corresponding payments become due. However, these legacies might prevent businesses from recovering (hiring new workers, making investments) and might even result in an increased number of bankruptcies. This might affect the banking sector which, in turn, might force governments to further extend current measures. This is why leading economists (e.g. Blanchard, 2020) have called for generous grants instead of credits at the beginning of the second wave of the COVID-19 pandemic in Europe. Nevertheless, governments have to make sure that the measures adopted to contain COVID-19 do not overcompensate private companies, while socializing the associated costs among society.

²⁴ While according to EU state aid provisions, overcompensation is not allowed, it is not punished for state aid amounting to a maximum of EUR 200,000 per company (de minimis provision). However, in the current crisis, this limit was raised to a maximum of EUR 800,000 per company. The amount covers 100% guarantees, direct grants (in Austria: fixed cost grant, net turnover compensation), deferrals of tax and social security payments and other types of repayable advances, loans as well as equity specific to individual sectors.

3 The budgetary impact of fiscal (re)actions

While public finances have undoubtedly contributed significantly to stabilizing the Austrian economy, the effect of this contribution on public finances is often unclear. The figures discussed vary widely: Sometimes they refer to the general government; sometimes to the federal government only (excluding state and local governments). They might focus on discretionary measures alone or they might also comprise the impact of automatic stabilizers. They might cover individual years or provide amounts covering several years. They might refer to the maximum amounts budgeted, amounts already paid out or amounts projected which are likely to be recorded as burdening the Maastricht deficit and debt levels. Moreover, recording conventions might differ, which might result in measures being reflected differently in public finances in different countries. Some expenditure measures might lead to higher deficit and debt levels immediately, while others might be recorded with a lag/lead or might only have an impact on the debt level, without being reflected in the deficit level. The different ways of recording the impact on public finances makes international comparisons difficult. Germany, for example, is usually displayed to provide a huge fiscal aid package, a large part of which includes the envelope of guarantees, which the Bundesbank projects to remain largely untapped (Bundesbank, 2020).

So far, this study has provided information on the maximum fiscal envelope authorized for the measures announced (or budgeted in the 2021 budget) by the federal government as well as on latest available information on the amounts paid out²⁵ (see table 1, column “2020”, “2021”, “2022”, “Payout”). At the beginning of the COVID-19 pandemic, the measures were only budgeted for 2020, but have since been extended to the 2021 budget.²⁶ As the measures were originally budgeted rather generously, they were not extended further in view of the second lockdown in November/December 2020. Only one additional measure was passed, namely the net turnover compensation which replaces up to 80% (50% for businesses still closed in December) of the turnover of companies that were closed by government order. Moreover, the guidelines for short-term work have been (re) adjusted to better meet the needs of impacted businesses.

Table 1 indicates whether the measures have an impact on the Maastricht deficit and debt levels (see the last and the second to last column). Expenditure on the fixed cost grant and the hardship fund deteriorate the Maastricht deficit – according to Statistics Austria at the point in time when the damage occurred. As requests for 2020 can be made until 2021,²⁷ the payouts so far, which have turned out to be rather small, are not indicative of the impact on the Maastricht deficit in 2020. Government guarantees for company loans do not show up in the Maastricht figures at the time of issuance. However, depending on their default probability, they could worsen the Maastricht deficit and debt levels in the future.²⁸ Deferrals of tax payments and social security contributions as well as accelerated depreciation

²⁵ Pay-out information ranges from end October until mid December 2020.

²⁶ According to the provisions of the 2021 Budget Law of October 2020.

²⁷ Applications for the fixed cost grant can be made until the end of 2021 and for the hardship fund until March 15, 2021.

²⁸ According to information provided by Statistics Austria, COVID-19-related guarantees are likely to be recorded at the point in time when they are called. Export guarantees are usually recorded when they are written off.

rules move the collection of tax into the future and provide immediate liquidity to firms. As deferrals do not affect the liabilities vis-à-vis the government, they are not accounted for on an accrual basis. Statistics Austria uses the accrual method of accounting for recording social security contributions, wage taxes, VAT and motor vehicle registration taxes, while basically recording cash flows²⁹ for personal income and corporate income taxes. Hence, as indicated in table 1, parts of the tax deferrals (i.e. those that are recorded on a cash basis) worsen the deficit immediately. If the government engages in borrowing to make up for these revenue losses, the debt level will increase. However, the increased debt level will be offset by a corresponding increase in assets, namely the taxes due.

The outlook for public finances largely depends on how the COVID-19 pandemic evolves. Uncertainty prevails not only about the size of the economic slump but also about the extent to which government assistance is being taken up and whether further measures will be passed. Despite this uncertainty, it is already clear that the general government surplus of 2019 will turn into a large deficit in 2020 according to the Maastricht definition. In its December 2020 outlook, the Oesterreichische Nationalbank (OeNB) projects the deficit to reach 9.2% of GDP (see economic outlook for Austria from 2020 to 2023 in this issue). While both automatic stabilizers as well as the discretionary fiscal response to the COVID-19 crisis have played an important role, discretionary measures account for a larger part of the budget deterioration. With the fixed cost grant, short-term work schemes and net turnover compensation, expenditure measures account for about two-thirds of the discretionary deterioration.³⁰ In 2021, the deficit is expected to decline, as most of the temporary measures will come to an end in 2021 at the latest and the economic situation is expected to improve. Hence, the deficit is projected to amount to 6.3% of GDP, with more than half of this decline still due to discretionary measures. Given the high deficit level and the negative GDP growth rate, it is evident that the debt level is also expected to increase in 2020, namely to 83.3%, before peaking at 86.4% in 2021 and staying elevated thereafter.

Despite the unprecedented fiscal burden that the COVID-19 crisis has put on Austrian public finances, they are not in a critical position.³¹ Fiscal policy has been sound in recent years, with low deficits or even surpluses and strongly declining debt ratios. This has created room for letting automatic stabilizers play and engaging in expansionary discretionary measures. The increase in Austria's public debt ratio is slightly higher than that observed in the aftermath of the economic and financial crisis. However, given budget surpluses in previous years and the currently very low interest rate environment, Austria might even be in a better starting position for recovery. Moreover, Austria has a proven record of reducing high debt levels effectively and successfully. Hence, Austrian public finances enjoy a high level of confidence, as indicated by low interest rates on public debt, which are even negative for long maturities. While Austrian public finances are considered sustainable according to various sustainability indicators (see the European Commission or the International Monetary Fund), low/negative interest rates

²⁹ Following an optional methodology available for calculating the Maastricht figures, Statistics Austria records cash receipts on a time-adjusted basis (phase shift).

³⁰ For further details, please refer to economic outlook for Austria from 2020 to 2023, box 3 (Reiss) in this issue.

³¹ This is especially true as the EU fiscal rules have been suspended temporarily.

should not be taken for granted. What is more, population aging might put an additional strain on public finances, in particular if the economy cannot return to its pre-pandemic growth path. Hence, some (structural) measures might be needed to restore sound public finances in a socially and environmentally sustainable way.

4 Conclusions

Together with the Eurosystem's monetary policy, Austrian public finances have played a significant role to mitigate the effects of the COVID-19 pandemic on the Austrian economy. First, automatic stabilizers have cushioned parts of the economic downturn. Second, unprecedented fiscal policy measures have been taken both in Austria and at the EU level to support the economy. In Austria, like in other EU countries, discretionary measures adopted up until summer 2020 (phase I) were mainly aimed at stabilizing the health care system and mitigating the effects of the first lockdown, while the measures enacted since summer 2020 had a twofold purpose. First, restarting the economy (phase II) by classic stimulus measures was key after the lockdowns. Second, initiatives were taken to promote private and public investments, which, ideally, support the transition to new technologies and ways of working and thus increase the economy's long-term growth potential (phase III). In any case, in the short term, public investments have a stimulating effect on the economy.

While numerous measures were taken, their effectiveness might be limited by the high degree of uncertainty with respect to future economic conditions. In particular, incentives to consume and invest might only be partially successful, as businesses and households might want to "wait and see" and save instead. Moreover, the measures might limit incentives for businesses to adjust to changed business and labor market conditions, causing an overall output loss in the long term. Design issues of certain measures (e.g. net turnover compensation) might lead to overcompensation of certain companies at the cost of society. Hence, future measures should be more targeted to sectors in need of support. However, withdrawing the measures when the economy starts to recover might also create considerable problems. This is particularly true when considering the fading out of tax deferrals or debt moratoria, as companies might face a backlog of tax liabilities and accumulated debt, which might limit their ability to invest and re-employ staff. Hence, the government might consider a slow fading out of the measures and should provide additional public investments or incentives to promote the transition to a knowledge-based digital economy by, e.g., investing more in education and training. Moreover, an evaluation of the efficiency of the measures will be particularly useful for potential future crises.

The unprecedented fiscal policy (re)actions have resulted in unprecedented deficit and high debt levels. The exact costs will depend on how the COVID-19 pandemic evolves, whether additional measures will be taken and to what extent the existing measures will have been taken up. As Austrian public finances are in a better position than at the beginning of the economic and financial crisis, their sustainability is not at risk. Nevertheless, high deficit and debt levels should be reduced in the medium term to maintain the high confidence levels in Austrian public finances in a future-oriented as well as socially and environmentally sustainable way.

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