

# BUDGET ELABORATION IN AUSTRIA

*Alin Stelian DOBRE<sup>20</sup>*

## **Abstract**

The classic annual budget should pass the floor to a multi-annual budget to accommodate the financial perspective of the EU budget because annual budget is currently used unresponsive for multiannual financing of European projects. Multiannual budget should be designed both the commitment and payment appropriations to be able to have a cash flow that does not lead to cash shortages. A modern budget consistent with the requirements of deepening European integration should meet the following conditions: a) applying generalized budgetary classification ESA (European Standard of Accounts) or GFS; b) an orderly progression of budgetary expenditure, the monthly budget deficit; c) balance the budget should be made cyclically in the recession have made higher expenses and budget deficits within 3% of GDP, while in periods of economic boom, the budget should have surplus or in balance ; d) a multiannual budget programs should be implemented based on ceilings and margins in commitment appropriations and budget appropriations; e) use of objective methods for ranking projects budget; f) Macroeconomic indicators on which it is built are often inflated budget on the revenue side in order to cover some sensitive expenditure; g) institution that assess these macroeconomic indicators should be independent of government, preferably from specialists or experts from Academy or foreigners as in Austria.

**Keywords:** multi-annual budget, budget reform, commitment and payment appropriations

**JEL classification:** A11, B22, F02

## **Main introductory items regarding budget elaboration in Austria**

Budget elaboration in Austria is a process that has evolved from a traditional, complicated and oriented toward expenditure, on a modern one, simplified, performance-oriented. At all stages calendar Austrian budget there is an interinstitutional intense dialog, no institution can decide budgetary configuration by itself.

The Institute for forecasts shall draw up macroeconomic indicators has a significant role in the establishment of the the medium term framework expenditure. In Austria, the Institute for the forecasts is independent from the Ministry of Finance, în romanian case it is subordinated.

The final decision should be taken jointly by a majority vote of those involved, the time when one person decides a certain structure are long gone in Austria, some important aspects in our continuing this practice obsolete. In Austria, Parliament has a more important role in the implementation of the budget, in any budget revision, in macroeconomic indicators change and political parties should have prominent specialists in finance and the role because Parliament has the power of co-decision in budgetary measures.

The elaboration of budget in Austria oscillates between financial discipline, a constant of the EU budget and flexibility, a prerequisite for economic development and budgetary modern vision. Austrian budgetary reform aims to create a mechanism for management and use of budget revenues more efficiently and more efficacy. The new medium-term expenditure framework has been implemented in the context of budget reform requires mandatory ceilings on spending four years prior to the five positions corresponding to the main functions of government. This framework supports sustainable development in Austria budget.

The Austrian has two different types of expenditure ceilings. Nominal fixed ceiling, expressed in euro applies to most (80%) of expenditure. The other cap is variable depending on some parameter ranges defined. This ceiling applies to expenses related to the business cycle and therefore ensures that automatic stabilizers can work properly and exercise a countercyclical influence on the economy. It uses variable ceilings for expenditure relating to reimbursements from the EU, direct

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<sup>20</sup>The Ministry of Public Finance, e-mail: alendobre@gmail.com

expenses related to revenue (ie actions financed from value added tax, expenses for hospital financing) or charges for guarantes.

## **The budget reform in Austria**

Austrian budget reform started in 2009 has achieved the following objectives:

- 1) Introduce medium-term expenditure framework, over four years, with expenditure ceilings for large groups of chapters (headings / budget lines);
- 2) Separation general discussion on fiscal policy and establishing spending ceilings for the medium-term expenditure framework (together with the report budgetary strategy) discussions on the annual appropriations of the budget;
- 3) Strengthening the role of responsible ministers, what did each Minister to be his own finance minister by eliminating many of the detailed budget appropriations and staffing plans in the annual budget law;
- 4) Setting up facility economy, allowing unused credits to be carried over at the end of the budget year;
- 5) Using performance management and results-based activities in the elaboration of budget;
- 6) accounting system was reformed and updated to introduce accrual accounting, while preserving and budget on a cash basis.

Significant reforms taken from 2009 to the present are presented below. It introduced a medium-term expenditure framework (budget year + 3 years) enacted into law, which sets binding spending ceilings at an aggregated level. Apart from this law will be presented to the budgetary strategy report that will explain economic considerations and political objectives of the medium term expenditure framework, fiscal detailed information, such as revenue forecasting and analysis on fiscal and budgetary policy. These two documents will be presented in spring (at the beginning of the second quarter), separate from the annual budget law.

In Austria, each minister is his own finance minister, the responsible minister on budget appropriations but also flexibility in the management commitment and payment appropriations that fall within his jurisdiction.

A greater emphasis was placed on the use of performance information and results to guide budget decisions.

Specific features in current Austrian budgetary process are:

The process of drafting the budget reflects most of the reforms introduced in recent years:

- fiscal legislation covering all levels of government, central and local;
- firm agreements for a coalition government for four years;
- biannual budget planning;
- independent economic assumptions;
- overall spending ceilings;
- labor control.

## **Tax regulations covering all levels of government administration**

To coordinate central and local budgets - it was introduced in 1999 "Stability Pact in Austria". Since 2001, this stability pact has set targets for deficit and surplus for a period of four years. Targets are defined in national accounts under the same conditions as applied under the Maastricht criteria Economic and Monetary Union (EMU). About a third of all government spending in Austria is carried out by local government. Local governments have their own budgets and can borrow without needing approval from the central government. However, local governments have very limited incomes. Most of their revenues come in the form of fiscal transfers from the central government. In fact, the central government collects over 95% of all taxes in Austria. It is responsible for legislation on tax and financing through grants to local governments. Austrian Stability Pact is ratified by Parliament, has the force of law and stipulates that the consolidated

budget be balanced while the central budget may have a deficit equivalent to 0.75% of GDP budget surplus should have a local equivalent to 0.75% of GDP. Pact includes sanctions if the government levels do not meet their balanced budget target. These penalties include fines to be individual or unit level administrative failed to fulfill its obligations.

### **Firm agreement for a coalition government for four years**

No political party enjoys a majority in the Austrian Parliament. Therefore, it is necessary to form coalitions between two or more parties in order to form a government. When it is creating a new government, announcing major policy objectives in a document known as the "program of the coalition government." The program's governing coalition is a document containing general policy and reform initiatives to be taken during the government's term, they are discussed budgeting issues only in general terms, in particular by establishing an explicit deficit target for each year. Ministry of Finance provides a budget forecast for the period of 4 years of government income to be received and the ceiling on the level of expenditure.

### **Planning biannual budget**

For six years, Austria has adopted a biannual budget planning horizon. However, the budget is adopted annually by Parliament as required by the Austrian constitution. The main reason for the adoption of the biannual budget was political.

It was seen as a better basis for tackling difficult reforms. In practical terms, the biannual budget provided greater safety to finance ministries, for multi-annual budgetary programs. In the absence of biannual budget planning was not implemented reform initiatives. Biannual budget should be seen as an interim substitute to medium-term expenditure framework.

### **The independently economic assumptions on which the budget are elaborated**

All macroeconomic assumptions used in the budget process are prepared by an independent institution, the Austrian Institute for Economic Research (WIFO). Austrian Institute for Economic Research produces forecasts for the Treasury, the prospect of four years used in the coalition negotiations, macroeconomic assumptions for the annual budget. The objective of the Austrian Institute for Economic Research is to forecast as accurately as possible, as close to reality and not necessarily prudent. Austrian Institute for Economic Research was founded in 1925 and is an independent legal entity standalone funded by central government. The Institute has a professional staff of about 100 people. His work is supervised by a Scientific Committee composed of independent experts Austrians and foreigners, academics, etc.

### **Overall spending ceilings**

Austrian finance ministry adopted spending ceilings for each overall chapter. Ministries are given maximum freedom to reallocate capped all expenses except staff. The ceiling for personnel expenditure is rigid. Entering nominal ceilings in euro and ceilings variables that depend on changes of macroeconomic parameters are essential elements of fiscal reform in Austria.

### **Control of labor**

Austria uses a comprehensive system of labor control in the first row of the employees in the public and in the private. These controls on labor are implemented every year together with the government budget based on legislation adopted by Parliament. The control is set at a very detailed level: significant at the level of a ministry and for each professional degree. Because the total number of positions within a ministry is decided and determined by Parliament, it can not be changed by the government. However, it is possible to adjust positions in a ministry by government decree, as long as there are no extra costs or unnecessary additional posts.

## The process of budgeting

The budget calendar traditionally begins in May, seven months before the beginning of the next fiscal year with internal preparations in the Finance Ministry and other ministries. Ministry of Finance updated baseline projections for revenue and expenditure. It maintains a comprehensive internal framework of medium-term expenditure which is updated quarterly, including the economic assumptions. Ministry uses economic assumptions that are transmitted by the Austrian Institute for Economic Research. The Ministry of Finance uses internal models to estimate the impact of demographic trends and growth rates used in updating programs. Updated baseline scenario - with multiannual targets of the general government and reform initiatives contained in the Stability Pact will size the Austrian fiscal room for maneuver for the next budget year.

The finance minister will share the findings of this exercise before presenting the Prime Minister to be elaborate in government. Prime Minister and leader of the coalition will hold talks because the political priorities must be reflected in the budget. There are no specific spending ceilings set for each ministry in this stage. To ensure that the consolidated budget indicators are in line with medium-term budgetary program of the Government, Ministry of Finance then prepares the budget targets for every major budget chapter (one or more per ministry). Orientations developed by the Ministry of Finance contain expenditure ceilings and revenue estimates for each chapter and specific accounting policies and directives for each entity. The ceilings consist of two lump sums, one for personal expenses and one for all other expenses. In addition to restricting personal spending ministries have complete freedom reallocation between different credits from the ceiling, taking into account the political priorities of the government and mandatory spending. Final spending limits are due to negotiations between ministers and ministries of finance and in some cases with the participation of Prime Minister and leader talks of coalition . At the same time, ministries will collect proposals on expenditure ceilings in the units, subsidiaries, etc. This is an exercise from the bottom up in order to draft a proposal for the composition of aggregate budget for the ministry. It should be noted that an important element of the introduction of spending limits in the global top-down approach aa budget was to strengthen the role of the central budget units in each ministry.

The Ministry of Finance has only a policy of interaction with these units. Ministries must submit proposals for the allocation of the Ministry of Finance by the end of June to July. These proposals are generally significantly in excess of the expenditure ceiling set by the Ministry of Finance. In the coming weeks, ministries and their counterpart in the Ministry of Finance meet to exchange information and discuss loan applications. On average, applications ministries are about 10% higher than the initial limits proposed by the Ministry of Finance, but the differences vary considerably between ministries. The talks were held in ad hoc meetings rather than in a formal program of meetings for this purpose default and are open. After this exchange of information and views on the levels of budgetary appropriations, officials of ministries and the Ministry of Finance will then inform their ministers will meet to solve important problems. When ministers will meet with the Minister of Finance, the amounts will be discussed at chapter level, not at every credit in each budget. The most sensitive outstanding issues between ministers and the finance minister can reach the Prime Minister. These issues are ultimately decided by the prime minister and leader of the ruling coalition. Some problems are not always solved before the budget is introduced in Parliament. Following the conclusions of the final negotiations, the expenditure ceilings for each chapter are sent to ministries. They allocate funds on a structure and provides detailed accounts of the Ministry of Finance together with related comments to be included in the budget documentation. Ministry of Finance budget document introduces these final situations .This stage also includes control of the workforce adjustment, budget staff. The situation on the labor control with the budget proposal will be presented to Parliament in late octomber. As previously mentioned, a cornerstone of the planned reforms is to introduce medium-term expenditure framework, as expenditure ceilings binding for a period of four years. In fact, a new year, the fourth would be added each year. Expenditure Framework is a document more efficiently and detailed compared to the ruling coalition program which is the key political document of the government.

If the ceilings must be changed, the government should make this explicitly, to bring arguments and propose relevant amendments in the plenary of Parliament. Introducing medium-term expenditure framework is an important measure of fiscal consolidation. The law project for the medium term expenditure framework will be accompanied by budgetary strategy report, both being presented to

Parliament in the spring (second semester) of each year. Medium term expenditure framework will be approved by Parliament and set expenditure ceilings at an aggregated level. Accompanying budgetary strategy report will be voted in Parliament; It will be developed to capture the objectives of tax - budgetary policy. These documents will not discuss individual budget appropriations but rather give Parliament an opportunity to discuss budgetary aggregates in terms of economic and fiscal general. Individual loans will be considered when the discussion on the annual budget and must be within the medium-term expenditure framework. It is important to ensure a clear division between the medium-term expenditure framework (with the fiscal strategy report) annual budget. Discussing the level of appropriations for each chapter in spring (second quarter) risk level discussions extending individual credits. This would mean that Parliament should discuss essentially the same budget twice in the same year, which can lead to blockages in the normal course of things. Medium-term expenditure framework should contribute to maintaining fiscal discipline in preparing the budget each year, being approved by Parliament before the budget negotiations between the finance ministry and ministries. The ceilings will be set for each chapter of the budget.

These chapters are grouped into five categories or headings :

- general government affairs, courts and security;
- employment, social services, health and family;
- education, research, culture and art;
- economic affairs, infrastructure and environment;
- financial management and interest.

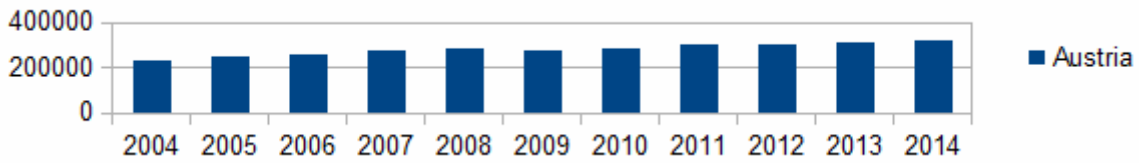
The ceilings will be mandatory at the section and chapter level for the following year ( $t + 1$ ). As detailed planning is over several years and it is difficult to predict the ceilings for the years beyond year ( $t + 1$ ) will be mandatory only at the heading, while limits at chapter are purely indicative and open to any change the ceiling box. Under each heading, there may unallocated funds to be carried forward in the coming years to cover contingencies. Access to these funds should be limited to extraordinary cases and unpredictable.

As a general rule, the ceilings are fixed. However, some expenses such as unemployment programs depend so much economic development cycle that capping is not considered feasible in advance.

Therefore, there is a limited number of variable thresholds. These limits are based on economic indicators and therefore automatically adjusted: for example, if the unemployment rate rises, the ceiling for expenditure on unemployment will rise accordingly and vice versa. The same is true for specific expenses that depend on income - for example, amounts transferred to local budgets depend on tax revenues at central level. About 20% of total expenditure falls into the category variable. The introduction of medium-term framework is in line with best practices in other countries of the OECD (Organisation for Economic Co-operation and Development). The introduction of a fixed overall ceiling - with no variable component - strengthen medium-term expenditure. Experience from countries such as the Netherlands and Sweden showed an overall ceiling of fixed costs is feasible and effective. A "margin expenditure" between projected expenditure and fixed ceiling would allow expenses to fluctuate without fiscal policy to become pro-cyclical. There concern that time and several types of expenses are reclassified as variables. The Austrian is to have a reserve level heading to fund exceptional development needs. However, there is a risk that the existence of reserves should be seen as a way to deal with unforeseen expenditure needs or new spending. Experience shows that the ministries to fund a new initiative does not appeal to domestic savings knowing that there is a reserve fund. Austrian authorities have studied this issue and also ensure that the reserve fund is used only after being exhausted source coming from domestic savings. In addition, the newly introduced budget reform has strengthened its role each ministry financed by reducing the number of lines, budgetary items and by giving ministers authority, authorizing expenditures how to distribute / redistribute funds between the various headings. Therefore, the ministries will need increased flexibility in unused carryover from year to year and controls on labor, technical staff.

## Public finance indicators in Austria

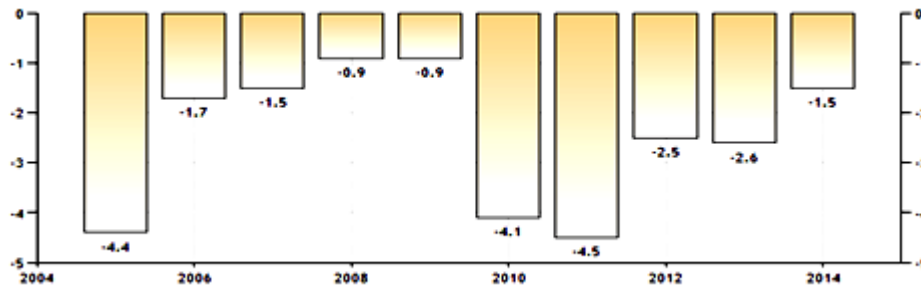
Gross domestic product in Austria rose to 313 billion euro in 2013 from 307 billion in 2012. Average gross domestic product in Austria during 1976-2013 was 177 billion euro, up from 55 billion euro as it was in 1976 to a record high in 2014 of 322 billion euro according to Eurostat.



**Fig.1. GDP in Austria, mil. Euro in period 2004 - 2014**

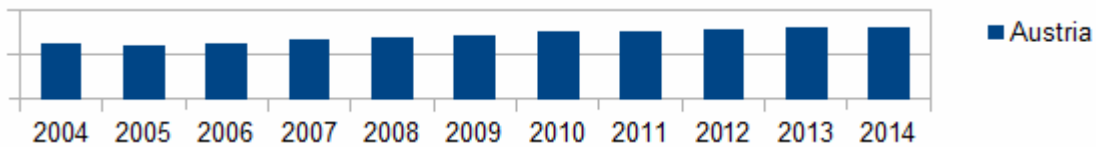
Source: interactive database EUROSTAT, <http://epp.eurostat.ec.europa.eu>

Austria recorded a consolidated budget deficit in 2014 equal to 1.5 percent of GDP. Average general government deficits in 1995-2014, period was -2.35 percent of GDP, reaching a minimum of 0 per cent of GDP in 2001 and a record low of -5.80 percent of GDP in 1995 according to data reported by Eurostat.



**Fig.2. Budget Deficit in Austria 2004 – 2014 (%PIB)**

Source: interactive database EUROSTAT, <http://epp.eurostat.ec.europa.eu>

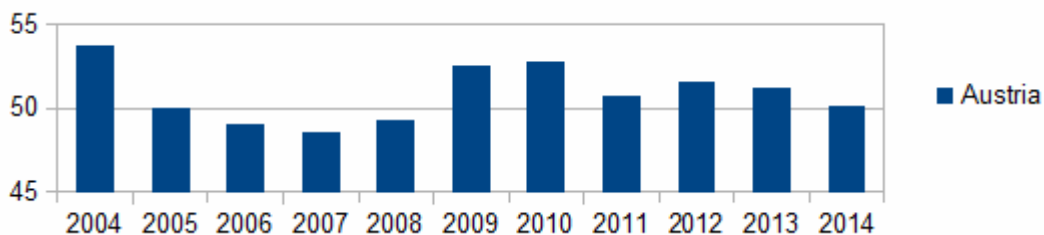


**Fig.3. Budget expenditures in Austria 2004 – 2014, mln. Euro**

Source: interactive database EUROSTAT, <http://epp.eurostat.ec.europa.eu>

Consolidated budget expenditures in Austria had an increasing trend over the last decade 2004 - 2014. Average government spending in Austria was 141 billion euros in the period 2004-2014, from 126 billion in 2004 to register as a record level in 2014, 161 billion.

But as a percentage of GDP, public spending in Austria fell from 53.8% in 2004 to register as 50.1% level of 2014. Average public spending as a percentage of GDP in Austria in the last decade was 51% of GDP.



**Fig.4. Budget expenditures in Austria 2004 – 2014 (%PIB)**

Source: interactive database EUROSTAT, <http://epp.eurostat.ec.europa.eu>

## Conclusions

Austria is a strong state, budget represents 50% of Austria's GDP. 8 million Austrians produce a GDP of 320 billion euros, 2 times more than 22 million Romanians. The implication in the economy is complex. For Austria were corrected market failures that could result in the collapse of the economic system. So they re-nationalized banks, distribution of drinking water production and distribution of electricity were re-nationalised. Their experience has shown that the transition from state monopoly to a private has adverse social consequences and the energy, water and an important part of the banking system must belong to the state.

Tax reform and budgetary must be supported by policy challenges in key areas of structural reform, with emphasis on legal reform, competition policy, privatization policy and regulatory policy service delivery infrastructure and technology, and on reforming Education and social protection (health, pensions).

Romania must follow the steps taken by Austria in budgetary reform and to move to a multi-annual budget to accommodate the financial perspective of the Community budget because the annual budget is currently used unresponsive to multiannual financing of European projects. Multiannual budget should be designed both the commitment and payment appropriations to be able to have a cash flow that does not lead to cash shortages. A budget according to EU standards should meet the following conditions: a) monthly public execution of expenditure without large gaps under budgetary programming, b) balancing the budget according to the business cycle, in the depression should be encouraged spending on investment, and in periods of economic boom have created budgetary reserve, c) multi annual nature as far-reaching programs financed from European funds are spread over several years, and their value should not be included in its entirety in year budget as is now required by law but stages, d) an institution with specialists from Academy or foreign experts independent of the government should provide macroeconomic indicators underlying budgeting.

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