



INSTITUT FÜR HÖHERE STUDIEN
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Fiscal Policies in the Corona Crisis A Macroeconomic Assessment

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Motivation

- Corona crisis and containment measures resulted in unprecedented slump in economic activity
- Austrian government reacted with very expansionary fiscal policies to protect employment (short-time schemes), income, and capital formation
- Ministry of finance commissioned a study to assess ex ante the macroeconomic effects

Baumgartner, J., Fink, M., Lappöhn, S., Moreau, C., Plank, K., Rocha-Akis, S., Schnabl, A., Weyerstrass, K. (2020), Wirtschaftspolitische Maßnahmen zur Abfederung der COVID-19-Krise Mikro- und makroökonomische Analysen zur konjunkturellen, fiskalischen und verteilungspolitischen Wirkung. Joint IHS and WIFO study, commissioned by the Austrian Ministry of Finance.

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

EUR million

1 Expenditures

Short-term work (max.)

Corona labor foundation

Hardship fund; fund for artists (max.)

Fixed cost grant to businesses that lost sales (max.)

Payments to Austrian Airlines

Net turnover compensation

Funds for NPOs (including sports leagues)

Investment premium for new investments (7% or 14%)

Family hardship fund

Alignment of long-term unemployment benefits with unemployment benefits

One-off payments of unemployment benefits (spring: EUR 450/person; winter: EUR 150–450/person)

One-off child benefit (EUR 360/child)

Phase Ia, Ib & II	C	12,000	1,500		5,168	yes	yes
Phase III	C/HH		700		n.a.	yes	yes
Phase I & II	HH	2,000 (90)			709 (24)	yes	yes
Phase Ia, Ib & II	C	12,000			316	yes	yes
Phase II	C	150			150	n. a.	yes
Phase Ib	C	3,000			1,422	yes	yes
Phase I&II	HH	700	285		172	yes	yes
Phase II	C			2,000	5	yes	yes
Phase I	HH	130	70		89	yes	yes
Phase I	HH	90			n.a.	yes	yes
Phase II & Ib	HH	198 + 200			181 + 183	yes	yes
Phase II	HH	708			665	yes	yes

2 Revenues

Cut of personal income taxes in the lowest tax bracket to 20% (before 25%)

Increase of negative income tax (i.e. reimbursement of social security contributions)

Cut of VAT to 5% for hospitality sector, publications and culture

Carryback of 2020 losses to 2019/2018

Degrassive depreciation for investment and faster depreciation for immovable property

Phase II	HH	-1,375	-1,725		automatic	yes	yes
Phase II	HH		-100		automatic	yes	yes
Phase II	C	-900	-1,250		automatic	yes	yes
Phase II	C/HH	-2,000	-2,000		automatic	yes, self-reversing	yes, self-reversing
Phase II	C		-280		automatic	yes, self-reversing	yes, self-reversing

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>								
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.

Fiscal policy measures – summary

- Austrian stimulus package is one of the largest multi-year fiscal package in Europe: 49.6 billion euro (12.6 percent of 2019 GDP)
- Support to the health care system, short-term work arrangement, liquidity support for firms (fixed cost subsidy, loss compensation), public loan guarantees
- Investment: investment premium (7% or 14%), degressive depreciation for investment
- Deferral of personal and corporate income taxes, social security contributions (3 months), and VAT payments, as well as VAT reduction in some categories.
- Reduction of the lowest income tax rate from 25 to 20 percent, planned for 2021, was brought forward to January 2020.
- In 2021, several emergency support measures have been extended in light of renewed lockdowns.

Measures considered in the evaluation

- Investment premium (7% or 14%)
- Degressive depreciation for investment
- Short-time work
- Income tax reduction
- Family hardship fund
- Higher long-term unemployment benefits
- One-off payment of unemployment benefits
- One-off child benefit

The macroeconomic model LIMA

- Structural macroeconomic model, originally developed within the LINK project of the United Nations (**L**ink **M**odel **A**ustria)
- Detailed modelling of the GDP expenditure components, the labour market, wages and prices, and the government sector
- Equations are econometrically estimated
- Annual frequency

Evaluation design

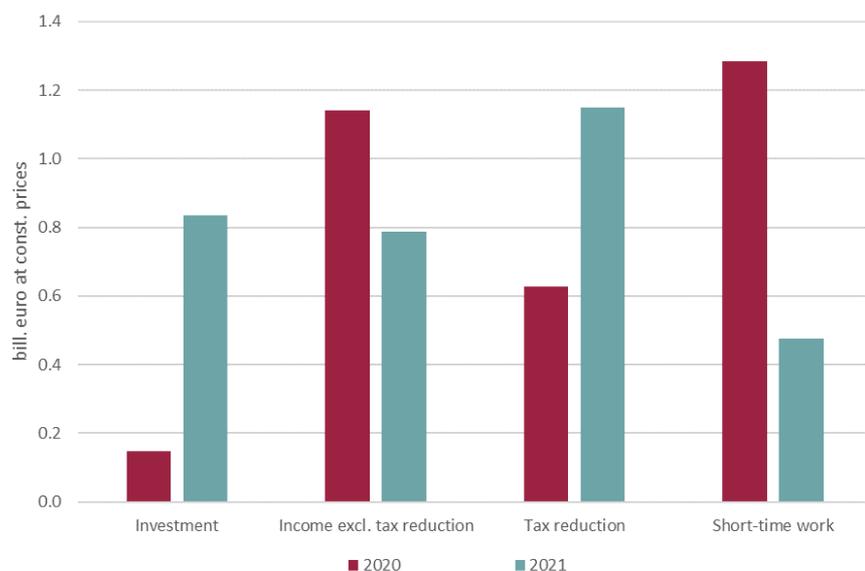
- Baseline run of the model with the October 2020 economic forecast
- Assumption: this forecast contains all measures
- Alternative scenario without these measures
- Effect of the measures: difference between the model solutions

Implementation of the measures in the model

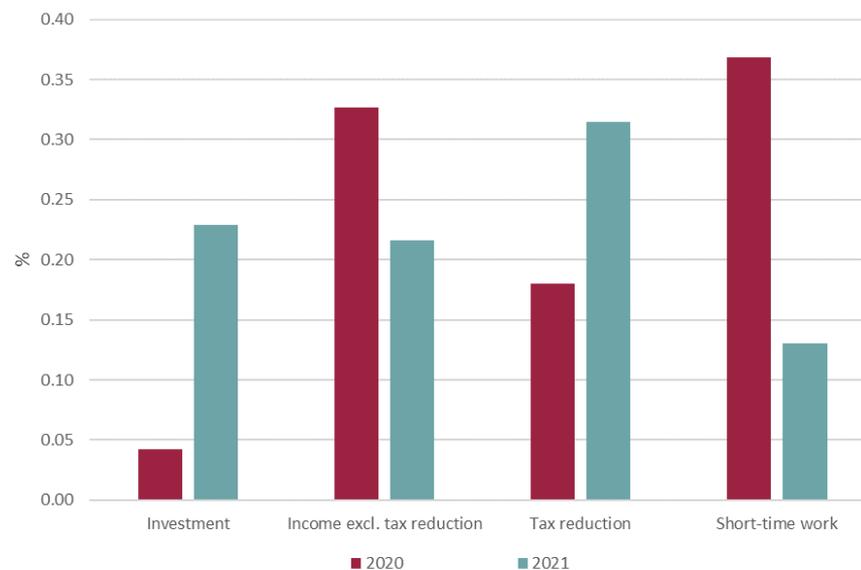
- Exogenous increase of capital formation: investment premium
- Reduction of user cost of capital: degressive depreciation for investment
- Increase of employment, subsidies and disposable income; but lower transfers to households and higher social security revenues (people would otherwise be unemployed): short-time work
- Decrease of direct taxes: income tax reduction
- Increase of transfers to private households: family hardship fund, higher long-term unemployment benefits, one-off payment of unemployment benefits, one-off child benefit

Differences between scenarios with and without measures

Real GDP (bill. euro at const. prices)

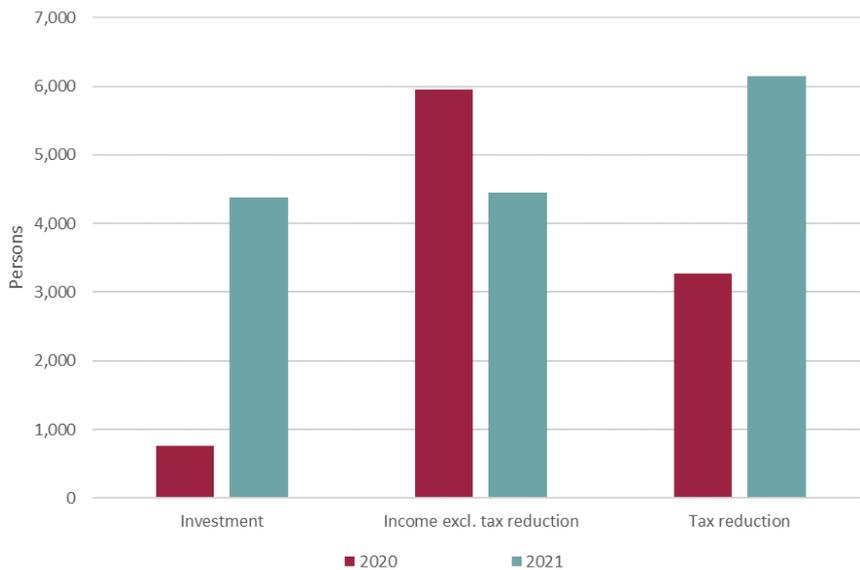


Real GDP (%)

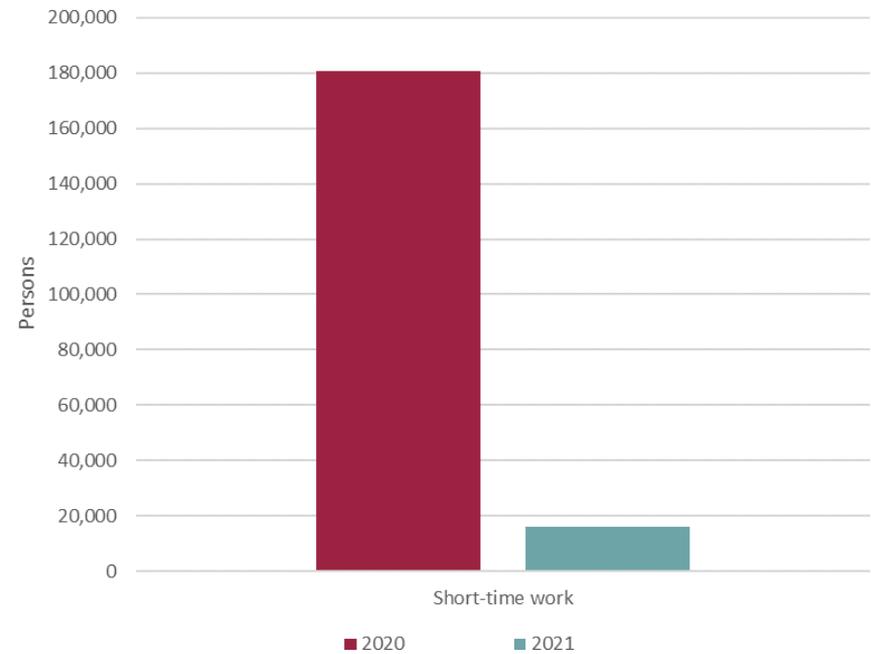


Differences between scenarios with and without measures

Employment excl. short-time work



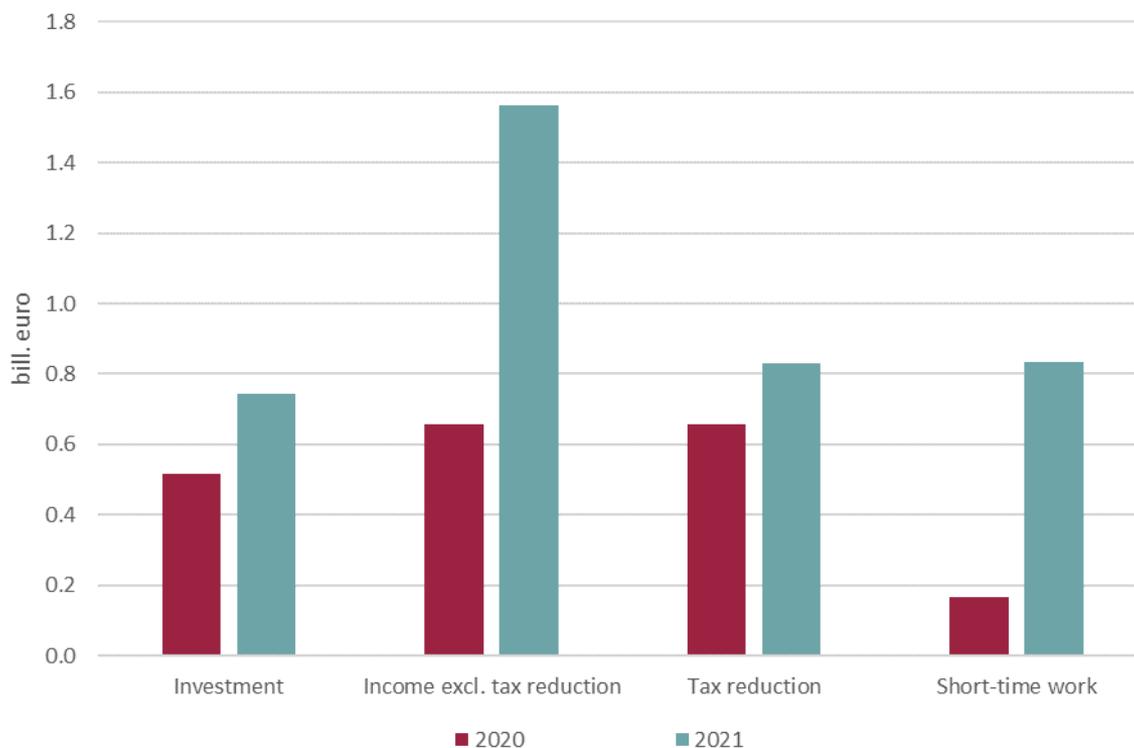
Employment short-time work



Source: Baumgartner et al. (2020), own calculations and illustration

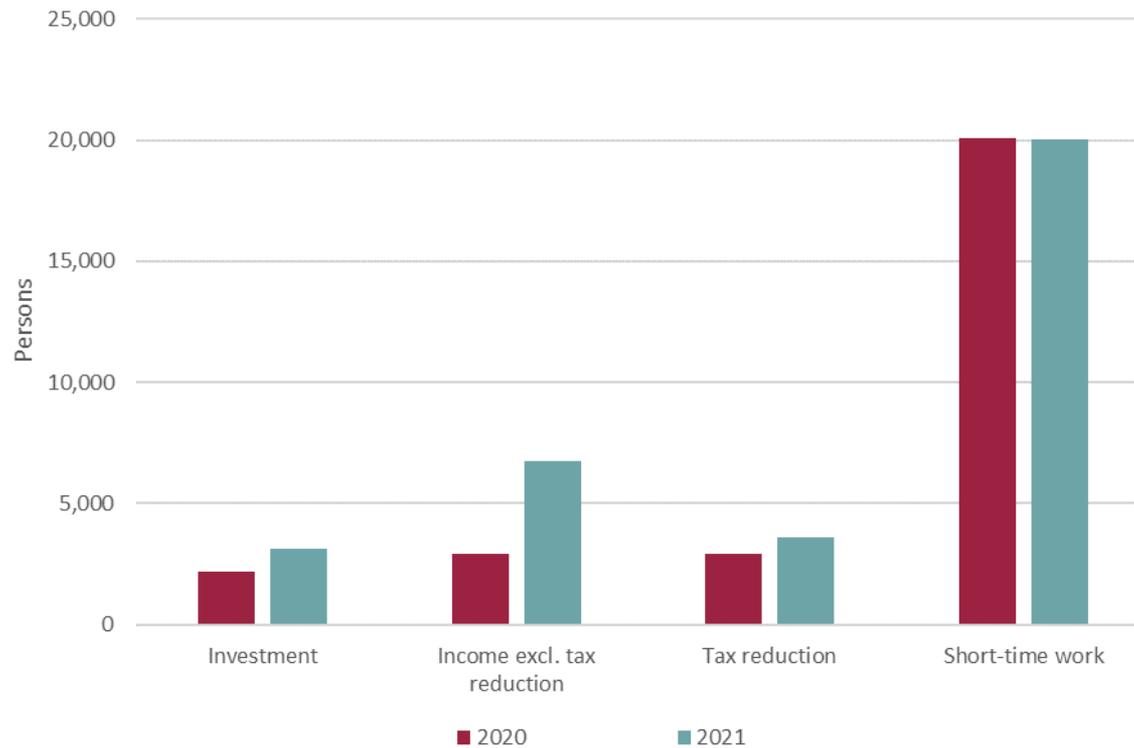
Multipliers

Change in nominal GDP / change in public spending and revenues



Source: own calculations and illustration

Employment per euro spent



Source: own calculations and illustration

Summary and conclusions

- Coronavirus pandemic and containment measured resulted in severe recession
- Fiscal policies to support short-time work very effective in stabilising employment and in limiting the rise of long-time unemployment
- Investment premium effective, but problematic: windfall
- Support to self-employed and to sectors affected by the containment measures effective in preventing bankruptcies
- Measures supporting demand very costly and inadequate (why support demand when consumption is prohibited?) – such (income support) measures should be used cautiously and targeted



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Thank you for your attention

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