SGI Sustainable Governance Indicators

2015 Budgets Report

Budgetary Policy

BertelsmannStiftung

Indicator

Budgetary Policy

Question

To what extent does budgetary policy realize the goal of fiscal sustainability?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = Budgetary policy is fiscally sustainable.

8-6 = Budgetary policy achieves most standards of fiscal sustainability.

5-3 = Budgetary policy achieves some standards of fiscal sustainability.

2-1 = Budgetary policy is fiscally unsustainable.

Chile

Score 10

Chilean budgetary policy has been very successful in terms of national debt reduction and reserve fund accumulation. The country’s budgetary policy is based on a fiscal rule that explicitly – and relatively transparently – links overall government spending to an estimate of government revenue trends. This puts Chile at the international best-practice frontier regarding budget policies and fiscal regimes. Although temporarily suspended during the difficult 2009 – 2010 period, this rule’s application since 2001 (and the adherence to fiscal orthodoxy even without comparative legislation since the mid-1980s) has allowed the government to reduce overall debt, accumulate sovereign wealth and reduce its overall financial liabilities to negative levels. This policy proved absolutely adequate in dealing with the global financial crisis. In order to improve fiscal transparency and the validation of the public balance, the Fiscal Consulting Council (Consejo Fiscal Asesor) was created in 2013.

Citation:
Cf. DIPRES, Política de Balance Estructural: http://www.dipres.gob.cl/594/w3-pro pertyvalue-16156.html

Estonia

Score 10

Estonia has followed a strict fiscal policy for decades. Every effort has been made in order to maintain a balanced state budget even in times of economic recession. As a result, the country has the lowest debt as a percentage of GDP in Europe, and is able to meet future financial obligations without placing extra burdens on future generations. Yet maintaining a balanced budget has come with some costs. The government substantially cut municipal budgets during the economic recession, and has not yet restored these funds. As a result, many local governments are struggling under mounting debts, with insufficient resources to accomplish their tasks.

Norway

Score 10

The Norwegian government has received a large flow of financial resources from the extraction of petroleum since the 1980s. This income is projected to remain substantial until around at least 2040, and in the case of natural gas, probably longer. Gas has now passed oil as the most important source of income, and the production of oil has been in decline during recent years. It is expected that by 2025 there will be a significant drop in revenue generated from the petroleum sector, requiring significant budgetary changes. In many countries, the abundance of natural resources has given way to corruption and irresponsible fiscal policies. Norway has so far avoided this resource curse. One important achievement has been the establishment of the so-called petroleum fund, created in 1990 by the Norwegian parliament as a means to share oil proceeds between current and future generations, as well as to smooth out the effects of highly fluctuating oil prices. This is today designated as a pension fund. The fund is administered by Norges Bank Investment Management (NBIM), an arm of Norway's central bank, and invests exclusively in non-Norwegian assets. Under current rules, the government is required to invest all petroleum revenue in the fund. Each year, at most 4% of the fund's value is made available for current expenditure. This principle is supported by all political parties except the populist Progress Party, but has no constitutional protection. Including the petroleum fund, the Norwegian government's net asset position amounts to about 120% of GDP. This surplus is sufficient to cover outstanding and future pension liabilities, putting the country in a unique position relative to most other Western countries. However, the increased divergence between the petroleum-based economy and the remainder has been a source of concern.

Switzerland

Score 10

Budgetary policy in Switzerland is fiscally sustainable. Gross public debt (general government) started to increase in the mid-1990s from a low level of 38% of GDP to reach a peak of 58% in 2004, but had receded to 35% by 2013. Structurally adjusted budgets were balanced even during the crisis of 2008 – 2009.

This fiscal sustainability is mainly due to the political decision to have a low tax load and a lean state. In addition, keeping the public deficit and debt low has been a major concern of politicians at all levels of the political system. Various rules and means have been developed in order to avoid the dynamics of expanding budgets. For example, on the federal level, there is the constitutional debt brake (Article 126, Article 159): "The maximum of the total expenditures which may be budgeted shall be determined by the expected receipts, taking into account the economic situation." Direct democracy offers another effective means of keeping the budget within limits.

In popular votes, the people have proven reluctant (compared in particular to members of parliaments when elections are drawing near) to support the expansion of state tasks with a corresponding rise in taxes and/or public debt.

Even taking into account the fact that some individual cantonal and municipal governments do pursue unsustainable budgetary policies, the total (i.e., general government) budgetary policy achievement arguably puts Switzerland in the OECD's top group in terms of fiscally sustainable national policies.

Denmark

Score 9

The global economic crisis resulted in a dramatic shift in public finance from surplus to deficit. The economic crisis' depth and the strong automatic budget reaction account for the shift. (Denmark has the strongest automatic stabilizers within the OECD.) On top of this, Denmark has also pursued an expansionary discretionary policy to mitigate some of the consequences of the crisis.

One consequence of the crisis has been that Denmark's public finances have violated the norms of the Stability and Growth Pact, and it has been an overriding policy concern to bring public finance in accordance with EU recommendations. This includes bringing the budget deficit below 3% of GDP and improving the structural balance by 1.5 percentage points of GDP over the period 2010 to 2013. The deficit for 2012 was 3.9% of GDP and was thus in violation of the 3% budget norm, but it is explained by the repayment of individual contributions to the early retirement program as a consequence of a structural reform of this scheme. The deficit for 2013 was -1.1% and 2014 is expected to have a surplus of 1.8%. According to the government's Budget Outlook from December 2014, a deficit of about 2.5% is predicted for 2015 and 2016. The lower deficits in 2013 and 2014 are due to the reallocation of capital pension schemes. There is now an additional target on the structural budget balance (deficit not to exceed 0.5% of GDP) and planned policies are close to this limit. Since June 2014, Denmark is no longer under the EU's excessive deficit procedure. This reflects the European Commission's assessment that Denmark's budget policy is now sustainable.

Denmark had already taken initiative to introduce a budget law with expenditure targets, which is now an element in the fiscal compact in the European Union.

The overall status of Denmark's public finances is rather strong. Gross debt by the end of 2013 was 45.1% of GDP. It is expected to be 43% in 2016. These figures are well below the 60% limit set by the EU's Growth and Stability Pact. Recent assessments show that current policies satisfy the conditions for fiscal sustainability. This is mainly the result of reform undertaken over recent years to increase the retirement age (both early retirement and public pensions), to reduce the early retirement period (from 5 to 3 years) and various other reforms of disability pensions, social assistance, and study grants. The overall strategy is to meet the financial challenges created by demographic shifts by increasing labor supply and employment. If successful, this strategy will improve public finances both via lower expenses on income transfers and higher tax payments. This strategy has broad political support since it has been more attractive than either tax increases or cutting-back on central welfare arrangements.

In short, when compared to other OECD countries, public finances in Denmark are in relatively good shape. Still, analyses of fiscal sustainability show that the structural balance will display deficits for the coming 35 to 40 years. Although surpluses are expected far in the future, implying that the country's fiscal sustainability indicator looks reasonably favorable (and among the best within the European Union), it is very risky to base economic policy on a trajectory implying systematic deficits for such an extended period. There is thus an issue with the profile of public finances that needs to be addressed. Moreover it should be noted that an assessment of fiscal sustainability considers whether it is possible to maintain current welfare arrangements, but does not include room for improvements in, for example, the standards and qualities of welfare services (e.g., health). Hence, some pressure on public finances can be expected.

Citation:
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2014 report, English summary available at: http://dors.dk/graphics/Synkron-Library/Publikationer/Rapporter/Efter%E5r%202014/Trykte%20rapport/E14_English_Summary.pdf

Ministry of Economic Affairs and the Interior, Økonomisk Redegørelse, various issues. Latest issue December 2014. Available at http://english.oim.dk/

Ministry of Finance, På vej mod et stærkere Danmark, finanslovsforslag 2013. http://www.fm.dk/publikationer/2012/paa-vej-mod-et-staerkere-danmark/ (accessed 28 April 2013)

Ministry of Finance, Budget Outlook 2, August 2014. http://uk.fm.dk/publications/2014/budget-outlook-2-august-2014/~/media/Publikationer/Imported/2014/BO2/budget%20outlook%202_august%202014.pdf (Accessed 16 October 2014)

"Denmark Government Debt to GDP 1999-2014" http://www.tradingeconomics.com/denmark/government-debt-to-gdp (accessed 16 October 2014).

Finland

Score 9

The Government Program of the current government – led by Prime Minister Alexander Stubb – continues to build on the Government Program, the Structural Policy Program and the public finance adjustment policies of the previous government of Jyrki Katainen. The current government's economic policy program aims to strengthen the economy's growth potential, to raise the employment rate, to bolster household spending power and to improve international competitiveness. Accordingly, the government is committed to an active fiscal policy that supports economic growth and employment, a reduction of the central government debt-to-GDP ratio and to maintaining Finland's current credit rating. Despite the impact of an unfavorable economic environment, the government has been able to promote most of its goals and ambitions. While the debt crisis in Europe has slowed economic growth, Finland has kept its budget deficit in line with EU rules and the government seeks to halt the growth of debt by 2015 to secure its top AAA credit rating. Comparatively speaking, prospects are fairly good. While government debt in 2012 was considerably higher than in 2008, according to the European Commission, debt was still much less than the average government debt in the euro area. Starting from a decision over central government spending limits for the period 2013 to 2016, the government annually reviews the need for additional fiscal policy adjustments.

Germany

Score 9

Given the enormous fiscal efforts resulting from the euro zone debt crisis and previous commitments made in the aftermath of the financial and economic crisis, Germany's budgetary situation and outlook is surprisingly positive. The German government's debt-to-GDP ratio amounted to 75.4% (Eurostat 2014) at the time of writing, which is 7 percentage points lower than its all-time high in 2010. It is predicted to decrease even further. However, in absolute numbers, Germany's debt has been steadily growing, at a time of falling growth rates. There are several reasons for this mixed picture. GDP outgrew new net borrowing, which was facilitated by the fact that Germany kept the highest possible credit rating throughout the crisis (and thus historically low government bond interest rates), in contrast to other European states. Although budget deficits and gross public debt levels were pushed up by crisis-related revenue shortfalls, anti-crisis spending packages, and bank bailout costs, the fast economic recovery led to buoyant tax revenues. At the same time, federal and state governments benefited from the flow of capital into the safe haven of German government bonds, leading to a historically low financing costs. In addition, a constitutional debt limit was introduced (Schuldenbremse) that restricts the federal government's cyclically adjusted budget deficit to a maximum of 0.35% of GDP and requires the states to maintain balanced cyclically adjusted budgets. In summary, the budget deficit fell radically during the period under review, ultimately coming close to being balanced.

Recently, the most obvious development has been a shift in budget policy focus. In the previous period, balancing the budgets of public social insurance carriers had been of primordial importance. This led to high surpluses within these "parafiscal" institutions and higher than necessary deficits within the budgets of federal, state and communal authorities. In an attempt to bolster growth and change this imbalance, state subsidies and social insurance were cut in 2013, which led to decreasing surpluses (from €15.8 billion in 2012 to €4.6 billion in 2013). For example, pension contributions were reduced from 19.6% to 18.9%, the medical co-pay (Praxisgebühr) was abolished and state subsidies for the Federal Employment Agency (Bundesagentur für Arbeit) were reduced. Particularly the latter facilitated efforts to reach a balanced state budget.

In summary, “Germany does not appear to face short-term, medium-term or long-term sustainability challenges” (European Commission 2012: 11). Keeping in mind the financial guarantees made to the European Financial Stability Facility (EFSF) and the ESM, Germany’s future financial soundness could, however, still be in jeopardy.

Citation:
http://de.statista.com/statistik/daten/studie/163692/umfrage/staatsverschuldung-in-der-eu-in-prozent-des-bruttoinlandsprodukts/

Latvia

Score 9

Latvia’s budgetary policy has been recognized as fiscally sustainable by both the European Commission and the IMF. Although, achieving future obligations remain a challenge. For example, in 2013 previously legislated reductions to income tax rates were rolled back, while mandatory pension contributions rates (part of the second pillar of Latvia’s pension system) had not rebounded to pre-crisis levels.

In 2012, the parliament passed its first medium-term budget framework for 2013 – 2015, which will allow for longer-range planning and stability. In 2013, the parliament approved a Law on Fiscal Discipline that capped government debt at 60% of GDP and introduced mechanisms to automatically correct to restore budgetary balance. The preparation processes for the 2014 and 2015 budget indicate that this budget framework and government debt cap will be maintained.

In 2013, the budget deficit was equal to 1.0% of GDP, below the target of 1.4%, despite an unexpected increase in public expenditure caused by a government guarantee following the default of a major steel producer, Liepajas Metalurgs.

Citation:
1. IMF (2012), Article IV Consultation and Second Post-Program Monitoring Discussions Report, Available at: http://www.imf.org/external/pubs/ft/scr/2013/cr1328.pdf, Last Assessed: 20.05.2013

2. European Commission (2013), EU BOP Assistance to Latvia – Second Review Under Post - Programme Surveillance, Available at: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/lv_efc_note_2nd_pps_mission_en.pdf, Last assessed: 21.05.2013.

Mexico

Score 9

Fiscal stability has been a very strong policy priority for the past several administrations. Just as Germany would do anything to avoid a repetition of the hyperinflation of the 1920s, Mexico badly wants to avoid repetition of its debt crisis of 1982 or the “Tequila Crisis” of 1994. Southern Europe’s present difficulties have also been a cautionary tale to the Pena Nieto government of the dangers of fiscal profligacy. Consensus among the major political actors is significant on this matter.

In fact, all the major parties in Mexico support policies of fiscal stability. In 2008, Mexico accepted a domestic recession as the necessary price to pay for avoiding inflation. In the shorter term, Pena Nieto’s first budget passed Congress easily at the end of 2012, and budgetary issues have posed few problems since.

Sweden

Score 9

Since the mid-1990s, fiscal and budgetary discipline has been extraordinarily strong in Sweden and its tight budgetary regimehas begun to yield benefits. In the wake of the 1992 financial crisis, maintaining sound fiscal policy has been an overarching policy goal for both center-right and Social Democratic governments. Sweden is one of very few countries that targets a budget surplus, and although this is increasingly controversial, neither government nor opposition harbor any plans to abolish it. This target and other elements of the fiscal policy framework has set Sweden on a trajectory of strong and sustained economic development. Not even the 2008 global economic crisis or the euro crisis have disrupted Sweden’s economic growth.

The issue in this context before and immediately after the 2014 elections has been to what degrees the two main contenders for power in Sweden (the four non-socialist-party “Alliance” or the Social Democrats with support from the Greens) still unconditionally subscribe to the surplus goal and other aspects of the financial regulatory framework. The Alliance allowed an increasing budget deficit in the years prior to the 2014 elections, and the incumbent Social Democrats and Greens government has not indicated that they will give the surplus goal high priority on their agenda. While we are not likely to witness a major borrow-and-spend type economic policy, the relaxed views on the surplus goal does raise some concern about the long-term sustainablity of the budgetary policy.

Citation:
Finanspolitiska Rådet. Svensk Finanspolitik. Finanspolitiska Rådets Rapport 2013 (http://www.finanspolitiskaradet.se /download/18.11165b2c13cf48416debd6 7/Svensk+finanspolitik+2013.pdf).

Finanspolitiska Rådet. Swedish Fiscal Policy. Fiscal Policy Council Report 2014 (http://www.finanspolitiskaradet.se/download/18.47ebd5c7148472314b8a89a6/1410181263612/Swedish+Fiscal+Policy+2014.pdf).

Turkey

Score 9

Total government expenditures as a share of GDP increased from 36.8% of GDP in 2011 to 38.9% in 2012, and 40.8% in 2013. Interest payments on public debt amounted to 3.4% of GDP in 2011, 3.5% in 2012, and 3.4% in 2013. During the period under review, there were some changes in the composition of government expenditure, such as the share of current expenditures, investment expenditures and transfer expenditures in GDP. Current expenditures increased from 16.6% of GDP in

2011 to 17.5% in 2012, and further to 18.2% of GDP in 2013. Public-investment expenditures increased from 3.3% of GDP in 2011 to 3.5% in 2012, and to 4% in 2013. Current transfers increased from 16.8% of GDP in 2011 to 17.9% in 2012, and again to 18.6% in 2013.

As of the end of 2011, gross public debt totaled 42.1% of GDP. After falling in 2012 to 39.7%, the gross-debt-to-GDP ratio increased in 2013 to 39.8%. On the other hand, the net-public-debt-to-GDP ratio decreased from 22.3% in 2011 to 17% in 2012, and further to 12.6% in 2013. In sum, Turkey's fiscal policy has been sustainable.

Citation:
Ministry of Development (2014)'Pre-Accession Economic Program 2014-2016", Ankara.

Canada

Score 8

Canada's government is in a strong fiscal position. Private-sector employment is today above its pre-recession peak, indicating that the economy has recovered from the 2008 recession, although the Canadian labor market is not as strong as it appears by some metrics. Canada's budget deficit as a proportion of GDP is low by international standards, as is its public debt/GDP ratio. In the federal budget released in March 2014, the government reaffirmed its commitment to achieving a balanced budget in 2015, with a surplus thereafter following projections of higher revenues as the economy expands. In its latest economic and fiscal outlook, the federal budget office predicts balanced budgets through 2019 – 2020, when it says the federal surplus will reach as high as CAD 11.3 billion. The fiscal situation is somewhat weaker in certain provinces, particularly Ontario, but budgetary balances are moving in the right direction.

Rising health care costs associated with the aging of the population represent a potential challenge to long-run fiscal sustainability. However, the 2014 Fiscal Sustainability Report from the Parliamentary Budget Office suggests that the federal government will be able to meet these demographic challenges with considerable fiscal room to spare. The issue of demographic change has also received much attention from the provincial governments, which are responsible for health care in Canada. These bodies too have been taking measures to reduce the rate of increase in health care spending.

Citation:
Parliamentary Budget Officer, Economic and Fiscal Outlook Update 2014, posted at http://www.pbo-dpb.gc.ca/files/files/EFOU_2014_EN.pdf

Parliamentary Budget Officer, Fiscal Sustainability Report 2014, posted at http://www.pbo-dpb.gc.ca/files/files/FSR_2014.pdf

Luxembourg

Score 8

Luxembourg's economy has been based on economic niches supported through short-term regulatory policy. The state budget, as well as the budget for the country's generous welfare state, has been dependent on a pattern of continuous economic growth, producing consistent revenues from the financial sector, and in recent years from e-commerce. However, these funds can no longer be guaranteed on a long-term basis, as the future of these niches is uncertain. For example, Luxembourg received comparatively substantial VAT revenues from the e-commerce sector. However, due to EU harmonization, the country's special taxation regulations for e-commerce are effectively ending in 2015. Meanwhile, while new levels of transparency regarding capital income will also be required from 2015 onward (as part of the Fair and Accurate Credit Transaction Act – FATCA, as well as a new EU directive). Both changes will make Luxembourg less economically attractive as a base for the activity involved. The recent announcement by the minister of finance that Luxembourg is ready to accept an automatic information exchange is also likely to have a dampening effect on the country's financial sector.

Individual tax rates and low indirect labor costs (third lowest in the EU-27 in 2013, following Malta and Denmark) keep Luxembourg attractive for international companies. Most enterprises pay low taxes, with only 20% of companies paying business tax. However, changes are planned following the current review period. Rules governing stock options (given as employee bonuses) will change, and a minimum tax on holding companies (Sociétés de Participations Financières) is slated to be introduced. In addition, the government plans to abolish the tax table's automatic inflation adjustment, a law which hasn't been applied in recent years. The problem of tax arrears needs to be solved through the use of a modern, computerized tax administration.

From 2008 to 2014, Luxembourg's public debt rose from 13.5% to 22.8% of GDP, or €10.48 trillion. The government's provision of guarantees for two Luxembourg banks (Banque Générale de Luxembourg and Banque Internationale à Luxembourg), amounting to a total of more than €4.5 billion, particularly affected public finances. The consolidated public deficit amounted to 1.7% of GDP in 2013, decreasing less than expected given GDP growth in Luxembourg that was stronger than in most other European countries. The small country's main concern is the challenge of predicting how the economic crisis will play out in other EU countries.

In October 2014, the new government announced a "Future Fund," a package that included 258 economic measures and a minimum annual contribution of €50 million. This special fund is slated to run for more than 20 years, until it accumulates at least €1 billon, and will be used to fund intergenerational projects.

Citation:
http://chd.lu/wps/portal/public/RoleEtendu?action=doDocpaDetails&backto=/wps/portal/public/LesRapportsPublies

&id=6500#
http://data.lesechos.fr/pays-indicateur/luxembourg/dette-publique.html
http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf
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www.wort.lu/en/politics/finance-and-budget-commission-taking-a-critical-look-at-the-2015-budget-543f5981b9b39887080793a0

Netherlands

Score 8

Budgetary policy was sound prior to 2008. The economic crisis, however, has put severe pressures on the government budget. In 2012 the government could not cover its expenditures from current incomes. The government came €0.10 short on every €1 of expenditure. The national balance switched from a surplus in 2008 to a deficit of 4.1% of GDP in 2012 – 0.3% higher than expected. High debt is partially masked by the low interest rate on state obligations. The rise in expenditures is due to increasing costs for social benefits and care – comprising about half of all government expenses. The rise is arguably a result of the demographic trend of aging. The current policy to increase the age for retirement is therefore justified by the goal of improving budgetary sustainability. In 2014, the Dutch budget deficit was at 2.3% of GDP, well below the 3% European Monetary Union norm. At the same time, however, government debt increased to 68.6% of GDP, which is well above the EU norm of 60%. This increase is due in part to crisis support given to the finance sector and other EU countries. For the first time in years, no further austerity measures were announced in September 2014.

Citation:
CBS, 2012. De Nederlandse economie 2013, Den Haag, 2014, pp. 140ff

Overheidsfinancien, Begrotingsbeleid (www.rijksoverheid.nl/onderwerpen/overheidsfinancien/begroting)

D. Samsom (2012), Keuzes die de samenleving versterken, in Socialisme & Democratie, jrg. 69, nr. 12, pp. 8-12

New Zealand

Score 8

New Zealand’s budgetary policy is fiscally highly sustainable. However, the world financial crisis ended 14 years of budget surplus. The National Party-led government stated very early on that a return to high-debt levels would be imprudent, and made decisions designed to ensure that gross debt peaked below 40% of GDP in 2010, well below the Organization for Economic Cooperation and Development (OECD) average. Since then, the government has maintained its course of fiscal consolidation. According to OECD data, general government gross financial liabilities as a percentage of GDP declined from 42.4 in 2012 to 39.3 in 2014. However, the government's aim of arriving at an operating surplus in 2014 has not been achieved. The longer-term aim of bringing net debt down to 20% of GDP by 2020 appears to be more and more realistic. The government announced that it would only be willing to reassess this course if the economy were hit by a severe negative shock that might imply that sticking to the current fiscal strategy would harm the economy by forcing a sharp reduction in demand. The proposed sale of shares in targeted state-owned energy companies will doubtless help offset the government's spending commitments.

Citation:
Fiscal Strategy Report 2014 (Wellington: The Government of New Zealand 2014).
Government at a Glance 2013 – Country Note: New Zealand (Paris: OECD 2013).

Austria

Score 7

There is consensus among most of the members of Austria's decision-making elite that the country's budget deficit must be reduced. However, as the Austrian economy is still quite robust, at least in the European context, and as the social-policy consensus among the two governing parties is broad, there is comparatively little incentive to limit expenses. The political parties are reluctant to confront their specific clienteles (farmers and public servants for the Austrian People's Party (ÖVP), and unionized workers and retirees for the Social Democratic Party of Austria (SPÖ)) with policies that might undermine their particular interests. The budget consensus – the long-term focus on eliminating the deficit – is hardly ambitious; under current plans, this point will not be reached before the end of the decade, and even this depends on assumptions outside the control of Austrian policymakers.

In the past, Austrian budgetary policies have followed a biased Keynesian approach: In times of low growth, the government has engaged in extra spending regarded as investment in the improvement of growth. In times of high growth, however, available funds have not been used effectively to prepare the government for worse times.

Austria recently enacted a new Federal Medium-Term Expenditure Framework Act (BFRG), which enables the government to plan the budget over the medium term. The BFRG prescribes binding ceilings on expenditures for four years in advance, on the basis of five categories that correspond to the main functions of the federal government. This multi-year approach should help improve the sustainability of the federal budget.

As hopes of future significant economic growth have grown increasingly out of reach, the contradicting interpretations of Keynesian policies have become sharper within the government: The SPÖ prefers using the deficit as an instrument to boost economic growth; the ÖVP argues that in the long run, deficit spending will result in disaster. But the gap between the main actors is still not dramatic.

Belgium

Score 7

The last government was quite effective at restoring the country’s financial sustainability, which allowed the government to regain cheap access to capital markets. However, this mainly reflected a set of short-term measures, with more tax increases to cover expenses than measures to improve the efficiency of public service provision and tax collection. Both tax and pension policy each require a grand overhaul: the implicit debt of future pensions is enormous given the aging population structure and the lack of a comprehensive pension reform. The goods and labor markets still require structural improvements.

Prospects are however potentially positive, since the previous parliament organized two comprehensive assessments of these problems (also involving academic experts): one for taxes and one of pensions. The new government seems keen on imposing deeper reforms, but the fear is also that they will be unbalanced, and face too strong opposition to be fully implemented.

Bulgaria

Score 7

Over the last 15 years Bulgaria’s budgets have been mostly reasonable. In eight of those years the government generated surpluses, especially in the period of the positive swing of the business cycle in Bulgaria in 2004 – 2008. In 2009, the year when Bulgaria’s economy took the full hit of the global economic crisis, the budget posted a deficit of 4.3%, which fell to just 0.8% by 2012. However, the 2013 – 2014 coalition government made very optimistic revenue forecasts, significantly expanding expenditures. When revenues came in at a lower level than planned, no measures were taken to curb expenditures, and by the end of 2014 the budget deficit was again above 4% and rising. As a result, public debt, which had dropped for years to levels below 20% of national income, has also risen. However, the absolute level is still relatively low, and debt service is a negligible burden for the annual budget. Moreover, Bulgaria has been very successful in using both the domestic and international bond markets to manage its debt repayments.

Israel

Score 7

After the economic crises of the mid-1980s, key steps were taken to reduce Israel’s budgetary deficit and to build a set of objectives and guidelines enabling sustainable budgetary planning. Strict budgetary-discipline laws were enacted. The Budget

Foundations Law set scrupulous spending procedure regulations and implemented deficit-reporting requirements, and another law prohibited the central bank from providing loans to the government, ensuring that future deficits would be financed by borrowing from the public and abroad rather than through direct monetary injections. Consequently, fiscal power was centralized, giving the Ministry of Finance's budget department the power to impose a policy of budgetary discipline.

Two crucial additional tools, the Arrangements Law (Hok Ha-Hesderim) and the Budget Deficit Reduction Law, redefined the financial and economic structure of the Israeli government. The Arrangements Law is an omnibus law passed together with each yearly budget, consisting of numerous restrictions and amendments designed to secure the state's financial goals. In the last few years, the budget was converted to a biennial budget plan, which many regard has having a positive influence on planning capabilities.

This history of successful budgetary reform continues to contribute to the stabilization of the Israeli economy. Along with a prudent monetary policy, these measures helped the country weather the recent global economic crisis relatively successfully. Despite the expansion of public spending in recent years and a rising deficit, it seems that the Israeli budget is still managed to insure fiscal stability.

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Swirski, Shlomo, and Konor Attias, Etty, "Israel. A social report 2012", Adva Center 2012: http://www.adva.org/uploaded/social-Eng_2012-1.pdf (Hebrew)

Lithuania

Score 7

During the financial crisis, Lithuania's fiscal situation deteriorated rapidly; the fiscal deficit grew to 3.3% of GDP in 2008, and further to 9.4% in 2009. As a result of fiscal consolidation, the deficit dropped to 7.2% in 2010 and again to 5.5% in 2011. It was expected to continue falling to 3.2% in 2012. In 2014, the EU Council adopted a decision allowing Lithuania to join the euro area as of 1 January 2015, in part recognizing its work in regaining control of the deficit. Government debt also expanded during the crisis, reaching 38.5% of GDP in 2011 (from the pre-crisis low of 16% in 2008); this is expected to stabilize at around 40% of GDP in 2013 – 2014.

Despite these improvements in Lithuania's fiscal performance since the crisis, the country faces a number of challenges in terms of keeping its public finances sustainable. Factors such as projected expenditure related to an aging population, as well as the vulnerability of its small and open economy to external shocks, pose significant risks to the consolidation path projected by the Lithuanian government in its convergence program. The goal of introducing the euro in 2015 preserved the current government’s determination to maintain the deficit at a level below 3% of GDP, while the fiscal-discipline law should provide an incentive to continue reducing the deficit even as the economy keeps growing. There is some doubt as to whether tax revenues will meet targets contained in a recently announced 2015 budget plan, in part because of uncertainty over the Ukrainian crisis and the impact of Russia’s import ban on the Lithuanian economy, and in part because of the ongoing stagnation in the euro-zone economy, the main export market for Lithuanian businesses. Moreover, in their opinions on the draft 2015 budget, the National Audit Office and the Central Bank of Lithuania stated that the draft violated the law on fiscal discipline by increasing expenditures too far. In autumn 2014, the Lithuanian government decided to postpone its convergence-program targets for achieving a budget surplus by an additional year, to 2017. This is the year after the next parliamentary elections, which are scheduled for 2016. This increases the risk that even if the budget deficit remains below the 3% of GDP required under euro zone rules, it might not be reduced further according to the strictures of the fiscal compact, and the structural deficit rule might not be observed. Thus, the country’s accession to the euro zone in 2015 might in some sense produce a condition of moral hazard enabling the ruling coalition to relax its fiscal-discipline targets, especially if EU institutions continue to take a lax approach toward the fiscal policies of countries such France and Italy.

Citation:
COMMISSION STAFF WORKING DOCUMENT on the assessment of the 2014 national reform program and convergence program for Lithuania: http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_lithuania_en.pdf.

Slovakia

Score 7

The second Fico government initially placed a strong emphasis on fiscal consolidation, largely in order to strengthen Slovakia’s image as a reliable and trustworthy member of the euro zone. Though a combination of tax increases, measures improving the efficiency of tax collection, and expenditure cuts, Slovakia managed to reduce its fiscal deficit from 8.0% in 2009 to less than 3% in 2013 and 2014. As a result, the European Commission abrogated the excessive deficit procedure in June 2014. While short-term fiscal stress is thus limited, and the country’s public debt is clearly below the euro-zone average at less than 60% of GDP, the middle- and long-term sustainability of public finances remains questionable. Additional sustainability concerns were prompted by Prime Minister Fico’s announcement of an “anti-austerity package” worth €250 million in July 2014.

Citation:
Council of the EU, Council decision abrogating Decision 2010/290/EU on the existence of an excessive deficit in Slovakia, 17.6.2014; http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/slovakia_en.htm

South Korea

Score 7

South Korea's national budgetary policies remain sound. South Korea continues to have one of the lowest levels of public debt and public expenditure among OECD countries, despite an increase in fiscal debt under the previous Lee Myung-bak administration. The ratio of public debt to GDP for 2013 was a relatively low 36.5%. From 2009, when South Korea recorded a budget deficit of 1% of GDP, and with the exception of 2013, when South Korea recorded a deficit of 0.4% of GDP, South Korea successfully maintained fiscal soundness. South Korea is expected to achieve a budget surplus of 0.7% of GDP for 2015, despite a record spending plan announced on 18 September 2014. Huge amounts of government debts may be hidden in state-owned companies. According to the estimations of the Naumann Foundation in Seoul, the total amount of government debt could be about three times the official figure.

The government has been remarkably pragmatic in abandoning what have traditionally been very conservative fiscal policies, implementing the OECD's largest fiscal stimulus in an attempt to sustain economic growth. On the other hand, low overall government expenditure leaves room for doubt as to whether, amid a maturing economy and an aging society, the South Korean government is prepared to take more responsibility, particularly with respect to increasing spending for social security and education. The recent shift of government expenditure to construction projects might also create short-term growth at the expense of a long-term debt burden. Critiques that big construction projects like the Four Rivers Project were a waste of taxpayer money increased during Lee's administration.

At the local level, budgetary problems have become more prevalent due to prestige construction projects without many economic benefits. In 2010, Seongnam City became the first South Korean municipality to declare a moratorium on its debt payments. In 2012 and 2013 Incheon, South Korea's third largest city, delayed paying monthly salaries of its employees as it teetered on the edge of fiscal collapse. As local government debt levels increase, the Park Geun-hyeadministration has proposed the introduction of a bankruptcy system for debt-ridden local governments, which would hold them responsible for fiscal deficits and force them to cut their debt. Moreover, rising welfare costs are causing further tensions between local and central government as a system of burden sharing is negotiated, which may further deteriorate fiscal sustainability.

Citation:
OECD 2010, Preparing fiscal consolidation, Paris, http://www.oecd.org/document/23/0,3343,en_2649_34595_44829143_1_1_1_1, 00.html

OECD, OECD Economic Outlook No. 95, May 2014
“In financial pinch, Incheon under pressure to downscale Asiad plan”, The Korea Times, April 4, 2012
Klitz, Walter, “Korea kaempft mit dem Defizit”, Naumann Stiftung Seoul, http://www.freiheit.org/files/62/N_8_Korea_kaempft_mit_dem_Defizit.pdf
“South Korea Plans Record 2015 Budget as Spending Jumps”, Bloomberg, Sep 18, 2014
“Time bomb ticking on local government debt”, The Korea Times, March 31, 2014

Australia

Score 6

Fiscal sustainability has grown as an issue in Australia over the review period. The high commodity prices of the early to mid-2000s generated large increases in government revenue, to a significant extent deriving from corporate tax revenue. Much of the additional revenue was spent on income tax cuts and increases in family benefits and several other entitlement programs. Corporate tax revenue has not recovered from the 2008 – 2009 economic downturn, resulting in six successive budget deficits averaging over 2% of GDP and forecasts of continued deficits under unchanged policy settings.

With net federal government debt standing at approximately 12.5% of GDP at the time of the review period, the fiscal position is still relatively healthy, but the consensus is that Australia has a “structural deficit.” This means that, averaged over the business cycle, existing revenue streams will not adequately meet ongoing expenditure needs given current tax rates and expenditure levels. The reasoning is that commodity prices will not return to pre-2008 levels, and expenditure demands are projected to increase over coming years, in part because of population aging. Today, Australia’s very high primary deficit requires determined adjustment, but implementing change is apparently very difficult. As a response to the deteriorating fiscal outlook, the incoming Abbott government in 2013 launched a Commission of Audit tasked with identifying policy options to reduce government expenditure (but not increase revenue) and restore fiscal sustainability. The Commission recommended numerous sweeping changes, including cuts to welfare benefits, increases in patient contributions to health care, and increasing student contributions to higher education. However, Prime Minister Abbott conceded at the G-20 summit that raising patients’ contributions and boosting student fees have both proven to be extremely difficult. The subsequent first budget of the Abbott government adopted in part the recommendations, and additionally included a temporary (two-year) two percentage-point increase in the top marginal tax rate and a restoration of indexation of fuel excise to consumer inflation (which had been removed in 2001).

While these budget measures, if fully implemented, will help restore fiscal sustainability over the medium term, the budget also contained revenue reduction measures - namely, the removal of the Minerals Resource Rent Tax and the carbon tax - both of which have passed both houses of Parliament. More importantly, the Senate has to date refused to pass several of the expenditure measures, including cuts to higher education accompanied by deregulation of tuition fees, imposition of a patient co-payment for out-of-hospital health care, cuts to family benefits, a reduction in the rate of indexation of pensions and an increase in the minimum age of eligibility for the Age Pension from 67 to 70. Combined with the government's failure to take substantive measures to restore revenue, the blocking of the expenditure cuts means budget balance is unlikely to be achieved over the next several years.

Citation:
Australian Government Treasury historical budget and net worth data: http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst10-05.htm

John Daley, 'Budget pressures on Australian governments', Grattan Institute, April 2013: http://grattan.edu.au/static/files/ assets/ff6f7fe2/187_budget_pressure s_report.pdf

http://www.smh.com.au/business/g20/g20-summit-tony-abbott-laments-to-world-leaders-his-failure-to-pass-tax-on-gp-visits-20141115-11nccp.html

Czech Republic

Score 6

Budgetary policy has been successful in holding public debt at a manageable level and in lowering the fiscal deficit as of 2013 to below 3% of GDP for the first time since 2008. However, fiscal consolidation has come at the expense of restrictions on public investment and contributed to the economic decline in 2013, thus raising concerns about the sustainability of such consolidation measures. While the Rusnok and the Sobotka governments put more emphasis on public investment than the Nečas government, they have largely shared the latter's obsession with fiscal austerity.

Iceland

Score 6

The 2008 economic collapse dramatically increased the country's foreign debt burden. General government gross debt rose from 29% of GDP at the end of 2007 to 93% in 2010 and, at the time of writing, is expected to fall to 90% in 2013 and 82% in 2017. General government net public debt – the government's foreign debt minus its foreign assets – rose from 11% of GDP at the end of 2007 to 56% in 2009 and to 66% in 2011, but is expected to fall to 64% in 2013. It is possible that excessive wage increases in 2015 would simultaneously drive inflation and weaken the currency, which would cause an increase in the foreign debt burden.

Another factor fiscal complexity is the availability and relative value of foreign currencies. At the time of writing, foreign actors a considerable quantity of funds locked up in Iceland. Investors have demonstrated a preference to move these funds out of the country, but are prevented in part by the capital controls. Removing these capital controls or otherwise allowing the funds to be withdrawn will lead to a shortage of foreign exchange. This foreign exchange shortage will lead to a significant devaluation of the Icelandic króna. Despite government announcements that these capital controls will be lifted, at the end of the assessment period (May 2014), no details have been released as to how and when these capital controls will be removed.

Citation:
IMF, October 2012 World Economic Outlook.

Ireland

Score 6

Ireland’s fiscal situation in late 2014 is vastly improved compared with what it was at the close of the previous SGI review period. Progress toward correcting the budget imbalances has been more rapid than anticipated, and it now seems likely that the target of reducing the deficit below 3% of GDP in 2015 will be reached. A primary surplus (excluding interest payments on the national debt) is projected for 2014.

The most recent data show that the national-debt-to-GDP ratio peaked at 120% in 2013, and this figure is projected to fall to 95% by 2018. Moreover, this projection does not take into account the gain that is expected to be realized through the sale of the government’s stake in the banks taken into state ownership during the crisis. The fiscal situation is now considered to be sustainable given forecasted interest-rate and nominal GDP-growth levels.

It was widely believed that the fiscal correction implemented following the crisis and the policies imposed by the Troika agreement were strongly “pro-cyclical.” This led to pessimism regarding Ireland’s prospects for emerging from recession over the medium term. Recent developments have confounded economic pessimists, and while it is still too early for a definitive judgment to be formed, it is likely that country’s economic and fiscal adjustment will be regarded as a success, and even as an example of “expansionary austerity.” This outcome is all the more impressive given that Ireland is constrained by membership in an ill-designed currency union and still shackled with most of the financial burden left by a massive banking-system collapse.

Nonetheless, a note of caution must be sounded. The macroeconomic forecasts on which the 2015 budgetary arithmetic were based were radically more optimistic than those published just six months earlier (see the documents cited in “economic policy.”) In formulating its 2015 budget, the government may have erred by treating a temporary upsurge in the economy as evidence of a more permanent recovery. By slightly reducing taxes and curtailing expenditure reductions to a minimum, the minister for finance ignored the advice of the Fiscal Advisory Council and the European Union, both of which favored devoting more of the fruits of economic buoyancy to reducing the burden of the national debt. Critics fear that the recent budget was framed with an eye to the next general election, which will be held before mid-2016, rather than as a path to long-term fiscal sustainability.

Italy

Score 6

While the Monti government faced in 2012 a major challenge to the sustainability of Italian debt in the midst of an international sovereign debt crisis, Italian governments since then have struggled to continue the budget consolidation process begun by the Monti government during an era of prolonged economic stagnation. By May 2013, thanks to the shock therapy of the previous government, the Letta government was able to close the EU excessive debt procedure. Since then, budgetary policies have continued to produce a strong primary surplus. Yet because of the recession environment, attempts to reduce the huge debt stock (by selling, for example, public properties or stocks of state-owned companies) have had little success or have been postponed. The level of public debt to GDP has continued to increase in part also because of the new burden of contributing to the European Financial Stability Facility and European Stability Mechanism – which cost the Italian state approximately €40 billion between 2010 and 2012 – and in part as a statistical effect of GDP shrinking due to the recession. The improved climate on the international markets and ECB policies have yielded a sharp decline in interest rates for Italian long-term treasury bonds. This has eased the country's budgetary pressures somewhat and enabled the state to accelerate the payment of public administration debts to private busnesses.

Both the Letta and the Renzi governments have promoted a serious spending review under the guidance of an experienced official of the IMF (Cottarelli) and some of the results of this study have been incorporated into the 2014 and 2015 budgets. Due to the persisting recession, the current government has decided to slow down the implementation of the budget consolidation targets required by the European stability pact and to draft a budget for 2015 with a more expansionary outlook. In order to achieve these targets (i.e., staying below the EMU 3% deficit clause but not reaching the 2.5% required by EU monitors), the proposed budget combines tax cuts for businesses and increased support for lower income levels with large cuts in public expenditure (at all administrative levels – federal, regions and municipalities). If this budget has a positive impact on the country's economy, the position adopted by this government will be vindicated.

The decentralized nature of Italy's administrative architecture, in which regions and municipalities are afforded considerable legislative and administrative powers (provinces have comparatively few powers) and may own regional or local public companies to produce and to distribute public services (societá participate pubbliche), means that the central government must invest considerable effort in monitoring fiscal sustainability at all levels. The central government has introduced reforms targeting budgetary processes and fiscal accountability and sustainability and is exercising its regulatory power over regions in this regard. Areas such as health spending, which regions have managed, are beginning to threaten the country's fiscal sustainability and are cited as one of the reasons behind the central government's efforts to exercise greater control over regional spending.

Citation:
Analisi_e_tendenze_della_Finanza_Pu bblica_xon-linex.pdf
http://www.governo.it/GovernoInforma/documenti/DEF_2014/DEF2014_sezI.pdf
http://www.dt.tesoro.it/it/analisi_programmazione_economico_finanziaria/documenti_programmatici/sezione3/aggiornamentoDEF.html
http://www.dt.tesoro.it/export/sites/sitodt/modules/documenti_it/analisi_progammazione/documenti_programmatici/Rapporto_evasione.pdf

Poland

Score 6

Fiscal adjustment featured prominently in the initial policy declarations of the second Tusk government. The government indeed succeeded in reducing the fiscal deficit from its 2010 level of 7.9% of GDP to close to 3% in 2014; however, it has regularly failed to meet its deficit targets. Slower-than-expected economic growth in 2012 – 2013 led to an expansion of the deficit. In order to boost the economy, the government then loosened fiscal policy in mid-2013. To make this possible, it suspended the 50% debt threshold in the constitution, which otherwise would have required an additional tightening of around 1.2 percentage points of GDP in 2013. This move raised strong concerns regarding the reliability of fiscal policy in Poland. The improvement in the country's fiscal stance in 2014 was largely achieved through the controversial changes in the second-pillar pension system and the strong resurgence of growth in 2014.

Spain

Score 6

At several points in the euro zone crisis (spring 2010, summer 2011 and again spring 2012), Spain's budgetary situation has been considered almost unsustainable. As a result, and although it was a fall in revenues rather than uncontrolled spending that drove up the public deficit, considerable budget cuts were increasingly introduced. The most strict austerity phase began in May 2010 and lasted until early 2013, when the risks of insolvency clearly diminished and EU institutions began adopting a somewhat more flexible attitude toward deadlines in the attempts to curb Spain's public deficit.

However, throughout the period under review, austerity measures continue to dominate Spanish budgetary policy. Considering the small margin for implementing any other fiscal policy and the absence of autonomous monetary policy in the context of the EMU, the budgetary cuts and two structural reforms (reform of the labor market and saving banks recapitalization) are the three main features of the current government's economic policy. This fiscal restraint has succeeded in reducing long-term public sector borrowing costs thereby preventing Spain from being forced into a full bailout scheme. However, given the context of the severe economic crisis, neither the deficit (approximately 6% GDP by the end of 2014) nor public debt (97% of GDP) have been significantly reduced. Spain has the highest deficit in the EU, and its public debt to GDP ratio is the seventh largest in the EU (after Greece, Italy, Portugal, Ireland, Belgium and Cyprus). Thus, it would be premature to conclude that Spanish budgetary policy has realized the goal of fiscal sustainability.

Nevertheless, the spending cuts were achieved with great effectiveness by central and regional governments. This fiscal policy, imposed on Spain by Brussels and Frankfurt (and Berlin), has allowed Spain to regain credibility and, at the end of 2014, Spain's risk premium was at the lowest level seen since early 2010. If economic growth consolidates and the ECB continues its current expansionary monetary policy, the long-term sustainability of Spanish public finances will continue to improve.

The most important budgetary reform introduced in 2013 and 2014 has been the implementation of the Organic Law 2/2012 on Budgetary Stability and Financial Sustainability of Public Administrations (also important in the past was the 2011 constitutional reform which establishes the obligation of a balanced budget and requires that the state give public debt payments priority over any other expenditure). A particularly positive development was the November 2013 creation of the Independent Authority for Fiscal Responsibility (AIReF) which has the mission of overseeing compliance with the goals of budget stability and financial sustainability.

Citation:
Independent Authority for Fiscal Responsibility: www.airef.es/?locale=en

United Kingdom

Score 6

The United Kingdom is a highly centralized state which puts the government in a powerful position to exert control over budgetary policy. Most spending is directly or indirectly controlled from Whitehall, and there are few other influences compared to, for example, federal countries. This also means, however, that the central government has to shoulder the blame if things go wrong.

During most of the New Labour government, the "golden rule" was the guiding of UK fiscal policy, limiting deficit spending to investment over the business cycle. However, public spending was rising as a proportion of GDP during the 2000s, and can now be judged to have been too pro-cyclical. In 2009, adherence to fiscal rules was abandoned to cope with the consequences of the crisis. In 2010, the new coalition government implemented a strict fiscal austerity program to focus on consolidation instead of boosting the economy. It also created the Office for Budget Responsibility (OBR) to assess fiscal policy independently.

Although the budget deficit is declining, fiscal consolidation is happening more slowly than the government planned, and public debt has soared in the meantime. However, markets have been kind to the United Kingdom, with low financing costs (helped by very loose monetary policy), and this can, within reason, be interpreted to mean that the public finances are sustainable. It is generally recognized that the victor in the 2015 election will face renewed pressures to consolidate the public finances, and that if interest rates rise and the Bank of England starts to unwind its quantitative easing, there could be tensions for budgetary policy.

Croatia

Score 5

Croatia joined the European Union in July 2013, and almost immediately, in January 2014, was placed under the EU's excessive deficit procedure. In April 2014, Croatia published its 2014 National Reform Program and its 2014 Convergence Program, as required under the terms of the EU new economic-governance system. The latter program outlined a budgetary strategy for correcting the excessive deficit by 2016, and for moving the economy to a path of sustainable economic growth. The projected aim was to reduce the deficit from 4.9% of GDP in 2013 to 3% of GDP by 2016, as required by the excessive deficit procedure. The European Commission evaluated those programs and issued a set of recommendations in July 2014. The recommendations heavily criticized the Convergence Program for basing the forecasts on overly optimistic projections of economic growth in the forthcoming years, and for not providing enough detail about the fiscal-consolidation measures that would be taken to reduce the budget deficit. Overall, the Commission's assessment was that additional efforts would be needed in order to correct the excessive deficit by 2016. Accepting these recommendations, the European Council has advised Croatia to reduce public-sector wages, reduce social security expenditure and subsidies, and control government expenditures more effectively.

Cyprus

Score value_6

Cyprus' balance of payments in 2008 was positive, with a significant amount of reserves. However, the financial crisis and structural economic imbalances have affected budgetary stability. Previously, at a time when state income depended strongly on unpredictable factors, expenditure was steadily increased. Tax revenue subsequently declined as a result of the economic slowdown, the shrinking tourism industry, fluctuating oil prices and other developments. The volume of unpaid or uncollected taxes exceeded €1 billion in 2012. Meanwhile, expenditure increased due to inflated public-service salaries and rising social outlays associated with higher unemployment rates, severance payments and other costs.

The increase in government deficits, domestic banks' losses due to exposure to Greece, the increase in the public debt-to-GDP ratio, and the consequent exclusion of the country from the bond markets led to the April 2013 agreement with the Troika. As a consequence, Cyprus bound itself to meeting obligations included in a MoU.

Budgets for 2013 and 2014 reflected compliance with deficit and public-debt reduction commitments made as a part of the MoU. This included cuts to salaries and benefits in the public sector, new tax policies, and a restructuring of public subsidies and other public expenses. As a result, deficits and the debt-to-GDP ratio were effectively contained, indeed performing better than projected.

As of the time of writing, the latest GDP estimates for 2014 were for a decline of 3.0% (government forecast) or of 2.8% (EU forecast), as compared to an earlier -4.2% forecast by the EU. According to the new ESA 2010 system, the debt-to-GDP ratio reached 102.2% in 2013. It was expected to reach 107.5% in 2014 and 115.2% in 2015 before receding to 111.6% in 2016. The primary fiscal deficit was expected to fall 1.3% of GDP in 2014, compared to a 1.7% estimate.

Most important is that future budget design gradually conforms fully with the provisions of a new law and framework on fiscal responsibility, and be founded on strategic planning at all levels. Achieving sustainability and real growth will require more reforms and time.

Citation:
1. Law on Fiscal Responsibility and Fiscal Framework, L. 20(I)/2014, available, http://www.cylaw.org/nomoi/arith/2014_1_20.pdf (in Greek)
2. European Economic Forecast on Cyprus, 4 November 2014, http://ec.europa.eu/economy_finance/eu/forecasts/2014_autumn/cy_en.pdf

Greece

Score 5

The Greek government adopted new tax laws, re-organized tax authorities and introduced digital infrastructures to monitor budgetary implementation, which helped the country achieve fiscal consolidation in 2013-2014.

In 2014, vocations requiring a higher education degree were required to abide by stricter tax regulations, which helped increase tax revenue. However, inadequate planning and insufficient resources for the collection of taxes resulted in delays in 2013. In 2014, erroneous tax invoices were sent to taxpayers and were later corrected through the distribution of amended tax invoices. In 2014, government was also late in paying private suppliers for some goods and services, which resulted in the near collapse of some private businesses.

Although the Greek government claimed in 2013 that further bailouts would in 2014 no longer be necessary, further turmoil and the electoral success in 2014 of the anti-austerity Syriza coalition in European elections raised concerns on the international market. Nevertheless, compared to the first phase of the crisis, in the period under review budgetary policy was better coordinated and more effective.

Citation:
Data on Greece's public finances are drawn on Eurostat's government finance statistics, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction

Malta

Score 5

Until 2013, governments found it difficult to restrain the country's budget deficit or reduce the public debt. However, the government elected in 2013, made some progress toward reducing the deficit to under 3% in 2014, with a projection of further decreases to 1.6% in 2015. The government has said it expects public debt to slip below 70% of GDP for the first time in many years. However, the EU Commission continues to stress the need for reforms in the health and pensions sectors, and has stated that the 2015 budget is at risk of noncompliance with the provisions of the Stability and Growth Pact. The enactment of a law to enhance transparency in government finances also represents a step forward. The 2013 and 2014 budgets served to expand growth, leading in turn to higher employment levels. Nevertheless, the EU wants to see an increase in the use of means testing for government benefits and a containment of the government's wage bill through prudent collective-wage agreements and a decrease in public-sector employment through attrition. On this latter point, two elements – collective agreements signed by the previous administration before the elections and an increase in the number of public-sector offices – may undermine the ability of the government to satisfy EU demands.

Citation:
—"The Politics of Public Expenditure in Malta" in Journal of Commonwealth & Comparative Politics, Vol. 46, No. 1, February, 2008, Routledge, U.K. Maurice Mullard, University of Hull & Godfrey Pirotta.
http://www.timesofmalta.c om/articles/view/20111028/opinion/F or-a-sustainable-Budget.391117
Fiscal Sustaibability Report 2012. European Economy Series. European Commission
Calleja, C. Shame of Health Waste, Times of Malta 12/06/13
Times of Malta, Budget expected to feature further shift from indirect to direct taxes, 16/10/2014
Commission Opinion of 28.11.2014 on the Draft Budgetary Plan of Malta

Portugal

Score 5

Portugal has shown improvement in the budgetary domain over the past few years, with the bailout having had a significant effect. The 2013 budget deficit was 4.9% (Eurostat data), marking a significant reduction vis-à-vis 2010 (11.2%) and 2011 (7.4%), even if it fell short of the target agreed with the Troika for the year (4%). Significantly, the primary budget deficit was reduced in 2013 and 2014 – indeed, both the government and the European Commission expect a primary surplus in 2014, for the first time since 1997.

The government also remains committed to achieving fiscal sustainability in the near future, although consolidation is not expected to retain the intensity seen during the bailout period. The government's budget for 2015, presented in October, forecasts a deficit of 2.7% in 2015. This is 0.2 percentage points higher than the target set in the 7th Troika evaluation of March 2013. While the 2015 budget – the first since the end of the bailout – does not reverse the previous austerity measures, it does indicate a relative stabilization in the overall austerity drive. Overall, the assessment of the Portuguese parliament’s independent expert Technical Budget Support Unit is that the 2015 budget maintains the level of structural adjustment seen in 2014 rather than increasing it. Thus, the government is also betting on a growing economy (and falling oil prices) to help carry some of Portugal’s budgetary-consolidation efforts in 2015.

This has led the government’s projected deficit to be considered optimistic by other observers. For instance, the European Union and the IMF respectively forecast the 2015 budget deficit at 3.3% and 3.4%. However, even this level marks a significant reduction as compared to 2013.

Romania

Score 5

Despite continuing problems with tax collection, fiscal sustainability has been fairly high due to low expenditures. Having exited the excessive deficit procedure in May 2013, Romania had a 2.3% budget deficit for 2013, down from 2.9% in 2012. The deficit estimate for 2014 is 2.2% of GDP, thus continuing the positive trend. The European Commission estimates that Romania faces low fiscal-sustainability risks in the medium term, in large part due to the relatively low levels of public debt. However, the government will struggle to reconcile its electoral promises regarding reductions in social-security contributions and VAT levels for agricultural products with the 1.83% fiscal deficit target it agreed upon with the IMF in December 2014.

Citation:
European Commission (2014) Assessment of the 2014 national reform programme and convergence programme for ROMANIA Accessed [23/12/14]

Slovenia

Score 5

The Bratušek government succeeded in reducing the fiscal deficit through a combination of increases in taxes and cuts in benefits. However, the deficit still amounted to more than 4% of GDP in 2014, and the national public debt reached an all-time high in 2014. In order to stress its commitment to a sustainable budgetary policy, the parliament – in line with the European Union’s Fiscal Compact – enshrined a “debt brake” in the constitution in May 2013. The incoming Cerar government committed itself to reducing the fiscal deficit to below 3% of GDP in 2015.

Hungary

Score 4

The predominant goal of budgetary policy under the Orbán governments has been to keep the fiscal deficit below 3% of GDP. The European Commission closed the excessive deficit procedure for the country in June 2013. As evidenced by the recurring reliance on short-term austerity packages, however, fiscal adjustment was accomplished by ad hoc measures rather than by structural reforms. After the 2014 parliamentary elections, the new government shifted the submission of the draft budget for 2015 from September to the end of October, with the clear goal of delaying any political price related to new austerity measures until after the local elections. Hungary is still far from meeting the debt ceiling of 50% of GDP enshrined in the 2011 constitution. Hungary has ratified the EU's Fiscal Compact, but has insisted that its consolidation obligations will apply only after it achieves membership in the euro zone.

France

Score 3

France's budgetary situation is unsustainable.The Hollande government's major mistake when coming to power in 2012 was to increase taxes on all fronts rather than to cut spending, which was, in fact, increased. The outcome has been rather catastrophic: Revenues were much lower than expected due to the economic crisis, lack of growth, tax evasion and increasing black market, while at the same time the collective morale of the French individuals and companies plummeted. Overall, the government adopted very few cutbacks. The 2015 budget foresees expenditure cuts but fails to respect the 3% deficit limit set up by European rules. And while the structural deficit was reduced in 2012, 2013 and 2014, the government has abandonned the objective to balance the structural budget postponing this target to 2017. There is very little chance in that context that the objectives set up by the European treaties will be met at the end of Hollande's term in 2017, as his government's rather chaotic stop-and-go fiscal policies have undermined his legitimacy as well as that of the the government, making any major reform an impossibility. A recent example of such a failiure has been the government's announcement (8 October 2014) that it was renouncing plans to implement the so-called eco-tax when faced with the protest of truckdriver companies.

United States

Score 3

The condition of budget policy in the United States is complex and raises different concerns depending on the time perspective of the assessment. In the depths of the 2008 – 2009 recession, the budget deficit, enlarged by the fiscal stimulus, reached $1.4 trillion, or 9.9% of GDP. While the deficit shrunk to a projected 3% of GDP in

2014, recovery has been too slow to stimulate vigorous economic growth. At the same time, long-term deficits are by all accounts seriously beyond acceptable levels. As the Congressional Budget Office testified in 2013, “Under current law, federal debt appears to be on an unsustainable path.” The primary cause of this condition, in addition to the severe limits on revenues, is the growth of the elderly population and the generous terms of Medicare and Social Security. According to a late-2013 International Monetary Fund (IMF) estimate, the U.S. will need a fiscal adjustment amounting to almost 12% of GDP by 2030 in order to accommodate projected age-related spending without accumulating excessive debt.

Yet since the mid-term elections in 2010, Republicans and Democrats have failed to find a budget policy compromise. The president and congressional Democrats have generally defended entitlement programs against reductions in spending, while Republicans have opposed increased taxes. In short, U.S. budget policy provides too little current stimulus to promote robust growth; seriously fails to balance revenues and spending over a 10 to 20 year period; and yet underfunds most government services – from infrastructure and border security to environmental regulation and R&D.

Citation:
Congressional Budget Office. An Update to the Budget and Economic Outlook: 2014 to 2024, (2014, Aug 4). https://www.cbo.gov/publication/45653.

Japan

Score 2

Public indebtedness in Japan amounts to 240% of GDP - or 135% on a net basis - the highest such level among developed economies. The budget deficit remains high, around 6.9% for the 2013 and 2014 fiscal years. The OECD has urged the government to address the deficit problem more seriously. According to the Medium-Term Fiscal Plan of August 2013, the government intends to halve its primary balance deficit to 3.3% by FY 2015 and to move into surplus by 2020. Achievement of the 2015 target seems very doubtful. Similarly, as argued by the IMF in mid-2014, without further reform Japan will be unable to reach primary balance by 2020 (which would not bring down its debt-to-GDP ratio anyway).

From a short-term perspective, nominal interest rates remain low (rarely higher than 1.5%). A major factor producing these rates is the fact that more than 90% of public debt is held by Japanese, mainly institutional, investors. The government and institutional investors obviously have no interest in lower bond prices, and this oligopoly of players can sustain the current price level of Japanese government bonds. However, should national savings fall short of domestic needs, a foreseeable condition as a result of the aging of Japanese society, new government deficits may not be able to be absorbed domestically. As a result, government bond prices may fall and interest rates may rise at a fast pace, which would create extremely serious problems for the Japanese government budget and the country’s financial sector.

The country’s aggressive monetary-easing policy, beginning in early 2013, may have partially been intended to monetize the public debt, drawing on inflation to lower its real value. However, any such inflationary shock could easily become uncontrollable. Though the economy has overcome mild deflation, due to sluggish demand it seems questionable that the central bank will be able to accomplish its inflation goal of 2% in 2015.

Citation:
Cabinet (Japan), Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan, 08.08.2013

International Monetary Fund, Japan 2014 Article IV Consultation - Staff Report; and Press Release, IMF Country Report No. 14/236, July 2014, p. 14

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