Budgets Report

Budgetary Policy

Sustainable Governance Indicators 2016

SGI Sustainable Governance Indicators

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.

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 2014. Structurally adjusted budgets were balanced even during the crisis of 2008 – 2009. In 2015, the federal state ran a positive balance, spending less than it received.

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.

Chile

Score 9

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.

Recent trends have been somewhat more worrisome. The country's budgetary policy has come under pressure due to declines in the price of copper, slowing economic growth, state spending that has risen faster than GDP, the continued presence of a structural deficit, and an increase in debt.

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

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.

Budget policy is guided by fiscal norms: i) the actual budget deficit must not exceed 3% of GDP, ii) public debt must not exceed 60% of GDP and iii) the structural budget balance must not display a deficit greater than 0.5%. These norms are part of EU-rules and Danish budget law.

The current budget balance, however, is close to these limits. In a recent report from the Ministry of Finance, the actual budget balance was -2% of GDP in 2015, and projected to be -2.8% in 2016 and -2% in 2017. The structural deficit was 0.7% in 2015, and is projected to be 0.4% in 2016 and 0.4% in 2017. Satisfying the budget norm is thus a binding constraint in economic policy.

Analyses from both the Ministry of Finance and the Economic Council show that the criterion for fiscal sustainable public finances is satisfied. This is largely the result of a number of reforms aimed at increasing the labor supply and employment by increasing the retirement age (both early retirement and public pensions), reducing the early retirement period (from 5 to 3 years), and various other reforms of disability pensions, social assistance, and study grants.

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 2015 report, English summary available at: http://dors.dk/files/media/rapporter/2015/E15/e15_english_summary.pdf

Ministry of Economic Affairs and the Interior, Økonomisk Redegørelse, various issues. Latest issue December 2015. 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).

"Forslag til Finanslov: Stramme rammer - klare prioriteringer." http://www.fm.dk/nyheder/pressemeddelelser/2015/09/ffl16-stramme-rammer-klare-prioriteringer

Estonia

Score 9

Estonia has followed a strict fiscal policy for decades. As a result, the country has Europe's lowest public debt as a percentage of GDP, and is able to meet future financial obligations without placing extra burden 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. Long-term debts accumulated by the disability and pension funds also threaten the government's ability to secure citizens' welfare while adhering to the principles of fiscal sustainability.

Latvia

Score 9

Latvia’s budgetary policy has been recognized as prudent and fiscally sustainable by both the European Commission and the IMF. However, achieving medium-term structural-reform goals remains a challenge. For example, in 2013 and again in 2015, previously legislated reductions to income-tax rates were rolled back, while mandatory pension-contribution 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 budgets indicate that this budget framework and government-debt cap will be maintained.

In 2014, the budget deficit was equal to 1.4% of GDP, above the target of 0.9%. The overrun reflected a one-off payment related to the sale of the Citadele bank.

Citation:
1. IMF (2015), Article IV Consultation, Available at: https://www.imf.org/external/pubs/ft/scr/2015/cr15110.pdf, Last Assessed: 22.11.2015.

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.

Luxembourg

Score 9

Luxembourg weathered the financial crisis well, and continues to post growth. From 2007 to 2014, the consolidated public debt rose slightly from 7.2% to 23.6% of GDP. Luxembourg exhibited stable GDP growth (stronger than in most other European countries) of 4.3% in 2013 and about 4.1% in 2014, compared to -0.8% in 2012. According to Eurostat data, Luxembourg’s fiscal situation is expected to stabilize further in 2015, and the government has indicated it would make efforts to reduce the deficit in the coming years.
Despite the loss of e-commerce tax revenue in 2015, Luxembourg’s government revenues increased significantly in the first half of 2015. The annual subscription tax (taxe d’abonnement) received from investment funds and specialized investment funds (common funds and investment companies since 2007 for wealth and asset management) increased by 22.7% (€128.6 million) during the first three quarters of 2015, compared to the same period in the previous year. This indicates the importance of Luxembourg’s financial services segment. However, the country’s substantial fiscal imbalances also imply potential risks to long-term macroeconomic solidity. In 2014, Luxembourg was able to show a structural surplus and a certain

safety margin. According to new calculations, the general account reported a deficit of €142 million, against €172 million provided in the draft budget.

Luxembourg's economy is still 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. While new levels of transparency regarding capital income will also be required from 2015 onward (as part of the Foreign Account Tax Compliance Act, or FATCA) and the new OECD policy supporting tax harmonization and transparency with the aim of preventing tax-loophole shopping. Both changes will make Luxembourg less economically attractive as a base for the activity involved. The automatic information exchange being implemented in 2017 will (among other effects) reduce opportunities for tax minimization and will likely 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 2014, the government launched a comprehensive spending review for the purposes of reforming budgetary procedure and improving the impact of public expenditure (especially infrastructure projects). Moreover, in 2015 the government introduced 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.

Structural issues represent ongoing challenges. Luxembourg is strongly affected by European policies (for instance competition law, tax regulation and taxation of e-commerce). E-commerce revenues fell sharply during the first six months of 2015 after the implementation of the new EU e-commerce taxation rules. The LuxLeaks affair demonstrated how vulnerable Luxembourg's economy is as a result of its focus on the financial sector.

Citation:
http://www.budget.public.lu/
http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf
http://www.luxembourg.public.lu/fr/investir/propriete-intellectuelle/index.html
http://ec.europa.eu/europe2020/europe-2020-in-your-country/luxembourg/national-reform-programme/index_en.htm
http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-outlook-volume-2015-issue-1/luxembourg_eco_outlook-v2015-1-29-en#page2
http://ec.europa.eu/europe2020/pdf/nd/nrp2012_luxembourg_en.pdf

http://epp.eurostat.ec.europa.eu/statistics_explained/images/2/2c/Labor_costs_per_hour_in_€%2C_2008-2013_whole_economy_excluding_agriculture_and_public_administration.png
http://www.forum.lu/pdf/artikel/6751_294_Winkin.pdf
http://www.kpmg.com/LU/en/Documents/ExternalCom/Factsheet-Budget2015-01-FINANCES-PUBLIQUES1.pdf
http://de.statista.com/statistik/daten/studie/198377/umfrage/staatsverschuldung-in-der-europaeischen-union/
www.wort.lu/en/politics/finance-and-budget-commission-taking-a-critical-look-at-the-2015-budget-543f5981b9b39887080793a0
http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2015/16_lu_scp_en.pdf
http://www.gouvernement.lu/5225643/14-finances-gramegna?context=3423005
http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-luxembourg-2015_eco_surveys-lux-2015-en#page1

New Zealand

Score 9

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 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 30.4% in 2015. Although opposition parties were highly skeptical of the way it was achieved, the government posted a modest budget surplus of $275 million in 2015, the first such surplus since 2008. 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 doubtlessly help offset the government’s spending commitments.

Citation:
Fiscal Strategy Report 2015 (Wellington: The Government of New Zealand 2015).
Government at a Glance 2013 – Country Note: New Zealand (Paris: OECD 2013).

Norway

Score 9

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. However, the price drop in oil and gas markets led to a significant reduction in state revenue in 2014 and 2015. Due to technological changes and climate change, there is also more uncertainty regarding the long-term prospect for revenues from oil and gas resources. Gas has now passed oil as the most important source of income, and the production of oil has been in decline during recent years. For some time, significant drops in petroleum revenue have been expected at least by 2025, requiring significant budgetary changes. The recent oil-price declines have necessitated earlier reforms. 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. However, the future value of these investments has taken a severe hit in the last several years as a result of the combined effect of lower petroleum revenues, lower interest rates worldwide, and the fund’s poor performance in international markets. Restraints on using withdrawals from the fund to cover current public expenditures are being relaxed, if carefully. In the course of the year there has been a noticeable shift, with the (public) economy having less of a reserve, and the state budget becoming (marginally) more dependent on (declining) petroleum revenues. Public finances are still solid, but are noticeably more strained than only a year ago.

Sweden

Score 9

Since the mid-1990s, fiscal, and budgetary discipline has been extraordinarily strong in Sweden and its tight budgetary regime has begun to yield benefits. In the wake of a financial crisis in the early 1990s, 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 nor the euro crisis have profoundly disrupted Sweden’s economic growth.

Since the 2014 elections, the issue in this context 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. The red-green government, however, has indicated that although the budgetary surplus goal remains intact, public spending to curb unemployment is a higher priority. It seems clear that the current government is thinking less in monetaristic terms, emphasizing fiscal balance, but more in neo-Keynesian terms, using public spending to stimulate the economy and to reduce unemployment. 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 sustainability of the budgetary policy.

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

Finanspolitiska Rådet. Swedish Fiscal Policy. Fiscal Policy Council Report 2015 (http://www.finanspolitiskaradet.se/download/18.16952a1814faf01fc6a35444/1442578125524/Swedish+Fiscal+Policy+2015.pdff).

Mehrtens, Philip (2014), Staatsschulden und Staatstätigkeit. Zur Transformation der politischen Ökonolmie Schwedens (Frankfurt/New York: Campus).

Turkey

Score 9

Total general government expenditures as a share of GDP increased from 38.8% in 2012 to 40.7% in 2013, falling to 39.8% in 2014. Interest payments on public debt amounted to 3.5% of GDP in 2012, 3.2% in 2013, and 2.8% in 2014. 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 17.5% of GDP in 2012 to 18% in 2013, and then decreased to 17.8% of GDP in 2014. Public-investment expenditures increased from 3.5% of GDP in 2012 to 4.2% in 2013, and then decreased to 4.1% in 2014. Current transfers increased from 17.8% of GDP in 2012 to 18.5% in 2013, and declined to 18% in 2014.

As of the end of 2012, gross public debt totaled 39.7% of GDP. After increasing slightly in 2013 to 39.8%, the gross-debt-to-GDP ratio decreased in 2014 to 36.9%. On the other hand, the net-public-debt-to-GDP ratio decreased from 17% in 2012 to 12.6% in 2013, and further to 10.6% in 2014. In sum, Turkey’s fiscal policy has been sustainable.

Bulgaria

Score 8

Over the last 15 years, Bulgaria’s budgets have been mostly reasonable. 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. In 2013-2014, however, the fiscal stance deteriorated again. Part of the deficit increase, and the concomitant rise in the public debt, was driven by the government’s support to the financial sector related to the repayment of the guaranteed deposits in the Corporate Commercial Bank (KTB). In addition, very optimistic revenue forecasts served as a justification for 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 once again exceeded 4%. The second Borrisov government significantly curbed the deficit by improving tax collection, especially with respect to VAT and excise taxes, and by containing the growth in public spending. It succeeded in bringing down the planned deficit for 2015 close to 3% and has committed itself to a further gradual reduction down to 0.5 % in 2018. Public debt is planned to increase in pace with GDP, remaining at a relatively low and sustainable level of about 30% of GDP. Fiscal sustainability is likely to benefit from the establishment of an independent Fiscal Council, which was eventually approved by the Natonal Assembly in April 2015 and whose members were elected in November 2015. The Council has the mandate to review budget-related laws, tax laws and all legislation affecting the long-term fiscal stance.

Canada

Score 8

Canada's government is in a relatively 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. The fiscal situation is somewhat weaker in certain provinces, particularly Ontario, but budgetary balances are moving in the right direction.

The recent drop in oil prices, however, had a negative impact on government finances, threatening the ruling Conservative Party's (until 4 November 2015) commitment to a balanced budget for the 2015 fiscal year. A delayed budget was introduced in April of 2015, which aimed at a small surplus but included the sale of state-owned assets and a reduction in contingency funds. Despite this, the federal budget office projected in its latest economic and fiscal outlook a CAD 1 billion shortfall in the 2015-2016 fiscal year amidst a persistently weak economic climate. In the October 2015 federal election, the Liberal Party of Canada was able to win a majority, ending 10 years of Conservative rule. One of the campaign pledges of its leader Justin Trudeau, prime minister since 5 November 2015, has been to keep spending in check with "a modest short-term deficit" of less than CAD 10 billion for each of the first three years and then a balanced budget by the 2019-2020 fiscal year.

Rising health care costs associated with the aging of the population represent a potential challenge to long-run fiscal sustainability. The 2015 Fiscal Sustainability Report from the Parliamentary Budget Office suggests that while health care spending growth has slowed, subnational governments, which are responsible for the lion's share of spending, cannot meet the challenges of population aging under the current policy. A recent study by the Centre for the Study of Living Standards (Drummond and Capeluck, 2015) reached a similar conclusion.

Citation:
Parliamentary Budget Officer, An Update on the Budget Fiscal Outlook 2015, posted at http://www.pbo-dpb.gc.ca/web/default/files/files/files/BoCBudgetUpdate_EN.pdf
Parliamentary Budget Officer, Fiscal Sustainability Report 2015, posted at
http://www.pbo-dpb.gc.ca/web/default/files/files/files/FSR_2015_EN.pdf
Don Drummond and Evan Capeluck (2015) "Long-term Fiscal and Economic Projections for Canada and the Provinces and Territories, 2014-2038," CSLs Research Report 2015-08. http://www.csls.ca/reports/csls2015-08.pdf

Finland

Score 8

The government agenda drafted by the current Sipilä government builds on its predecessors' initiatives, structural-policy programs and public-finance adjustment policies. Consequently, the current government's economic-policy program aims at strengthening the economy's growth potential, raising the employment rate, bolstering household spending power and improving international competitiveness., The government is accordingly committed to an active fiscal policy that supports economic growth and employment, aims at a reduction of the central government's debt-to-GDP ratio, maintains Finland's current credit rating, and tries to strike a balance between long-run fiscal sustainability and the short-term need to support domestic demand. However, the unfavorable economic environment has impeded the government's goals and ambitions. The debt crisis in Europe has slowed economic growth, and the government's ambition to halt the growth in public debt by 2015 was not fulfilled. Still, while overall government debt is now considerably higher than in 2008, according to the European Commission, debt levels are still less than the euro area average. While spending limits for the 2013 – 2016 period have already been set, the government annually reviews the need for additional fiscal-policy adjustments. At the time of writing, the present government was developing the first General Government Fiscal Plan of its term.

Citation:
"Finnish Economy: Fiscal Austerity to last Several Years", http://danskeresearch.danskebank.com/abo/ResearchFinland260314; **THIS LINKS DOES NOT WORK AND THE ARTICLE CANNOT BE FOUND ANYMORE - REMOVE THE CITATION?**

Germany

Score 8

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 still surprisingly positive. Germany's debt-to-GDP ratio has continued to decrease from 74.6% in 2014 to 70.7% in 2015 (IMF 2015). If this development continues, Germany will reach the Maastricht criteria earlier than expected. 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 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 dramatically during the period under review. As a result, the Ministry of Finance was able to balance the budget in 2014 for the first time since 1969.

Despite the federal government providing state governments with an additional €2 to respond to the increase in refugees claiming asylum, it is likely that the Ministry of Finance will maintain a balanced budget for 2015. Moreover, the Ministry of Finance set up a €5 billion reserve fund to enable state governments to meet the requirements placed on them by the federal government of accommodating the sudden influx of refugees. Furthermore, an additional €1.5 billion was provided for forthcoming energy policy changes. The Ministry of Finance stated that it would cover the cost of these additional funds through increasing tax revenue, the sale of mobile phone licenses and decreasing interest amortization spending.

While the federal budget remains balanced, uncertainties concerning the medium- to long-term budgetary outlook have increased. Germany's aging population will mean that the current government's recent increases welfare spending (e.g. increased pension payments for mothers and allowances for nursing care) combined with very dynamic increases in health care expenditure pose a significant challenge to future federal budgets. The very large increase in numbers of refugees claiming asylum in Germany in 2015 introduces an additional risk factor to future federal solvency. While long-term budgetary consequences are highly uncertain, the fiscal consequences will crucially depend on how well immigrants integrate into the labor market.

Citation:
Ministry of Finance (2015), http://www.bundesfinanzministerium.de/Content/DE/Pressemitteilungen/Finanzpolitik/2015/09/2015-09-29-PM38.html
IMF World Economic Outlook (October 2015)

Mexico

Score 8

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 recent financial difficulties have also been a cautionary tale to the President Peña 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, President Peña Nieto's first budget passed Congress easily at the end of 2012, and budgetary issues have posed few problems since.

However, Mexico's fiscal stability is under threat as a result of the collapse in global oil prices through 2014 and 2015. Although most oil production is consumed domestically, oil exports are a significant source of public revenue given the state-owned structure of Mexico's oil industry. Consequently, there is a direct relationship between global oil prices and public revenue.

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 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. Between 2008 and 2014, the Dutch government followed neoliberal austerity policies to the letter, carrying out several series of tax increases followed by expenditure cutbacks. In both 2014 and 2015, the Dutch budget deficit totaled 2.3% of GDP. During the same period, government debt increased slightly to 68.8% of GDP, well above the EU recommended ceiling of 60%. Although state income from gas exploitation decreased (falling by €4.5 billion due to a reduction in exploitation volume associated with earthquake risks in the northern province of Groningen), higher tax and premium income (increasing by €9.5 billion) compensated for this loss. For the first time in years, no further austerity measures were announced in September 2014; and in 2015 a projected budgetary surplus was immediately spent on a tax decrease which will benefit only working middle-class citizens, as well as a salary increase for civil servants. These measures proved controversial, as they were partially paid for through a decrease in pension premiums, allegedly endangering the financial carrying capacity of the pension funds.

Citation:
CBS, Nederland in 2014. Een economisch overzicht, Den Haag/Heerlen, 2015, pp. 32-34
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

Austria

Score 7

Most of Austria's decision-making elite agree on the need to reduce the country's budget deficit. However, given the robust nature of the Austrian economy, at least in the European context, and the broad consensus across the two governing parties regarding social policies, 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 IMF forecast that Belgium’s total public debt should reach 106.7% of GDP in 2015 and start decreasing in 2016 or 2017 (net debt is estimated at 66% of GDP). The public deficit is progressively approaching zero. In its recent bond sales, the Belgian government has been able to borrow at negative interest rates. In other words, despite a relatively high public debt, the public finances are deemed to be sustainable overall. A hidden ticking bomb is the implicit pension debt related to entitlements that will be owed to current workers in 10 to 20 years. The ongoing tax reforms also create some uncertainty with regard to what actual tax receipts will be over the next year or two.

Ireland

Score 7

Progress toward correcting budget imbalances has continued to outpace projections. The general government deficit is now projected to fall to 2.1% of GDP in 2015 and 1.2% in 2016.

The most recent data show that the national-debt-to-GDP ratio peaked at 120% in 2013, and this figure is now projected to fall to 90% in 2017. 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.

Ireland's fiscal situation is now considered to be sustainable. Experience over the past three years has confounded the pessimists. It is likely that the country's adjustment will come to be regarded as an example of successful "expansionary austerity."

Leaving aside the ever-present possibility of adverse external shocks, the main risk now facing the Irish economy is that the government's recent increasingly expansionary budgets will lead to overheating as the slack in the economy is used up and internal inflationary pressures intensify.

Citation:
For projections of Ireland's national debt see:
http://www.ntma.ie/business-areas/funding-and-debt-management/debt-profile/debt-projections/

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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Italy

Score 7

Italian governments have struggled to continue the budget consolidation process begun by the Monti government during an era of prolonged economic stagnation. Nevertheless, fiscal policies have gradually reduced yearly deficits and produced 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 and enabled the state to accelerate the payment of public administration debts to private businesses. A return to economic growth toward the end of 2014, though modest, will mean that the level of public debt will plateau by the end of 2015. In 2016, a modest decrease in the ratio of public debt to GDP is likely.

The fiscal policies for 2015 will pursue the same agenda as in 2014, but will benefit from the improved economic conditions. The fiscal consolidation, required by EU rules, has been modest, as the government has taken advantage of the greater flexibility allowed by the EU for countries introducing significant structural reforms. The government has reduced the pace of fiscal consolidation to free government funds to invest in economic activities. Consequently, tax reductions have not been matched by reductions in public expenditure. Cuts to public expenditure, proposed by the government’s spending review, have not been fully implemented. This has been due to resistance from interest groups, but also because of a fear that such cuts would have recessionary effects.

The pace of privatization of public assets has been slower than anticipated, though the Italian post service (Poste Italiane) has been privatized. The vast majority of regional and municipal budgets are fiscal sustainable, though not all.

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Analisi_e_tendenze_della_Finanza_Pu bblica_xon-linex.pdf
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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
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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 over the coming years.

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, relatively high migration rates, and 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. Although spending pressures are increasing as the parliamentary elections scheduled in October 2016 approach, it has been difficult to increase total tax revenues (27.2% of GDP in 2012), in part due to geopolitical tensions, the impact of Russia’s import ban on the Lithuanian economy, and the ongoing stagnation in the euro-zone economy, which is 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. The draft budget for 2016 to some extent confirmed those concerns, as no major effort had been made to further reduce the budget deficit. Instead, the government took advantage of economic growth and the recent improvement in tax revenues due primarily to an increase in domestic consumption. Geopolitical concerns prompted a major increase in defense expenditures, and some increase social expenditures were also included. This leaves the job of balancing the budget to the next government, which will be formed after the October 2016 parliamentary elections.

Citation:
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2015: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_lithuania_en.pdf.

Poland

Score 7

Fiscal adjustment featured prominently in the initial policy declarations of the PO government. Thanks to the combination of robust and steady economic growth with the government exercising restraint in spending, Poland successfully reduced its fiscal deficit from its 2010 level of 7.9% of GDP to less than 3% in 2015. This allowed Poland to exit the EU’s excessive deficit procedure one year ahead of schedule. However, the fact that Poland is the only EU country that does not have and does not plan to establish an independent fiscal council has raised some concerns about the country’s fiscal framework and the sustainability of fiscal adjustment.

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. Since then, the government has confined itself to achieving a modest, gradual decline in the fiscal deficit and the debt-to-GDP ratio, which has been eased by the economic recovery. The 2016 budget projected the deficit of the general government fiscal deficit to decrease to 1.93% of GDP and the overall public debt to decline to 52.1% of GDP in 2016. While the fiscal situation in the short- and medium-term thus looks favorable, risks might arise from the potential cost of the planned public-private partnership project to build a motorway ring around Bratislava. Moreover, the repeated adjustment of the “official” tax revenue projections provided by the Institute for Financial Policy of the Ministry of Finance by Parliament has raised some concerns about the credibility of the fiscal framework.

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 Lee Myung-bak administration. The 2014 ratio of public debt to GDP was a relatively low 36%. Previously known for extremely conservative fiscal policies, the Korean government has been much more pragmatic since the world economic crisis of 2008/09, when South Korea implemented some of the largest fiscal-stimulus packages in the OECD. Korea has been running government deficits since that time, albeit very small ones. A much bigger problem might be debt hidden in state-owned companies. According to estimates by the Naumann Foundation in Seoul, the total amount of government debt could be about three times the official figure. However, low overall government expenditure and tax rates leaves still considerable room for the government to take a more active role, for example by increasing spending for social security and education, both critical areas in addressing the problem of an aging society.

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 have increased, the Park Geun-hye administration 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 lead to further deteriorations in fiscal sustainability.

Citation:
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“South Korea Plans Record 2015 Budget as Spending Jumps,” Bloomberg, Sep 18, 2014
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United Kingdom

Score 7

The United Kingdom is a highly centralized state. As such, central government has considerable control over budgetary policy. Most public spending is directly or indirectly controlled by the central government, with 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.

Under the previous Labour governments, the “golden rule” of UK fiscal policy was to limit deficit spending to investment over the business cycle. However, public spending as a proportion of GDP increased during the 2000s and, in hindsight, was too pro-cyclical. In 2009, adherence to fiscal rules was abandoned to cope with the consequences of the crisis. There is now a fiscal council, the Office for Budget Responsibility, and fiscal rules, including provision for surpluses in “good times,” are being entrenched in a new Charter for Budget Responsibility.

The government now aims to achieve a budget surplus by the fiscal year 2019-2020, although such long-term forecasts have to be interpreted cautiously. To achieve this target, public spending cuts across several government departments will be cut, with a £12 billion reduction in total welfare spending and a lowering of the benefit cap. In addition, the government anticipates tax revenue increasing as the rate of GDP growth increases. It remains to be seen how successful this strategy will be. A strategy that has already prompted protest.

The public budget deficit has fallen from 10.2% of GDP in 2009-10 – the postwar peak – to 4.4% of GDP in 2015. However, it remains the highest in the EU after Croatia, Greece and Spain in nominal terms, and the highest in cyclically adjusted terms, according to the latest European Commission forecasts. Nevertheless, low interest rates and the extensive purchases of public debt by the Bank of England through its quantitative easing program has saved the UK from paying a high price for the period of high debt, with debt service payments only marginally higher than during the 2000s. Among the economies of the larger EU countries, public debt in the UK is now a little below that of France and Spain, and well below that of Italy. Yet, it is projected to be 20 percentage points above Germany's in 2016. Assuming that interest rates remain low and the government sticks to its budgetary plans, the UK's fiscal policy is financially sustainable.

Citation:
European Commission Autumn Forecasts 2015 HM Treasury Red Book summer 2015

Czech Republic

Score 6

Improved economic performance has enabled the Czech government to retain its objective of reducing the state budget deficit and thereby limit the growth in public debt while allowing some expansion of domestic demand. Spending relative to GDP is still below the EU average, and government expenditures and revenue alike grew more slowly than GDP in 2015. The level of state debt remains below 40% of GDP, suggesting considerable leeway both in tems of euro zone rules – these are not obligatory for the Czech Republic as a non-euro zone member – and in terms of safe sustainability of debt.

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 99% in 2011 and, at the time of writing, is expected to fall to 69% in 2019. The government's net foreign debt – the government's foreign debt minus its foreign assets – rose from 11% of GDP at the end of 2007 to 67% in 2012, but is expected to fall to 46% in 2019 (source: IMF). Interest payments on the public debt continue to account for 4% to 5% of GDP. There is a significant possibility that excessive wage increases will boost inflation and weaken the currency. This would cause an increase in the foreign debt burden, though Iceland's foreign debt burden would remain sustainable. However, fiscal sustainability remains a serious concern for the government given the dire financial situation of several key public institutions, including the State University Hospital and the State Broadcasting Corporation among others.

Another factor that increases the complexity of Iceland's fiscal situation is the availability of foreign exchange. At the time of writing, foreign entities own a considerable proportion of funds locked up in Iceland. Many investors would like to transfer these funds out of Iceland, but are prevented from doing so by capital controls. If the government removed these capital controls and investors transferred their funds out of Iceland, this would lead to a shortage of foreign exchange and, consequently, a significant depreciation in the value of the Icelandic króna. As such, the government is keen to avoid this situation. Since 2013, several government announcements have promised to lift these capital controls. However, it was not until mid-2015 that the first credible steps were taken toward relaxing these capital controls. Furthermore, the decision to relax the capital controls was based on agreements between the steering committees representing creditors and the respective government task forces. The fiscal implications of these agreements remain to be seen.

Citation:
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IMF (2014), Country Report No. 14/19, Iceland Staff report, http://www.imf.org/external/pubs/ft/scr/2014/cr14194.pdf.

Malta

Score 6

Until 2013, governments found it difficult to restrain the country's budget deficit or reduce the public debt. However, in 2014, the government made some progress on bringing the deficit below 3%. The deficit is projected to further decrease to 1.6% in 2015 and 1.1% in 2016. Moreover, the 2015 Spring European Economic Forecast stated that debt ratio decreased to 68% of GDP in 2014 and projected that it will be 65.4% of GDP in 2016. As of June 2015, Malta was no longer subject to the EU's Excessive Deficit Procedure and was placed under the preventive arm of the Stability and Growth Pact. However, the EU's recommendation on the 2015 Maltese National Reform Programme and Stability Programme continues to stress the need for pension reform and has stated that age-related expenditure could pose a threat to the long-term sustainability of public finances. The introduction of legislation to enhance the transparency of government finances also represents a step forward. The Malta Fiscal Advisory Council advised the government to introduce an appropriate framework for the monitoring and issuing of government guarantees. The 2015

European Commission Working Paper noted progress toward the sustainability of the health care system. Meanwhile, the 2013 and 2014 government budgets facilitated economic growth and increased employment levels, and this positive trend is expected to continue through 2015. In 2014, the European Commission recommended that Malta increase the use of means testing for government benefits, contain the public-sector wage bill through prudent collective-wage agreements and reduce public sector employment. However, the collective agreements signed by the previous government and an increase in the number of public-sector offices may undermine the current government's ability to reduce public-sector employment. Indeed, an assessment of Malta's 2015 Stability Programme lists the public-sector wage bill as a significant risk to the government's deficit target. Nevertheless, the 2015 European Commission Working Paper highlighted that Malta's wage bargaining framework has helped to contain wage developments. In 2015, European Commission pointed out that a significant risk to the government's deficit target were additional government subsidies for state-owned enterprises, namely Enemalta and Air Malta.

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.
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Pre-Budget Document 2016 p. 20
European Economic Forecast Spring 2015 p. 101
Council Recommendation of 14 July 2015 on the 2015 National Reform Programme of Malta and delivering a Council opinion on the 2015 Stability Programme of Malta (2015/C 272/21) C 272/81
Commission Staff Working Document – Country Report Malta 2015 SWD (2015) 37 final p.1, p.2, p.28
Assessment of the 2015 Stability Programme for Malta p. 12

Spain

Score 6

Throughout the 2011 – 2015 legislative term, austerity measures dominated Spanish budgetary policy. With little margin for the implementation of other fiscal strategies, public spending cuts and two structural reforms (reform of the labor market and the recapitalization of saving banks) constituted the three primary features of the government's economic policy during the review period. This fiscal restraint succeeded in reducing long-term public-sector borrowing costs, thereby preventing Spain from being forced into a full bailout program. However, given the severity of the economic crisis, neither the deficit (approximately 5.1% GDP at the end of 2015) nor public debt (99.2% of GDP) have been significantly reduced. Spain has the highest deficit in the European Union, and its public-debt-to-GDP ratio is the seventh-highest 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.

However, the spending cuts have been achieved with great effectiveness both by the central and regional governments (see “Task Funding”). This fiscal policy, imposed on Spain by Brussels and Frankfurt, was implemented through a scheme introduced by the Organic Law 2/2012 on Budgetary Stability and Financial Sustainability of Public Administrations. The commitment to a balanced budget and the creation of the Independent Authority for Fiscal Responsibility (AIReF) in 2013 have allowed Spain to regain fiscal credibility abroad. By the end of 2015, Spain’s risk premium had reached its lowest level since early 2010, and the Commission appeared likely to grant additional flexibility delaying achievement of the deficit objective of 3.0% of GDP until the end of 2017. In any case, financial stability today depends more on the ability to increase revenues than on new austerity measures. If economic growth consolidates, and the ECB continues its current expansionary monetary policy, the long-term sustainability of Spain’s public finances will continue to improve.

Citation:
Independent Authority for Fiscal Responsibility: www.airef.es
European Commission, forecast Spain:
http://ec.europa.eu/economy_finance/eu/countries/spain_en.htm

Australia

Score 5

As Australia’s fiscal position deteriorated further during the review period, fiscal sustainability became a correspondingly more significant issue. 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 seven 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 15% 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 released its reports in early 2014, recommending numerous sweeping changes, including cuts to welfare benefits, increases in patient contributions to health care, and increases in student contributions to higher education. However, Prime Minister Abbott conceded at the

G-20 summit in 2014 that raising patients’ contributions and boosting student fees have both proven to be extremely difficult. The subsequent first budget of the Abbott government adopted the recommendations in part, and additionally included a temporary (two-year) two percentage-point increase in the top marginal tax rate and a restoration of the fuel excise’s indexation to consumer inflation (which had been removed in 2001).

While these budget measures, if fully implemented, would 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 passed both houses of Parliament. More importantly, the Senate 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. The 2015 – 2016 budget did not introduce any substantive new initiatives, and even as it was proposed, the government had made little progress in legislating the cuts proposed in its previous budget. However, the change in Liberal Party leadership and prime-ministerial change in September 2015 has brought with it renewed attempts to find common ground with cross-bench senators. Agreement has purportedly been reached for moderate reductions in family-tax-benefit expenditures. As of December 2015, the Turnbull government was considering a substantial increase in the goods-and-services tax (GST) to 15%, but the discussions are in an early stage.
Combined with the government’s failure to implement 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:
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Australian Government, ‘Re: Think Tax Discussion Paper’, March 2015: http://bettertax.gov.au/publications/discussion-paper/

http://www.smh.com.au/federal-politics/political-news/everything-is-on-the-table-leaked-coag-agenda-reveals-gst-changes-being-considered-20151208-gli766.html

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 2015, Croatia published its 2015 National Reform Program and its 2015 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, and for moving the economy to a path of sustainable economic growth. The projected aim was to reduce the deficit to 3.9% of GDP by 2016 and 2.7% of GDP in 2017, effectively delaying the adjustment that was required by the European Council recommendations of January 2014 by one year. The European Commission evaluated those programs, and the European Council issued a set of new recommendations in July 2015. 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. The European Council identified a risk that Croatia will fail to comply with the provisions of the Stability and Growth Pact, and that further structural measures will be needed. The Council has recommended Croatia introduce a property tax, improve VAT compliance, tackle the fiscal risks in health care, and control government expenditures more effectively.

Citation:
Government of Croatia (2015) Convergence Programme of the Republic of Croatia for the Period 2015-2018, Zagreb, April 2015

Government of Croatia (2015) National Reform Programme 2015, April

European Council (2015) Council Recommendation of 14 July 2015 on the 2015 National Reform Programme of Croatia and delivering a Council opinion on the 2015 Convergence Programme of Croatia, Official Journal of the European Union, 2015/C 272/15, 18.8.2015

Cyprus

Score 5

Cyprus' positive balance of payments in 2008, which contributed to a significant volume of reserves, was succeeded by a financial crisis and structural economic imbalances that affected budgetary stability. This vulnerability was in part produced by conditions of steadily rising expenditure even when state income depended strongly on unpredictable factors. Tax revenue declined due to the economic slowdown, the shrinking tourism industry and other developments, with unpaid or uncollected taxes exceeding €1 billion in in 2012. Nevertheless, expenditure increased due to inflated public-service salaries and rising social outlays associated with higher unemployment rates, severance payments and other costs.

The above problems, combined with banks' losses due to their exposure to Greek debt, resulted in the exclusion of Cyprus from the markets and the country's spring 2013 agreement with the Troika. The country's economy and policies are today bound by the obligations included in the MoU.

The 2015 budget focused on deficit and public-debt reduction, while salary and benefit reductions in the public sector were continued. New tax policies have been implemented, along with a restructuring of public subsidies and other public expenses. As a result, deficits and the debt-to-GDP ratio performed better than projected.

The GDP was expected grow by an annual rate of 0.5% in 2015 (compared to a decline of 2.3% in 2014). However, government forecasts projected growth of 1.0% – 1.5%, with the EU Commission projecting 1.2%. The debt-to-GDP ratio improved to 106.4% in 2015 (down from 107.5% in 2014), and was expected to recede to 98.4% in 2016, according to the IMF. A positive primary fiscal balance is projected (1.3% of GDP) in 2015.

Most importantly, budgets since 2014 have gradually conformed to provisions of the law on fiscal responsibility, requiring at least the beginnings of strategic planning at all levels. Reforms already undertaken are aimed at achieving real growth and sustainability, goals that can only be achieved with more time.

Citation:
1. EU Commission, Cyprus Forecasts Autumn 2015, http://ec.europa.eu/economy_finance/eu/forecasts/2015_autumn/cy_en.pdf
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3. IMF Eighth Review, Cyprus, September 2015, https://www.imf.org/external/pubs/ft/scr/2015/cr15271.pdf

Hungary

Score 5

After exiting the European Commission’s excessive deficit procedure in June 2013, Hungary has managed to keep the fiscal deficit below 3%. The Orbán government has been keen on escaping the strict fiscal EU oversight. However, fiscal adjustment has been accomplished by ad hoc measures rather than by structural reforms. Because of the direct and indirect costs of the refugee crisis and the fallout of the Volkswagen scandal, the 2015 budget had to be amended. Hungary is still far from meeting the debt ceiling of 50% of GDP anchored in the 2011 constitution. While it has ratified the EU’s Fiscal Compact, it insists that its consolidation obligations will apply only after it achieves membership in the euro zone, which is not advocated by the current government.

Portugal

Score 5

According to Eurostat, Portugal’s 2014 budget deficit was 7.2%. This was considerably higher than the 4% target established for 2014 by the MoU. However, this budget deficit was inflated by the government’s €4.9 billion euro bailout of the Banco Espírito Santo (BES) during the summer of 2014. Without this bank bailout, the 2014 deficit would have stood at 4.5%, the best result since 2008.

During the period under review (November 2014– November 2015), the governing coalition, which is comprised of the Social Democratic Party (PSD) and the Democratic and Social Center/Popular Party (CDS-Partido Popular, CDS-PP), maintained the goal of reaching a deficit below 3% for 2015. As noted above, the budget for 2015 set the deficit goal at 2.7%, 0.2 percentage points higher than the MoU goal for 2015, largely maintaining the previous year's degree of structural adjustment. In part this reflected the political realities of the election year. However, it also reflected an easing of budgetary pressures thanks to the end of the bailout, low yields on government bonds and some economic growth after the contraction of 2011 – 2012.

The European Commission's 2015 Autumn Forecast, announced on 5 November, predicted a budget deficit for 2015 of 3% – higher than the 2015 budget target, but nonetheless reflecting deficit reduction.

It should also be noted that Portugal has seen considerable improvement when examining the primary budget in particular. The primary budget deficit fell by 4.5 percentage points from 2010 to 2013, and there was a primary budget surplus of 0.4% in 2014.

Citation:
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Romania

Score 5

Since the height of the economic crisis, Romania has gradually reduced the budget deficit, largely relying on expenditure cuts. In 2014, one year earlier than planned, the medium-term budgetary objective of a deficit of 1% of GDP in structural terms was reached. Since the end of 2014, the fiscal stance has been loosened by a series of politically popular deficit-increasing measures, the bulk of which were not included in the original 2015 budget. The loosening of the fiscal stance has been criticized for its pro-cyclical character and for worsening the medium-term fiscal outlook. The 2016 draft budget has violated the requirements of the fiscal responsibility law, thus undermining the credibility of the country's fiscal rules.

Slovenia

Score 5

Favored by the robust economic growth in 2014 and 2015, the Cerar government succeeded in bringing the deficit down from 3,4% of GDP in 2014 to less than 3% in 2015, thus making the eventual exit from the European Commission's excessive deficit procedure, in which Slovenia has been since 2009, likely in 2016. However, fiscal adjustment has largely rested on one-off measures such as a wage freeze in the public sector. Slovenia's structural deficit has remained relatively high, the public debt increased by three percentage points to more than 80% of GDP in 2015, and, according to the European Commission, Slovenia has the largest long-term sustainability gap of all EU member states. In order to stress its commitment to a sustainable budgetary policy, the National Assembly, in line with the EU's Fiscal Compact, enshrined a "debt brake" in the constitution in May 2013. However, the adoption of the corresponding legislation took until July 2015 and the members of the independent Fiscal Council in charge of overseeing the implementation of the new rules have not been appointed yet.

France

Score 4

France's budgetary situation is unsustainable in the long term. Over the past year, some slight but insufficient improvements have been observed under pressure from the European Commission and partners. The deficit remains well above the 3% ceiling and the number of civil servants, which had slightly decreased since the Sarkozy election in 2007, has started to grow again.

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, 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 growing black market, while at the same time the collective morale of French individuals and companies plummeted. Though it announced cuts in public spending (relative to the government's spontaneous spending increase) amounting to €50 billion for the period 2015-2017, the government made very few real cutbacks. The 2015 and 2016 budgets have foreseen expenditure cuts but fail to respect the 3% deficit limit set by European rules. According to the budget rapporteur for the 2016 budget, 3 to 4 billion in savings necessary to secure the credibility of the government's budget remain undocumented. Similarly, while the structural deficit was reduced in 2012, 2013 and 2014, the government has abandoned the objective to balance the structural budget, postponing this target to 2017. As a result, France's comparative performance on budget consolidation is still disappointing. In this context, there is very little chance that the objectives set up by European treaties will be met by the end of Hollande's term in 2017.

Greece

Score 4

The Greek government achieved fiscal consolidation in 2013 and 2014. With the exception of Iceland, by 2014 Greece's consolidation effort had topped that of all other advanced economies. This was a result of the sustained austerity policies of the

New Democracy-PASOK coalition government (2012 to 2014), which obviously had a downside with regard to social protection.

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 2015, the government, consumed in negotiations with the country's creditors, essentially only started collecting direct taxes in August. In 2014 and 2015, the government was also late in paying private suppliers for some goods and services, which resulted in the near collapse of some private businesses.

Compared to the first phase of the crisis, budgetary policy was better coordinated and more effective. It is telling that after a decade of continuous annual budget deficits (2002 to 2012), Greece achieved a primary budget surplus of 1.17% in 2013 and 1.50% in 2014. Yet, the protracted negotiations over the Greek adjustment program between the new Syriza-ANEL government and Greece's creditors (February to July 2015), the re-hiring of dismissed civil servants by this government, and the successive electoral contests (referendum over the European Commission's reform proposals in July 2015 and snap parliamentary elections in September 2015; which have twice halted large areas of economic activity), may well have wiped out the positive fiscal results of the previous two years.

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
Data on the primary budget surplus and Greece's fiscal consolidation effort are drawn on the SGI database.

United States

Score 4

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 2.5% of GDP in 2015, 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 the Medicare and Social Security programs.

In short, U.S. budget policy has provided too little current stimulus to promote robust growth; has failed to balance revenues and spending over a 10- to 20-year period; and has nevertheless underfunded most government services – from infrastructure and border security to environmental regulation and R&D. In comparison to recent years, budget policymaking in 2015 showed some significant improvements, resulting partly from (perhaps temporarily) more accommodating Republican leadership. The current deficit was reduced, some modest reductions in the future growth of Medicare and Social Security were achieved, and authorization for required increases in the debt limit was assured until 2017.

Japan

Score 2

Gross public indebtedness in Japan amounted to 246% of GDP in 2014, the highest such level among developed economies. The budget deficit also remains high, around 7.3% in 2014. In its July 2015 Article IV staff report, the IMF (like others) urged the government to address the deficit problem more seriously, and to present a determined medium-term consolidation strategy. According to the Abe government's three-year growth plan made public in June 2015, the budget deficit is slated to be reduced to 1% before interest payments by 2018, with primary balance reached by 2020. The plan offers little in terms of additional tax- or expenditure-related measures, apart from the already agreed rise in the value-added tax from 8% to 10%, focusing on reform measures. However, as argued elsewhere in this report, progress in these areas is highly uncertain.

On the positive side, the budget's degree of dependence on selling new government bonds has declined in recent years, from a high of 48% in 2010 to 43% in 2014. However, the sustainability of this decline is questionable.

Nominal interest rates have been and remain low. 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 thus sustain the current price level of Japanese government bonds for the time being. However, should national savings fall short of domestic needs – a foreseeable event given the aging of Japanese society – future government deficits may be difficult to absorb domestically. If this were to be the case, government bond prices could fall and interest rates could rise quickly, which would create extremely serious problems for the Japanese government budget and the country's financial sector.

Citation:
Robin Harding, Japan bets on growth to curb debt as Abe reveals three-year plan, The Financial Times, 22 June 2015, http://www.ft.com/intl/cms/s/0/cb6d0432-18d7-11e5-a130-2e7db721f996.html#axzz3qWPpbaMR

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