Budgets Report

Budgetary Policy

Sustainable Governance Indicators 2018

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) rose from a low 29% of GDP in 1990 to a peak of 52% in 1998, but receded to 29% by 2016. Structurally adjusted budgets were balanced even during the crisis of 2008 and 2009. Since the turn of the century, the federal budget was always in the black or at least balanced, with the government spending less than it received – with the exception of 2002 – 2004. In all likelihood, this positive balance will be maintained over the coming years.

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 structures have been developed 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." Recently, the government announced its intention to relax one element of this debt brake. In August 2017, though, an expert commission warned against such a move. Direct democracy offers another effective means of keeping the budget within limits. In popular votes, 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.

Notwithstanding a very favorable fiscal position, the Federal Council pursues moderate austerity programs. 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.

Bulgaria

Score 9

Bulgaria has featured sound budgetary policy for most of the last 20 years. The fiscal stance worsened in 2009 – 2010 due to the economic crisis, and in 2013 – 2014 due to a combination of expenditure expansion and the failure of a major bank. But in both cases, budgetary discipline was swiftly restored. The budget was balanced in 2016 and is projected to remain so in 2017. After an increase in 2014, due to the necessity to cover guaranteed deposits in the failed bank, public debt was held in check and began to decline in 2017, with projections over the medium term predicting a low level of 20% of GDP.

Fiscal rules, including a medium-term balanced budget target, a public spending ceiling at 40% of GDP and a public debt ceiling of 60% of GDP, are in place and have helped make budgetary policy sustainable. Adherence to these rules is observed by an independent fiscal council. The council, in operation since 2016, has already published a number of opinions and recommendations, including a review of the Bulgarian Convergence Program for 2016 – 2019, the medium-term budget forecast for 2018 – 2020 and the 2018 draft budget.

Citation:
European Commission (2018): Country Report Bulgaria 2018 including an In-Depth Review on the prevention and correction of macroeconomic imbalances. SWD(2018) 201 final, Brussels, 10, 23 (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-bulgaria-en.pdf).

Denmark

Score 9

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 planned structural budget balance must not display a deficit greater than 0.5%. These norms are part of EU-rules and Danish budget law.

Fiscal policy has satisfied these norms, although in some cases it has come close, and maintained its budget due to ad hoc measures like forward lifting revenue from pension taxation. Both the current balance and the structural balance have been close to the limits. The actual budget deficit is projected to be less than 1.4% and the structural budget deficit to be 0.5% in 2017. (Though the structural budget deficit cannot exceed 0.5% according to the budget norms). Satisfying the budget norms has been a binding constraint in economic policy for several years.

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.

In his opening speech to the parliament on 3 October 2017, Prime Minister Løkke Rasmussen adopted a generally positive view of the economy and mentioned that there was extra financial scope in the public finances of DKK 36 billion. The government proposed spending DKK 5 billion on public investments, including motorways, DKK 7 billion on reducing direct and indirect taxes, and some of the remaining money on strengthening the police and armed forces, investing in public safety and welfare, and improving health care and elderly care.

Citation:
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2017 report, https://dors.dk/vismandsrapporter/dansk-oekonomi-efteraar-(Accessed 4 December 2016). English summary available at: https://dors.dk/files/media/rapporter/2017/E17/english/e17_english_summary.pdf
Økonomi og Indenrigsministeriet,, Økonomisk Redegørelse, August 2017.http://www.oim.dk/media/18744/oekonomisk-redegoerelse-august-2017.pdf. (Accessed 4 December 2017)
Prime Minister Lars Løkke Rasmussen's Opening Address to the Folketing on 3 October 20017.http://www.stm.dk/_p_14597.html (accessed 5 November 2017).

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 burdens on future generations. Although a small budget deficit has appeared in recent years, it will disappear by 2020 according to current forecasts. The overall tax burden has remained constant over the years.

Government transfers to municipal budgets, which were substantially cut during the economic recession, are being step-by-step restored. Combined with the merger of small and fiscally fragile municipalities, this contributes to a broader range and higher quality of public services at the local level. However, the long-term debts of the health insurance and public pension funds pose significant future challenges to 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 the European Commission, the IMF, and the OECD. However, achieving medium-term structural-reform goals remains a challenge.

The budget framework and government-debt cap of 60% of GDP, prescribed by the Law on Fiscal Discipline, has been maintained. Latvia remains broadly compliant with the principles of fiscal discipline.

In 2015, the budget deficit was 1.3% of GDP, above the target of 1.0%. In 2016, it stood at 0.0%.

Luxembourg

Score 9

From a position of relatively low public debt and GDP growth, consolidated public debt decreased from 22% of GDP in 2015 to 20.8% of GDP in 2016. However, both investments and national debts are clearly on the rise. The 2017 total public debt will close at 23.5% of GDP, comprising a €2.14 billion government state guarantee resulting from the DEXIA bank bailout in 2008. After five years of fiscal consolidation and high economic growth, the 2018 government budget will include an all-time high deficit of €1.062 billion. Supported by strong population growth and an investment boom, Luxembourg has among the most solid economic growth (along with Malta and Ireland) among the EU member states. The cost of structural investments increased from €1.955 billion in 2015 to €2.229 billion in 2016, an increase of 14%. Public investments increased by €100 million from €2.3 billion in 2017 to €2.4 billion in 2018, stabilized with around 4% of GDP.

The government continues to increase investments in housing, education, and research, which are key drivers of modernization and infrastructure development.
Founded in 1978, the National Company of Credit and Investment (SNCI) holds substantial private sector shares and equity investments (e.g., 11% SES and 10% Cargolux) of €1.419 billion in 2016.

Rising economic output and decreased social protection expenditures led to higher revenues for the national insurance, which closed with a profit of €590 million in 2016. Social protection receipts led to a surplus of social security funds and public participation dropped from 59% in 2008 to a ten-year low of 54% in 2016.

Citation:
2016 Rapport et Bilan. Société Nationale de Crédit et d'Investissement, 2016. https://www.snci.lu/files/75987.pdf. Accessed 21 Dec. 2017.

Assessment of the 2017 Stability Programme for Luxembourg. European Commission, 2017.
ec.europa.eu/info/files/assessment-2017-stability-programme-luxembourg_en
Accessed 11 Dec. 2017.

"De Budget 2016." Le gouvernement du Grand-Duché de Luxembourg, www.budget.public.lu/lu/budget2016/op-ee-bleck/bref-apercu/index.html. Accessed 21 Feb. 2017.

"De Budget 2017." Le gouvernement du Grand-Duché de Luxembourg, www.budget.public.lu/lu/index.html. Accessed 21 Feb. 2017.

"Europäische Union: Staatsverschuldung in den Mitgliedsstaaten im 2. Quartal 2017." Statista, 2017, de.statista.com/statistik/daten/studie/198377/umfrage/staatsverschuldung-in-der-europaeischen-union/. Accessed 21 Dec. 2017.

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"Propriété intellectuelle." Le gouvernement du Grand-Duché de Luxembourg, www.luxembourg.public.lu/fr/investir/propriete-intellectuelle/index.html. Accessed 21 Feb. 2017.

Winkin, René. "Die öffentlichen Finanzen aus Sicht des CSDD." Forum.lu, Mar. 2010, www.forum.lu/pdf/artikel/6751_294_Winkin.pdf. Accessed 21 Feb. 2017.

Netherlands

Score 9

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. From 2015 to 2017, the Dutch budget deficit decreased from 2.2% to 0.5% of GDP. During the same period, government debt decreased slightly to 66.2% in 2012 to 62% in 2016.

All in all, the sustainability of state finances has improved over the last few years.

Although state income from gas exploitation decreased even more, higher tax and premium income compensated for this loss. For the first time in years, no further austerity measures were announced in September 2014. In 2017, the government allocated €1.5 billion to improve purchasing power for all (whether employed, unemployed, in education or training, or retired), and another €1.5. billion on security, education and care. Public debate is no longer focused on new austerity measures and the reduction of state debt, but on how to balance fiscal sustainability with new investments in infrastructure and knowledge, for example, through a dedicated invest fund.

Citation:
Miljoenennota 2017 (rijksoverheid.nl, accessed 27 September 2017)

NRC-Handelsblad, “10 miljard om Nederland te verbeteren,” 16 August 2017

D. van Wensveen, “De noodzaak van een fonds voor infrastructuur en kennis,” Me Judice, 18 April 2017

R. Gradus and R. Beetsma, “Houdbaarheidssaldo uitstekend kompas voor begrotingsbeleid,” Me Judice, 5 September 2017

New Zealand

Score 9

New Zealand’s budgetary policy is fiscally sustainable. The advent of the world financial crisis ended 14 years of budget surplus. The National 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. In succeeding years, the National government maintained its course of fiscal consolidation. According to an OECD forecast, general government gross financial liabilities as a percentage of nominal GDP would decrease from 39.7% in 2016 to 39.1% in 2017 to 38.2% in 2018. Although opposition parties were highly skeptical of the way it was achieved, the government posted a modest budget surplus of NZD 275 million in 2015, the first such surplus since 2008. This trend continued into 2016 and 2017. 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.

Citation:
Fiscal Strategy Report 2017 (http://www.treasury.govt.nz/budget/2017/fsr/b17-fsr.pdf) (accessed 21 September 2017).
OECD Economic Survey of New Zealand 2017 (http://www.oecd.org/newzealand/economic-survey-new-zealand.htm) (accessed 21 September 2017).
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 over the next few decades. However, the price drop in oil and gas markets led to a significant reduction in state revenue in 2015 and 2016. Due to technological changes and climate change, there is also more uncertainty regarding the long-term viability of oil and gas-based revenues. Fears of stranded assets are growing as carbon pricing approaches and the complexity associated with offshore oil fields could render extraction costs ineffective. However, extraction costs have dropped significantly in Norway, the country's fields are competitive by international standards and the investment climate remains politically stable.

Gas has now surpassed oil as the most important source of income and the production of oil has been in decline over the last few 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 oil fund, created in 1990 by the Norwegian parliament as a means to share oil proceeds between current and future generations, and smooth the effects of volatile oil prices. The fund is administered by Norges Bank Investment Management (NBIM), an arm of Norway's central bank, and invests exclusively in non-Norwegian assets. As the fund has grown, Norway has gradually moved from being a petro-state to being more of an investor state. It might be less exposed to the risk of volatile oil prices, but has become more exposed to volatile financial markets.

Public finances remain sound, but are notably more strained. As revenues are expected to decrease, adjusting welfare spending and economic diversification will grow increasingly important. It is expected that marine industries and sea food production will play an increasingly important role for Norway.

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 neither government nor opposition harbor any plans to abolish it. In 2016, a revised budget surplus goal of 0.33% was negotiated between the two major blocs in parliament. The agreement also includes a commitment to a long-term reduction of public debt. Thus, while the surplus goal is somewhat relaxed, there is now a stronger commitment to addressing public debt. Indeed, the past two budgets have reduced the budget deficit. Overall, these developments indicate a continuing bipartisan commitment to maintaining fiscal and budgetary discipline.

The budget surplus goal issue ultimately relates to the Keynesianism-monetarism controversy. The government wants to use the budget actively to drive the economy while the coalition of non-socialist parties in opposition (Alliance) take a somewhat more monetaristic approach. Either way, the fiscal and budgetary regulatory framework helps sustain a course 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 degree the two main contenders for power in Sweden (i.e., the four non-socialist parties that form the 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 period following the election has been very positive in budgetary terms, with strong and sustained growth. Combined with a few moderate tax increases, this situation has enabled the government to reduce national debt, but also to increase public spending. Thus, current government policies signal a return to conventional Social Democratic economic policy, albeit embedded in a firm regulatory framework.

Citation:
Brenton, S. and J. Pierre, "Budget surplus goal experiments in Australia and Sweden," New Political Economy 22 (2017):557-72.

Finanspolitiska Rådet. Swedish Fiscal Policy. Fiscal Policy Council Report 2016 (http://www.finanspolitiskaradet.se/download/18.3a8070ba157c4f032a872f5b/1476880513278/Swedish+Fiscal+Policy+2016.pdf).

Finanspolitiska Rådet. Swedish Fiscal Policy. Fiscal Policy Council Report 2017 (http://www.finanspolitiskaradet.se/download/18.4c8bf10a160291805212159b/1512728 204599/Swedish+Fiscal+Policy+2017.pdf).

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

Regeringen (2016), Överenskommelse om skuldankare, nytt överskottsmål och förstärkt uppföljning (http://www.regeringen.se/4a7bfa/contentassets/24a388a9a9994e67a706e0b91768bdd2/overenskommelse-om-skuldankare-nytt-overskottsmal-och-forstarkt-uppfoljning.pdf).

Austria

Score 8

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 cross-party consensus regarding most social policies, there is comparatively little incentive to limit expenses. The political parties seem 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. This may change under a new coalition alliance between the ÖVP and FPÖ. The FPÖ represents a younger electorate of largely non-unionized employees, working outside the government bureaucracies, and may be more tempted to cut through the “red tape” which protects traditional interests.

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 an 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. Nonetheless, in 2016, the government was able to pass a budget with only a very small structural deficit.

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 (outgoing) government. The SPÖ preferred using the deficit as an instrument to boost economic growth, while the ÖVP argued that – in the long run – deficit spending will result in disaster, and plans to introduce a zero-deficit clause into the Austrian constitution. With the SPÖ out of government, the Keynesian tradition is under threat.

Canada

Score 8

Canada’s government is in a relatively strong fiscal position. Its budget deficit as a proportion of GDP is low by international standards, as is its (net) public debt to GDP ratio, which is projected to remain stable over the next five years at around 31%. The fiscal situation is somewhat weaker in certain provinces, where debt ratios range from roughly 3% in Alberta to over 40% in Quebec. and Newfoundland and Labrador.

The Liberal government elected in 2015 had to abandon its campaign pledge to limit spending with “modest short-term deficits” and instead shifted its main fiscal objective to keeping the debt-to-GDP ratio on a downward trajectory.

The government's first (2016) budget outlined five consecutive years of deficits totaling more than CAD 113 billion, with a CAD 29.4 billion deficit in the 2016-2017 fiscal year. Though the actual deficit for 2016-2017 was below that figure, at about CAD 18 billion, due to a stronger than predicted economy. The 2017-2018 projected fiscal gap of CAD 28.5 billion is poised to be below target by a similar magnitude. Indeed, the 2017 Fiscal Sustainability Report from the Parliamentary Budget Office estimates that due to strong economic growth in 2017, the government could permanently increase spending by CAD 24.5 billion and still maintain fiscal sustainability. Based on the current trajectory, federal net debt would be eliminated in just over 40 years, down from 50 years in the 2016 estimate.

Rising health care costs associated with an aging population represent a potential challenge to long-run fiscal sustainability. The 2016 Fiscal Sustainability Report from the Parliamentary Budget Office suggested that while the growth in health care spending had 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:
Department of Finance, Government of Canada, Annual Financial Report of the Government of Canada Fiscal Year 2015–2016m accessible at https://www.fin.gc.ca/afr-rfa/2016/index-eng.asp
Parliamentary Budget Officer, Fiscal Sustainability Report 2016, posted at http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/FSR_2016/FSR_2016_EN.pdf
Parliamentary Budget Officer, Fiscal Sustainability Report 2017, posted at http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/FSR%20Oct%202017/FSR_2017_FINAL_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

Chile

Score 8

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. This trend forced the Chilean government to significantly lower expenditures of some ministries and public services in the latter half of 2016.

Citation:
Cf. DIPRES, Política de Balance Estructural:
http://www.dipres.gob.cl/572/w3-propertyvalue-16156.html

Finland

Score 8

The government agenda of the current Sipilä government builds on its predecessors' initiatives, structural policy programs and public-finance adjustment policies. Consequently, the government's economic policy program has aimed at strengthening the economy's growth potential, raising the employment rate, bolstering household spending power and improving international competitiveness. Accordingly, the government is 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, 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 slowed economic growth, and the government's initial ambition to halt the growth in public debt by 2015 was not fulfilled. The Ministry of Finance's budget proposal for 2017 draws on decisions made in the general government fiscal plan of April 2016; according to estimates from then, there was little significant improvement in the economic situation. The 2017 draft budget total of €55.2 billion exceeded the 2016 budget by €800 million. The draft budget for 2018 amounts to €55.4 billion in total, with a deficit of €3.4 billion, which is noticeable less than originally budgeted for 2017. The European Commission's 2016 Stability Programme for Finland pointed to a risk of some deviation from adjustments targeting the medium-term objective of structural balance and the Commission's spring 2016 forecast confirmed these fears. Still, it must be noted that the forecasted GDP growth in 2017 is 2.9%, which is clearly a better figure than the one calculated for 2016.

Citation:
European Commission, "Assessment of the 2016 Stability Programme for Finland", http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2016/26_fi_scp_en.pdf;
Valtioneuvosto.fi/en/artikkeli/-/asset_publisher/10623/valtiovarainministerion-talousarvioehdotus-vuodelle-2018-on-julkaistu.

Germany

Score 8

For Germany, the 2009 global recession and its aftermath implied higher budget deficits and gross public debt following revenue shortfalls, anti-crisis spending packages and bank bailout costs. Since then, however, Germany's budgetary outlook has considerably improved. Germany's debt-to-GDP ratio has continued to decrease from 81.0% in 2010 to 66.0% in the second quarter of 2017 (Eurostat 2017). This decrease resulted from surpluses in the general government balances since 2014, stable growth and historically low government bond interest rates. In addition to this favorable environment, 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 German states to maintain balanced cyclically adjusted budgets from the year 2020 onwards.

Given the financial burdens associated with the refugee crisis, this positive development is even more astonishing. For 2016 and 2017, the German Council of Economic Experts estimates total expenses directly associated with refugees and asylum-seekers to be €10 to €13 billion, roughly 0.3% to 0.4% of GDP (Sachverständigenrat 2016: 343). 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. The long-run fiscal consequences will crucially depend on how well immigrants integrate into the labor market.

While the federal budget remains balanced, uncertainties concerning the medium- to long-term budgetary outlook remain substantial. Germany's aging population will mean that recent increases to welfare spending (e.g., increased pension payments for mothers and allowances for nursing care) combined with very dynamic increases in health care expenditures will pose a significant challenge to future federal budgets. According to recent calculations of "implicit debt" (i.e., future liabilities resulting from uncovered payment promises by the social security system and other government programs), the sustainability gap slightly decreased between 2016 and 2017 as a consequence of the falling debt level and the revenue boom (Stiftung Marktwirtschaft 2017b). However, major new risks emerge from the current competition between political parties to offer more generous pension and health care systems, and the refusal to raise the pension age due to increasing life expectancy. Recent calculations indicate that higher pension levels (relative to last active income) would push up implicit debt dramatically (Stiftung Marktwirtschaft 2017a).

Citation:
Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2016): Zeit für Reformen, Jahresgutachten 16/17, Sachverständigenrat: Wiesbaden. Online: http://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2016-2017.html

Stiftung Marktwirtschaft (2017a): Ehrbarer Staat? Generationenbilanz Update 2017, 12. Juli 2017.

Stiftung Marktwirtschaft (2017b): EU-Nachhaltigkeitsranking 2017, Nicht mehr kleckern, sondern klotzen!, Pressemitteilung 12. Dezember 2017.

Eurostat 2017: http://ec.europa.eu/eurostat/web/products-datasets/-/tsdde410

Ireland

Score 8

There has been sustained progress toward correcting budget imbalances. The general government budget balance as a percentage of GDP fell to -0.3% in 2017 and is forecasted to move into a surplus of 0.2% in 2018. The most recent data show that the national debt-to-GDP ratio, which peaked at 120% in 2013, fell to 66% of GDP in 2016. When consideration is given to the government's assets, the net debt position relative to GDP was 61% in 2017 with the expectation that it will fall to 60% in 2018. The Minister of Finance announced in the 2018 Budget that the government intends to establish a "rainy day" fund to provide money to meet unforeseen contingencies that may arise in the future.

By dint of considerable sacrifices involving increases in taxation and cutbacks in public-sector expenditure, the Irish debt numerator has been brought under control. The sizable growth in the economy has greatly increased the GDP denominator thereby enabling Ireland to move close to the euro zone's 60% debt limit requirement. Ireland's fiscal situation is now sustainable. Experience over the past five years has confounded the view that Ireland could not return to sustainable economic growth while undertaking a regime of fiscal austerity. The country's adjustment could be regarded as an example of successful "expansionary austerity."

Leaving aside the ever-present possibility of adverse external shocks, a risk now facing the Irish economy is that the government, following record tax returns, will encounter increasing demands from public-sector trade unions to increase public-sector expenditure and in particular public-sector remuneration.

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

Lithuania

Score 8

During the financial crisis, Lithuania's fiscal situation deteriorated rapidly. The fiscal deficit grew to 3.3% of GDP in 2008, and to 9.4% of GDP in 2009. As a result of fiscal consolidation, the deficit dropped to 7.2% in 2010 and again to 5.5% in 2011. In 2014, the European 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. However, despite relatively high rates of economic growth, the 2012 to 2016 government was only able to reduce the budget deficit toward the end of its political term. According to European Commission forecasts, the general government surplus will be around 0.1% in 2017, down from 0.3% in 2016. The structural deficit is expected to be close to 1% between 2017 and 2019. Government debt also expanded during the crisis, reaching 39.8% of GDP in 2012 (from the pre-crisis low of 16% in 2008); it 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 government in its convergence program. The goal of introducing the euro in 2015 preserved the government's determination to maintain the deficit at a level below 3% of GDP, while the fiscal-discipline law provides an incentive to maintain a balanced fiscal policy as the economy keeps growing. Although spending pressures are increasing, it has been difficult to increase total tax revenues (29.4% of GDP in 2015), in part due to geopolitical tensions, the impact of Russia's import ban on the Lithuanian economy, and slow recovery in the euro zone economy, which is the main export market for Lithuanian businesses. Geopolitical and social concerns prompted a major increase in defense and social expenditures under the Butkevičius and Skvernelis governments. In 2018, defense spending will for the first time reach 2% of GDP. Elsewhere, old-age pension increases have been set for 2018. The draft 2018 state budget, which was approved in October 2018, has a deficit of €468.5 million, but the general government balance is expected to reach a surplus of 0.2% of GDP in 2018.

COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2017: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-lithuania-en.pdf

Turkey

Score 8

General government revenue increased from 31.9% of GDP in 2014 to 32.2% of GDP in 2015 and to 32.6% of GDP in 2016. Total general government expenditures as a share of GDP increased from 33.3% in 2014 to 33.4% in 2015 and to 34.9% in 2016. After the failed coup attempt the government adopted an expansionary fiscal policy approach. During 2016 central government expenditures grew by 15.4% due to increases in wages, transfers, and purchases of goods and services. Though a fall in capital spending and interest expenditures as a share of GDP helped to contain the increase in total expenditures.

During the first three months of 2017, the discretionary funds available to the prime minister and the president almost doubled. In 2016, the IMF had emphasized the need to enhance fiscal risk management. Due to the fragmentation of the legal and oversight framework for public-private partnerships (PPP), contingent liabilities have increased due to the government's continued reliance on PPPs for infrastructure investments.

In August 2016, the Turkey Wealth Fund (Türkiye Varlık Fonu), a sovereign wealth fund owned by the government, was established by Law 6741. The fund is operated under the Strategic Investment Plan, which is approved by the cabinet. The fund was initially allocated TRY 50 million from the reserves of the Privatization Fund and the Directorate of the Privatization Administration (Özelleştirme İdaresi Başkanlığı). In February 2017, the fund also received all the state-owned shares of T.C. Ziraat Bankası A.Ş., Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ), Türkiye Petrolleri A.O. (TPAO), Posta ve Telgraf Teşkilatı A.Ş. (PTT), Borsa Istanbul A.Ş. (BIST) and Türksat Uydu Haberleşme Kablo TV ve İşletme A.Ş., as well as the state's 49.12% share in Türk Hava Yolları A.O. (Turkish Airlines), 51.11% share in Türkiye Halk Bankası A.Ş., 49% share in Türkiye Denizcilik işletmeleri A.Ş. and 6.68% share in Türk Telekomünikasyon A.Ş. In addition, the fund received the licensing rights of Milli Piyango Genel Müdürlüğü for games of chance and the licensing rights for horse races (for 49 years each, starting from 1 January 2018). The fund received ownership of land in Antalya, Aydın, İstanbul, Isparta, İzmir, Kayseri and Muğla, which were previously owned by the Treasury of Turkey. By the end of 2017, the fund managed approximately $40 billion in assets.

So far, the transfer of discretionary funds to the presidency and the Turkey Wealth Fund has not affected the government's budget. Furthermore, given that the presidency and Turkey Wealth Fund – despite concerns over nontransparency and misuse of funds – can contribute to Turkey's economy by enhancing budgetary flexibility, the impact of both moves on the economy's sustainability remains to be seen.

Nevertheless, as a result of the above developments, the budget-deficit-to-GDP ratio declined from 1.4% in 2014 to 1.3% in 2015, but jumped to 2.3% in 2016 as a result of fiscal stimulus measures introduced after the failed coup attempt. At the end of 2014, gross public debt totaled 28.7% of GDP, while the gross public-debt-to-GDP ratio amounted to 27.5% in 2015 and increased to 28.1% in 2016.

Citation:
International Monetary Fund (2016) 'Staff Report for the 2017 Article IV Consultation,' Washington D.C.: IMF.
Yegin Çiftçi Attorney Partnership (2017) 'Turkey Joins The Rest Of G20 By Establishing Its Sovereign Wealth Fund,' Briefing Note, Istanbul, http://www.yeginciftci.av.tr/content/site-ycap/en/publications/Turkey-Joins-The-Rest-Of-G20-by-establishing-its-sovereing-wealth-fund/_jcr_content/parsys_article/download/file.res/TURKEY%20JOINS%20THE%20REST%20OF%20G20%20BY%20ESTABLISHING%20ITS%20SOVEREIGN%20WEALTH%20FUND.pdf

Czech Republic

Score 7

Improved economic performance has enabled the Czech government to retain its objective of reducing the general government budget deficit and thereby limit the growth in public debt while allowing some expansion of domestic demand. For the first time since 1994, and despite original plans for a deficit, the Czech Republic ran a fiscal surplus in 2016. Largely due to the strong showing of tax revenues, this surplus has further increased in 2017. After years of controversy, the government won approval for the Act on Budgetary Accountability in January 2017. This act sets debt limits for all tiers of government, introduces a central government expenditure ceiling and envisages the creation of an independent National Budgetary Council. The appointment of the latter's members has progressed slowly. Public debt has fallen from about 45% of GDP in 2013 to about 35% in 2017, lower than in most EU countries and well below the debt limits of 55% and 60% defined in the fiscal responsibility law.

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 Finance Ministry'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 in parallel with each budget, consisting of numerous restrictions and amendments designed to secure the state's financial goals. Since 2009, the budget has been converted to a biennial budget plan, which many regard as 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.

Citation:
Hattis Rolef, Susan, Two-Year (Biennial) Budgets, The Knesset Research and Information Center, 15.7.2009: https://www.knesset.gov.il/mmm/data/pdf/me02392.pdf
"Mission Concluding Statement," International Monetary Fund, 8.2.2017: http://www.imf.org/en/News/Articles/2017/02/08/mcs02082017-Israel-Staff-Concluding-Statement-Of-The-2017-Article-IV-Mission

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. 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 improved climate on the international markets and European Central Bank policies have yielded a sharp decline in interest rates for Italian long-term treasury bonds. This has eased the country's budgetary pressures. After a modest recovery in 2016, economic growth accelerated through 2017, which has slowed the growth in public debt. However, the previous government's promise that the ratio of public debt-to-GDP would start declining in 2016 will probably only become true in 2018.

Fiscal policies for 2017 have benefited from the improved economic conditions. The government, in close coordination with the European Commission and taking advantage of the flexibility allowed by the European Union for countries introducing significant structural reforms, has pursued a path of modest fiscal consolidation balanced by measures to sustain economic recovery. Tax reductions and incentives for entrepreneurial activities have only partially been offset by reductions in public expenditure. In general, cuts to public expenditure, proposed in the government's spending review, have been implemented more slowly than initially proposed. This has been due to resistance from interest groups and fear that such cuts would have recessionary effects. The pace of privatization of public assets has been slower than anticipated.
The vast majority of regional and municipal budgets are fiscally sustainable, though not all.

Citation:
Should be this document: http://www.finanze.gov.it/export/sites/finanze/it/.content/Documenti/Varie/5.-Rapporto-evasione-2017.pdf But it fits better into P3 taxes
http://www.mef.gov.it/inevidenza/documenti/Letter_to_DombrovskisxMoscovici_-_30_Oct._2017x150060x.pdf

Malta

Score 7

Developments since 2013 have demonstrated that fiscal policy is now expected to meet most standards of sustainability. Indeed, deficit levels have been decreasing steadily; the deficit fell to 2.0% of GDP in 2014 and to 1.5% of GDP in 2015. Significantly, a surplus equivalent to 1.0% of GDP was registered in 2016 and a more moderate surplus of 0.5% is being forecasted for 2017.

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.

The government is expected to maintain a surplus between 2017 and 2020. However, the EU's recommendation on Malta's 2017 National Reform Program continues to stress that age-related expenditure and health care costs 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. In its Second Annual Report, the Malta Fiscal Advisory Council advised the government to broaden its strategic focus beyond traditional headline targets to include numerical fiscal rules and the European Commission's expenditure benchmark. The 2017 European Commission Staff Working Document on Malta's Country Specific Recommendations also notes that public outlays have increased at a fast pace. The European Commission document also highlights the fact that wage expenditure in both the education and health sectors has increased over the last five years, while it has remained stable or declined slightly across the EU. A comprehensive spending review is currently ongoing with the aim of analyzing expenditure in various government departments and entities. A number of recommendations made through this process have already been implemented with the aim of generating short-term savings and effectiveness in public spending. A 2016 IMF report raises similar issues, stressing the public sector's wage bill and spending on goods and services as relatively high, having increased rapidly in recent years. The 2017 IMF report also indicated some reliance on international investment position (IIP) revenues which may be temporary and, therefore, recommended identifying further structural measures to strengthen the state's fiscal position.

Meanwhile, the struggling, state-owned enterprise Air Malta is no longer entitled to state subsidies and extensive reforms have been recently made to reduce its effects on government expenditures. Though the company continues to generate losses, it is projected that it should break even by the end of the next fiscal year. At the same time, the energy provider Enemalta's elevated level of government guaranteed debt (about 6% of GDP in 2015) calls for continued close monitoring of its operations, as does the recent government deal to privatize several state hospitals.

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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National Statistics Office (NSO) News Release 069/2017
European Economic Forecast Spring 2017 p.97
Recommendation for a COUNCIL RECOMMENDATION on the 2017 National Reform Program of Malta and delivering a Council opinion on the 2017 Stability Program of Malta Brussels, 22.5.2017
COM(2017) 517 final p.3, p.4
The Malta Independent 13/04/2017 The Malta Fiscal Advisory Council publishes its Second Annual Report
Commission Staff Working Document - Country Report Malta 2017 SWD (2017) 83 final p.12, p.13, p.14
The Malta Independent 11/12/2016 No more state aid for Air Malta, Brussels confirms
The Malta Independent 19/09/2017 Nearly all Air Malta flights will cost €39 after change in luggage policy, Mizzi announces
IMF Country Report No. 17/56 file:///C:/Users/Fujitsu%20Lifebook/Downloads/cr1756.pdf
Times of Malta 28/11/17 IMF sounds warning on IIP and rising property prices
International Monetary Fund Malta 17/11/17

Portugal

Score 7

Clearly, the most important economic development during the reporting period was Portugal’s departure from the European Union’s excessive deficit procedure black list in May 2017. The budget deficit for 2016 stood at 2% of GDP, the lowest level since democracy was established in the mid-1970s. Moreover, this deficit was below the government’s own forecast for the year, as well as the forecasts offered by the EU and major credit-rating agencies. This represents a reduction of the deficit by more than half relative to 2015, when the shortfall stood at 4.4% of GDP.

This review period’s advances were aided by some one-off measures, including the sale of military equipment. However, the independent Council of Public Finances estimates that even excluding these one-off measures, the deficit would have stood at 2.5% of GDP.

These positive results led then-German Minister of Finance Wolfgang Schäuble to dub Portuguese Finance Minister Mário Centeno the “Cristiano Ronaldo of the Ecofin” in May 2017.

This budget result also prompted one of the big-three credit agencies, Standard & Poor’s, to raise Portugal’s score above the “junk” level in September 2017, after more than five years at this level.

However, it should be noted that the absolute level of public debt remains very high, actually increasing marginally in 2016 to 130.1% of GDP, up from 128.8% of GDP in 2015. Within the EU, this level is exceeded only by Greece and Italy.

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https://www.publico.pt/2017/04/12/economia/noticia/defice-de-2016-revisto-para-2-1768525

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Slovakia

Score 7

Slovakia managed to reduce its fiscal deficit from 8% in 2009 to 3% in 2015 and 1.7% in 2016. For 2017, a deficit of below 1.5% is expected, for 2018 even a balanced budget. While the consolidation of the budget has been favored by strong and higher-than-expected economic growth, the government has also succeeded in limiting expenditure growth. In the period under review, the government continued its “Value for Money” project and initiated a second round of spending reviews. At the same time, its calls for exempting state spending on roads and highways from counting toward the constitutional debt ceiling have raised concerns about the credibility of the country’s fiscal framework. Because of population aging, and the lack of pension and health care reform, the long-term risks for public finances have remained high.

Citation:
European Commission (2018): Country Report Slovakia 2018. SWD(2018) 223 final. Brussels, 9, 17-18 (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country -report-slovakia-en.pdf).

South Korea

Score 7

Despite a substantial increase in public debt under the Park government, South Korea’s public finances remain sound, and debt levels remain low compared to most other OECD countries. National debt as a share of gross domestic product (GDP) was 38% as of the time of writing, up from 32% in 2012, with an additional rise to 39% expected by the end of 2017. However, while debt at the national level is under control, many local governments are struggling due to insufficient revenues.

In terms of the consolidated financial balance, which includes the nonprofit state-run sector and pension funds, the nation’s assets reached KRW 1,962.1 trillion in 2016, with liabilities totaling KRW 1,433.1 trillion. In terms of the fiscal balance excluding social-security funds, a measure more typically used to estimate the soundness of fiscal management, Korea’s performance improved during the review period. The fiscal deficit in this category was reduced to KRW 22.7 trillion from a KRW 38 trillion deficit in 2015. The 2016 deficit was the smallest since 2011’s KRW 13.5 trillion shortfall, according to the Ministry of Strategy and Finance.

However, the new government’s planned expansion of welfare services could increase the fiscal burden. This has stimulated a national discussion about fiscal sustainability.

Citation:
Trading Economics, South Korea Government Budget, https://ko.tradingeconomics.com/south-korea/government-budget
Korea Herald. Korea's debt-to-GDP ratio continues to rise in 2016. April 4, 2017. http://www.koreaherald.com/view.php?ud=20170404000704

United Kingdom

Score 7

The United Kingdom is fiscally 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 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 in a new Charter for Budget Responsibility.

Due to uncertainty about the economic consequences of leaving the European Union ("Brexit"), the government has postponed its goal of achieving a budget surplus in the fiscal year 2019 to 2020. With the economy growing less than expected (1.8% in 2017 with a declining trend), government debt will peak at 86.5% of GDP this year but is projected to fall to 86.4% in 2018 on its way to reach the goal of 79.1% in 2022 – 2023. To achieve this aim, public sector net borrowing has been reduced from 3.8% of GDP in 2016 to a forecast of 2.4% in 2017 and is gradually to be reduced to 1.1% in 2022 – 2023.

Nevertheless, low interest rates and the extensive purchases of public debt by the Bank of England through its quantitative easing program has saved the United Kingdom 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 United Kingdom in the second quarter of 2017 was 13 points below that of France and Spain and also well below that of Italy, but 20 points above that of Germany. As the interest rate rose from 0.25% to 0.5% (the first rise since 2007) due to uncertainty caused by Brexit, which led to the Sterling falling by 1%, it is unclear whether the United Kingdom's fiscal policy is financially sustainable.

Citation:
Autumn Statement 2017: https://www.gov.uk/government/topical-events/autumn-budget-2017

Australia

Score 6

While net federal government debt standing at approximately 20% of GDP at the time of the review period, 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, partially due to an aging population. Finally, Chinese demand for Australia's exports and real estate in Australia keep the outlook for the Australian budget stable. The Australian central bank has recently warned that it could be forced to put a lid on rising real estate prices, which would surely result in a recession.

Australia's fiscal position, while still relatively weak, showed some sign of turning around in the review period. While the budget remains in deficit, modest expenditure and revenue measures were implemented in the 2017 budget which have moderated the growth of government debt. The key driver of a return to fiscal balance is bracket creep, whereby non-indexation of tax thresholds results in a rise in the average tax rate on income, rather than explicit measures to increase revenue and reduce expenditure.

Citation:
Australian Government Treasury historical budget and net worth data: http://www.budget.gov.au/2017-18/content/bp1/download/bp1_bs11.pdf

http://www.abc.net.au/news/story-streams/federal-budget-2017/2017-05-09/federal-budget-2017-winners-losers/8505738

Reserve Banks warns regulators could take drastic action to cool Sydney, Melbourne housing market, The Sydney Morning Herald, 18. April 2017, available at http://www.smh.com.au/business/the-economy/reserve-bank-warns-regulators-could-take-drastic-action-to-cool-sydney-melbourne-housing-market-20170418-gvmszs.html

http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian-Infrastructure-Audit-Executive-Summary.pdf.

Belgium

Score 6

Belgium was hit by several successive shocks in 2015 and 2016. The refugee crisis produced an unanticipated increase in spending that will continue in the medium term (though successful integration of the migrants into the labor force should eventually compensate for this spending, and even prove a net benefit). Then, Brussels was hit by a terrorist attack in March 2016. On top of its direct impact on the population, this sequence of shocks had significant negative effect on the economy, both directly (e.g., in the tourism sector) and indirectly (by producing a negative image), as well as on the government's budget balance due to a strong increase in security-sector spending.

In parallel, the government introduced tax cuts that reduced government income. As a result, the government deficit increased in 2016 despite a drop in interest rates. Cutting the structural deficit will require additional effort.

Despite these challenges, National Bank of Belgium data indicate that Belgium's consolidated gross public debt actually peaked in 2014, at 106.8% of GDP. At the time of writing, analysts expected this figure to decrease to 103.8% of GDP by the end of 2017, and to 102.7% by the end of 2018, a significantly better outlook than forecast a year previously. However, these forecasts focus only on the government's explicit debt. The implicit pension debt related to entitlements that will be owed to current workers in 10 to 20 years still represents a ticking time bomb.

Regarding the precision of these forecasts, two opposite pieces of information are relevant. On the one hand, a number of the government's past deficit predictions have proven to be overly optimistic. The recent corporate-tax reform was touted as being budget-neutral, but that claim should be taken with a grain of salt. On the other hand, a recent European Central Bank study estimated that the output gap in the euro zone has likely been underestimated by a factor of at least two. If this is true, Belgium's structural deficit is actually much lower than estimated by the European Commission.

Citation:
https://www.nbb.be/doc/dq/e/dq3/histo/iee1745.pdf
https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1966.en.pdf?c79b834f95a2971a94c1c47de3685747
Public finance sustainability: http://www.plan.be/admin/uploaded/201603311238220.Rapport_mars2016_FR.pdf

Croatia

Score 6

When Croatia joined the European Union in July 2013, it was almost immediately placed under the EU's excessive deficit procedure. However, successive governments have managed to reduce the general government fiscal deficit from a peak level of 7.8% in 2011 to about 1% in 2016 and 2017. Since 2016, Croatia's relatively high public debt has begun to fall. As a result of these improvements, Croatia was able to exit the excessive deficit procedure in June 2017. In September 2017, Standard & Poor's upgraded its outlook on Croatia's sovereign rating from positive to stable. The fiscal improvements in 2016 and 2017 have been achieved without major reforms on the revenue or expenditure side of the budget and have largely reflected the higher-than-expected growth. In both years, the eventual deficits were substantially lower than originally planned. The switch to a fiscal surplus planned for 2020 likewise strongly depends upon a favorable development of fiscal revenues. The official projections are quite optimistic regarding the drawing of EU funds. Further concerns about the medium-term sustainability of budgetary policy have been raised by the slow progress with amending the 2011 Fiscal Responsibility Act and with improving budgetary planning as recommended by the European Commission and the IMF for some time.

Citation:
European Commission (2018): Country report Croatia 2018 Including an In-Depth Review of the prevention and correction of macroeconomic imbalances. SWD(2018) 209 final, Brussels, 18-20 (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-repor t-croatia-en.pdf)

Cyprus

Score 6

Budgets must conform with the provisions of the 2014 Law on Fiscal Responsibility and Fiscal Framework, which require basic planning within strategic targets set by the government. Compliance is under the close scrutiny of the finance minister. Implemented gradually, this is expected to enhance strategic planning capacity and oversight, from budget design to implementation, and aims to avoid past challenges that resulted in Cyprus's exclusion from global markets and the need for ESM support. These challenges were caused by structural economic imbalances that affected budgetary stability and rising expenditures when state income was in decline. Excessive uncollected taxes reduced state income while inflated public-sector salaries, rising social outlays and other factors contributed to increased state expenditures.

The European Commission and ECB view the containment of expenditure growth as essential for fiscal sustainability. The Cyprus Fiscal Council expressed concerns with government plans to meet the demands of representatives for employees, provident fund beneficiaries and others.

The 2017 budget focused on deficit and public-debt reduction, while salary and benefit reductions in the public sector were sustained. Tax policies, along with a restructuring of public subsidies and other public expenses since 2013 bear results: deficits and the debt-to-GDP ratio are performing better than projected.

GDP was expected to grow by 3.6% in 2017 compared to 2.5% in 2016 (IMF). The debt-to-GDP ratio improved to 107.1% in 2016 and was expected to further recede in 2017 and decrease below 100% in 2018, according to the finance ministry. A fiscal surplus of 1% of GDP is also projected for 2018 compared to 0.9% in 2017.

Citation:
1. Sensitivity Analysis shows Public Debt Sustainable, Cyprus Business Mail, 1 November 2017, http://cyprusbusinessmail.com/?p=54093
2. IMF, Cyprus: Staff Concluding Statement of the 2017 Mission, 6 October 2017, http://www.imf.org/en/News/Articles/2017/10/06/ms100617-cyprus-staff-concluding-statement-of-the-2017-article-iv-mission
3. Statement by the EU Commission and ECB Surveillance Programme Mission, 29 September 2017, https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170929.en.html

France

Score 6

France’s budgetary situation is unsustainable in the long term. Over recent years, many new commitments (public servants’ salary increase, security or military expenses, disputable rescue operations) further increased public spending in spite of public declarations and commitments to the contrary. The number of civil servants, which had slightly decreased in the Sarkozy era (2007 – 2012), has grown again. The Hollande administration made some efforts to reduce the structural deficit (2012 – 2014) but then abandoned the objective to balance the structural budget.
The Court of Accounts as well as the High Committee on Public Finance had expressed serious doubts about the Hollande government’s economic forecast and estimated 2.7% budget deficit for 2017.

After the presidential and parliamentary elections of May and June 2017, the new administration requested an audit from the Court of Accounts, which confirmed its previous evaluation and furthermore underlined that there were “elements of insincerity.” Later on, the constitutional council canceled an additional tax on dividends adopted by Hollande in 2012, adding an unexpected €9 billion liability. Faced with this dubious situation, Macron and his government have decided to stick to the EU obligations on budgetary consolidation, and make sure that France respects its commitments in 2017 and following years. The president’s aim is not only to return to sane public finances and regain financial room for maneuver, but also to recover lost credibility in Europe, a pre-condition for any ambitious proposal to reform the European Union or to influence the EU’s policy agenda.
Macron’s commitment is clear and is expressed in the draft 2018 budget, but it has to be seen in 2018 to what extent structural reforms will be adopted, the retargeting of public policies and expenditure will succeed, and how the budgetary situation will change.

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 2006 to 95% in 2011. Thereafter, it decreased gradually to 54% at the end of 2016, and is projected to decline further to 41% in 2017 and to 24% in 2022 (IMF, 2017). Reflecting a reduction in debts which stems in part from a stronger króna, interest payments on the public debt have declined from 4.5% of GDP in recent years to 3.2% in 2017. There is, however, a significant possibility that excessive wage increases will boost inflation and weaken the currency. This, in turn, would cause an increase in the debt burden again, other things being equal. Even so, according to the IMF, Iceland’s foreign debt burden would remain sustainable. Nonetheless, fiscal sustainability remains a serious concern for the government given the dire financial situation of several key public institutions, including the State University Hospital among others.

Three comments are in order. First, Iceland’s public debt burden is understated in official statistics because unfunded public pension obligations are not included, which is rare in OECD country data. Second, while the left-wing government of 2009-2013 increased fishing fees significantly and budgeted for further increases, the center-right government of 2013-2016 reversed course and reduced fishing fees against IMF advice, a policy continued by the center-right government of 2016-2017. This reversal reflects a change in public expenditure and tax policy from a progressive to a regressive stance. Third, many public institutions remain in a dire financial situation, including the State University Hospital, universities and schools at all levels, and the State Broadcasting Corporation (RÚV). Fiscal balance is not on a firm foundation when vital public institutions and infrastructure continue to suffer from long-standing financial neglect.

Citation:
International Monetary Fund, 2017 Article IV Consultation, IMF Country Report No. 17/163, 22 June 2017, https://www.imf.org/en/Publications/CR/Issues/2017/06/22/Iceland-2017-Article-IV -Consultation-Press-Release-Staff-Report-and-Statement-by-the-44998. Accessed 21 December 2017.

Mexico

Score 6

Given the country’s history of severe macroeconomic imbalances until the 1990s, 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 Nieto administration 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.

However, Mexico’s fiscal stability continues to be 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. The recent fall of oil prices have motivated tax changes and the reduction of energy subsidies. This has been partially relieved with financial instruments that guarantee a minimum price. This strategy was applied in 2017 and will continue in 2018, with a minimum price of $46 per barrel, though prices have increased slowly. Around 56% of debt has been allocated to long-term investment. The current government started with 80% in 2012.

One key shortcoming of the current administration is the lack of consistency between planning and implementation. In 2015, the government announced a spending cut but actual spending increased 5% in real terms. There are few reasons to believe that spending cuts for the coming years will be implemented: according to Mexican researchers, public spending has increased more than 4% every year in real terms since 2012. Even when the goal has been to maintain a primary surplus at the beginning of the year, the trend is reversed by the end of the same year. That is, spending surpasses revenues even before interest payments.

Government debt has increased more than 10% during the Peña Nieto administration. Moreover, not all debt is clearly accounted for: there are items classified as "non-oil revenues," non-tax revenues, and "returns" (aprovechamientos), ambiguous categories that include worker pensions and Pemex assets. These spending patterns along with growth deceleration have increased the value of sovereign debt as a share of GDP. Rating agencies lowered Mexico's sovereign credit outlook from stable to negative in 2016, which will further increase the country's interest payments. In 2017, Mexico paid more toward debt interest payments than toward capital.

A second key shortcoming of Mexican budgetary policy is the opacity surrounding spending decisions. More than half of spending increases have gone to subsidies and transfers, surpassing the amount approved by Congress by more than 10%. Of this increase, around 40% was spent in programs without monitoring, audits or impact evaluations. This opacity allows for the political use of resources, which may partly explain state-level variations on per-capita spending that seem to be associated with changes in the party holding the executive office. Opacity in public spending was partially addressed in 2016 with the creation of the National Anticorruption System, a set of laws that constrains federal and local authorities to prosecute and punish acts of corruption. In 2017, the Ley General de Responsabilidades Administrativas (General Law of Administrative Responsibilities) was published, and it increases sanctions and oversight on private actors that participate in public biddings. However, it remains to be seen if public officials will adequately enforce this law in the coming years, especially as next year's election campaigns will further reduce the transparency around public budget allocations.

Citation:
http://mexicocomovamos.mx/new/md-multimedia/1476288726-748.pdf
https://www.eleconomista.com.mx/economia/Para-el-2018-tambien-se-tendran-coberturas-petroleras-Hacienda-20171016-0118.html
http://www.cnbc.com/2016/08/23/sp-lowers-mexicos-sovereign-credit-outlook-to-negative.html
http://mexicoevalua.org/2016/11/15/las-dos-caras-de-tu-moneda/
http://mexicoevalua.org/2014/04/14/descifrando-la-caja-negra-del-gasto/
http://mexicoevalua.org/2017/09/14/por-cada-peso-en-deuda-solo-0-56-centavos-van-a-inversion/

Poland

Score 6

Poland was able to exit the European Union's excessive deficit procedure one year ahead of schedule in 2015 and to cancel its €8.24 billion two-year precautionary Flexible Credit Line (FCL) with the International Monetary Fund in 2016. In winter

2016 – 2017, the Sejm crisis and the occupation of its building by opposition members of parliament delayed the passing of the 2017 budget. Benefiting from the strong economic growth and higher than expected revenues, however, Minister of Finance Mateusz Morawiecki succeeded in bringing the general government fiscal deficit down from 2.7% in 2016 to about 1.5% in 2017, much stronger than originally expected. Though there are still strong concerns about the medium-term development of the budget. One reason for concern is the strong increase in social spending under the PiS government. A second risk is related to EU transfers under the Common Agricultural Policy, and from the structural and cohesion funds. These transfers will shrink due to improved regional development and might decrease further if cuts in transfers are embraced as a means to sanction the violation of EU law. Finally, Poland's fiscal framework is weak. Its credibility has suffered from the modification of the official expenditure rule in December 2015 and the fact that the country, contrary to almost all other EU countries, still does not have an independent fiscal council.

Citation:
European Commission (2018): Country Report Poland 2018. SWD (2018) 219 final. Brussels (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-repor t-poland-en_1.pdf).

Maurice, E. (2017): Poland ready to be EU budget net contributor, in: EU Observer, October 12, 2017 (https://euobserver.com/economic/139415).

Spain

Score 6

In May 2017, after intense negotiations, the Spanish government reached an agreement between seven political parties (PP, Ciudadanos, PNV and several small regional parties) and the budget for 2017 was finally approved, stretching the European Semester budgetary plan. Along with 2016, 2017 is the second year since 2011 in which budgetary policy has somewhat softened austerity measures.

Nevertheless, despite four years of public spending cuts, neither the deficit (approximately 3.5% of GDP in November 2017) nor public debt (98.7% of GDP in November 2017) have been significantly reduced. Spain has the highest deficit in the European Union (France, with 3.4%, has the second highest), and its public-debt-to-GDP ratio is the seventh-highest in the EU (after Greece, Italy, Portugal, Ireland, Belgium, and Cyprus). 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 also "Task Funding").

Mid-2017, Spain's risk premium had reached its lowest level since early 2010. The European Commission expects that Spain will be able to further improve or stabilize its current accounts and agreed 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 depends more today 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:
European Commission Economic Forecast Autumn 2017: https://ec.europa.eu/info/sites/inf o/files/economy-finance/ecfin_forec ast_autumn_091117_es_en.pdf

Apri l 2017, La Moncloa: “General State Budget for 2017 guarantees economic growth and job creation” http://www.lamoncloa.gob.es/lang/en/gobierno/news/Paginas/2 017/20170404-publicaccounts.aspx

Greece

Score 5

After 2015, a tumultuous year in which government instability and a fruitless national referendum negatively affected public finances, Greece made progress with regard to fiscal sustainability. While the country’s public debt remained at prohibitive levels (180% of the GDP in 2017), the primary surplus reached 1.7% in 2017. This surplus level was three times higher than surplus forecasted in the budget for 2017 which the Ministry of Finance had tabled in parliament in October 2016.

This astonishing success resulted from a double move of the government. On the one hand, in 2016 and 2017 tax laws were changed in order to impose historically high taxes on middle- and high-income groups and companies. On the other hand, the post-2015 government continued the practice initiated by past governments following the onset of the economic crisis to grossly delay payments or to largely refrain from paying private suppliers who had already delivered goods and services to Greek ministries and state agencies. Increased taxation and delays in payments by the state led to the near collapse of some private businesses (in the industrial and commercial sectors outside the thriving tourist sector).

Thus, in late 2017 public funds were available, accumulated through the government’s double move. At that time, the government was considering two measures which could boost its declining popularity: either to distribute a one-off cash allowance to low-income households or repeat its move of December 2016 and distribute the equivalent of an additional monthly pension to low-income pensioners. Both measures diverged from the policy suggestions of the country’s lenders who would have preferred the government to revive the private economy by paying arrears owed to private suppliers who in some cases (e.g., suppliers of school textbooks to state schools) had waited for years to bed compensated for goods or services rendered to the Greek state.

In other words, in 2016 to 2017, the new government followed the guidelines of fiscal policy contained in Greece’s Third Economic Adjustment Program with regard to raising government revenue, but chose its own way with regard to government expenditure.

Citation:
Information on the Greek state budget and public debt levels is drawn on statistical tables available in this SGI website.

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%. In the run-up to the 2018 parliamentary elections, however, the Orbán government has loosened fiscal policy. Despite the strong GDP growth, the headline deficit is set to increase from a long-term low of 1.9% of GDP to 2.1% of GDP in 2017 and 2.6% of GDP in 2018. As a result, the structural deficit will rise to 3.5% of GDP in 2018 and 2019, thus strongly exceeding the country’s medium-term objective of 1.5% of GDP. The Orbán government’s fiscal policy has also been criticized for its lack of transparency. Budgets have been rudimentary and have been passed already in May or June, when important information about the coming year is not yet available. Eurostat has continued to criticize the official Hungarian data on the public debt for not including some expenditures, for example, those of state-owned Eximbank. The Fiscal Council, with its uniquely strong constitutional power, has neglected its watchdog role.

Citation:
European Commission (2018): Country Report Hungary 2018. SWD(2018) 215 final, Brussels, 3-4, 15-15 (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-hungary-en.pdf).

Slovenia

Score 5

The Cerar government succeeded in bringing the fiscal deficit down from 3.4% of GDP in 2014 to below 2% in 2016, thus exiting the European Commission’s excessive deficit procedure in June 2016. In 2017, the fiscal deficit fell below 1%, and the budgets for 2018 and 2019 envisage small surpluses. However, the improvement in the fiscal stance has largely stemmed from the recovery of the Slovenian economy and a number of one-off measures such as wage and promotion freezes in the public sector. Given the solid economic growth, trade unions were less cooperative in 2016 and 2017 and refused the extension of wage restraint in the public sector, threatening with the wide public-sector strikes and forcing the government into several financial concessions. Slovenia’s structural deficit has remained relatively high, the debt-to-GDP ratio, while declining since 2016, still stands at almost 80%, and the fiscal pressure associated with the aging of the population is relatively high. 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 corresponding legislation was not adopted until July 2015, and the government and opposition proved unable to reach a consensus on selecting the three members of the

Fiscal Council (which is tasked with supervising fiscal developments) until late March 2017.

Citation:
European Commission (2018): Country Report Slovenia 2018 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances. SWD(2018) 222 final, Brussels, 19-20 (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-slovenia-en.pdf).

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Slovenia Times (2016): Slovenia yet to appoint Fiscal Council. December 28, 2016 (http://www.sloveniatimes.com/slove nia-yet-to-appoint-fiscal-council).

Romania

Score 4

Despite the strong economic growth, the fiscal deficit further grew in 2017. Due to the strong tax cuts and spike in public wages and pensions, estimates in May 2017 saw the annual deficit rise to up to 4.7% of GDP. Only by adopting two supplementary budgets and by cutting down on public investment did the Tudose government eventually succeed in keeping the deficit slightly below 3% of GDP in 2017. Romanian fiscal policy in 2017 thus was not only procyclical; the deficit targets in the 2017 and 2018 budgets as well as certain provisions in the two supplementary budgets were not in line with the country's formal fiscal framework.

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 manageable 2.5% of GDP by 2015, recovery was 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 has testified, "federal debt appears to be on an unsustainable path." The primary cause of long-term deficits, in addition to the severe limits on revenues, is the growth of the elderly population and the generous terms of the Medicare (health care for the elderly) and Social Security (retirement) programs.

In 2017, under the budget measures enacted in the last year of the Obama administration, the increasing spending on health and retirement programs pushed the annual deficit to the highest level of the last four years (3.6% of GDP). The deficit is projected to increase over the next ten years and reach 5.7% of GDP by 2028 . Spending on Social Security, Medicare and Medicaid now account for about half of the budget. In addition, the new tax law will leave in place many of the "tax expenditures" that benefit some individuals and companies while draining federal revenue.

Although President Trump and the Republicans are proposing cuts in many domestic programs, their effect is far smaller than the projected costs of their tax plans. Thus, as the budget picture is gradually worsening, current policy agendas (including the December 2017 tax cuts) severely exacerbate the country's long-term challenges.

Japan

Score 2

Gross public indebtedness in Japan amounted to 239% of GDP in 2016 (IMF data), the highest such level among advanced economies. The primary balance also continues to show a strong deficit, of about 4% in both 2016 and 2017. The Abe government has repeatedly reiterated its intention to achieve primary budget balance by 2020. However, before the October 2017 snap election, Abe announced that only half of the proceeds of the consumption-tax hike planned for 2019 would be used for debt consolidation, so the 2020 target for primary budget balance is now out of reach. Based on the weaknesses in the public-finance analysis category, Scope, a major European rating agency, downgraded Japan's credit rating to A+ in September 2017.

Nominal interest rates have remained 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 development given the aging Japanese population – future government deficits may be difficult to absorb domestically. In this 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.

In addition to such structural longer-term concerns, the unprecedented presence of the central bank in the financial market can lead to short-term liquidity shortages in the availability of Japanese government bonds (JGBs). This can lead to considerable short-term swings in JGB prices and may thus cause significant concerns regarding the stability of the financial system.

Citation:
International Monetary Fund, Japan 2017 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Japan, IMF Country Report No. 17/242, July 2017

Scope Ratings AG, Japan Rating Report, 29 September 2017

Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Germany
Phone +49 5241 81-0

Dr. Daniel Schraad-Tischler
Phone +49 5241 81-81240
daniel.schraad-tischler@bertelsmann-stiftung.de

Dr. Christof Schiller
Phone +49 5241 81-81470
christof.schiller@bertelsmann-stiftung.de

Dr. Thorsten Hellmann
Phone +49 5241 81-81236
thorsten.hellmann@bertelsmann-stiftung.de

Pia Paulini
Phone +49 5241 81-81468
pia.paulini@bertelsmann-stiftung.de

www.bertelsmann-stiftung.de
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