Budgets Report

Budgetary Policy

Sustainable Governance Indicators 2020

SGI Sustainable Governance Indicators

Bertelsmann Stiftung

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 fell again, reaching 28% by 2018. Structurally adjusted budgets were balanced even during the crisis of 2008 and 2009. It must be noted that the Swiss federal state is very slim in international comparison: only about a third of state expenditures are spent by the federal government. 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 between 2002 and 2004. In all likelihood, this positive balance will be maintained over the coming years. In 2018 as in previous years, the federal budget surplus as well as those of cantons and most municipalities have been much better than anticipated.

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): “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, 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.

In spite of the country’s very favorable fiscal position, the Federal Council pursues a very prudent fiscal policy. 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. In its recent country survey, the OECD praises Switzerland's budgetary policy, but it also notes that, in the past, authorities tended to skew policy in ways tighter than intended. It suggests making greater use of available fiscal leverage in order to inter alia improve economic and social outcomes, which includes increased spending on vocational training and social inclusion (OECD 2019: 34-35).

Citation:
OECD 2019: Economic Survey Switzerland, November 2019, Paris: OECD
Sources:
https://www.efv.admin.ch/efv/en/home/themen/finanzpolitik_grundlagen/schuldenbremse.html
https://www.efv.admin.ch/efv/en/home/themen/finanzstatistik/uebersicht-staatsfinanzen.html
https://www.efv.admin.ch/efv/en/home/finanzberichterstattung/bundeshaushalt_ueb.html

Bulgaria

Score 9

Bulgaria has featured sound budgetary policy for most of the last 20 years. In the two periods when the budgetary position worsened (2009 – 2010 and 2013 – 2014), budgetary discipline was swiftly restored. The country has posted fiscal surpluses since 2016. In 2019, the surplus remained above 1% of GDP, exceeding the original government projections of a roughly balanced budget. Public debt presently stands at 20% of GDP, and is set to decrease further.

Fiscal rules (e.g., a medium-term balanced budget target, a public spending ceiling of 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 published a number of opinions and recommendations, including evaluations of the Ministry of Finance's medium-term budget forecasts, the public debt management strategy, the 2020 draft budget and the ministry's reports on the implementation of previous years' budgets.

While the budgetary process and performance in Bulgaria can generally be considered healthy, the Bulgarian government has developed a practice of accumulating a budget surplus in the first three-quarters of the year and then spending almost all of the budget in the last quarter of the year. The resulting swings in aggregate spending over the course of the calendar year has made economic development less balanced. Moreover, there seems to be a deliberate under-execution of capital expenditures. The resulting underspending on capital formation, including on important economic and social infrastructure, may damage the sustainability of economic growth.

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 the rule was temporarily suspended during the difficult 2009 – 2010 period, its application since 2001 (and the adherence to fiscal orthodoxy even without comparative legislation since the mid-1980s) has enabled 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.

According to the U.N. Economic Commission for Latin America and the Caribbean, in 2018, an increase in tax revenues together with a decrease in public spending (from 4.7% of GDP in 2017 to 3.3% in 2018) reduced the fiscal deficit (from 2.8% of GDP in 2017 to 1.9% in 2018). The fall in public expenditure was mainly related to a decrease in current expenditure (from 6.3% of total state expenditure in 2017 to 3.0% in 2018) paired with a recovery in capital expenditure (from -3.1% of GDP in 2017 to 4.8% in 2018). The fiscal-policy stance allowed the central government to moderate the growth of its overall debt level (24.8% of GDP in 2018 compared to 23.6% in 2017).

Citation:
Cf. DIPRES, Política de Balance Estructural:
http://www.dipres.gob.cl/572/w3-propertyvalue-16156.html
Instructions on the implementation of the budgetary law in the public sector 2018 and 2019 (Ley de Presupuesto)
http://www.dipres.gob.cl/597/articles-172486_doc_pdf.pdf
http://www.dipres.gob.cl/598/articles-189284_doc_pdf.pdf
ECLAC: Balance Preliminar de las Economías de América Latina y el Caribe – Dec. 2018.
https://repositorio.cepal.org/bitstream/handle/11362/44326/17/BPE2018_Chile_es.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.

Current fiscal policy is satisfying these norms. The government is running a budget surplus, while the structural budget balance is close to zero and debt is low at 35% of GDP. Compared to other EU member states, Denmark’s public finances are in good shape.

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 five to three years), and various other reforms of disability pensions, social assistance and study grants.

Citation:
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2019 report.

Ministry of Finance, Økonomisk Redegørelse, August 2019

Latvia

Score 9

Latvia's budgetary policy has been recognized as prudent and fiscally sustainable by the European Commission, the IMF and the OECD. Overall, the budgetary situation can be described as strong, with low public debt. The budgetary framework is based on the transparent national fiscal legislation (Fiscal Discipline Law) and overseen by an independent fiscal council. The framework has been described as rigorous by the OECD (2017).

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.

During 2018, Latvia recorded a government deficit matching 1% of the country's GDP and maintained policy continuity, which was not been impaired by the current election cycle. The Ministry of Finance has predicted that the budget deficit for 2019 will not exceed 0.5% of GDP. In the 2018 Fiscal Sustainability Report, the European Commission identified Latvia as having low fiscal sustainability risks over the short, medium and long term.

The current coalition has emphasized a commitment to addressing challenges that the Latvian economy is facing. The 2019 budget and the government's medium-term plans are expected to reverse the previous year's pro-cyclicality and ensure continued fiscal prudence. Furthermore, no immediate risks of fiscal imbalances have been detected by the IMF, OECD or the European Commission.

Citation:
1. IMF (2018), Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Latvia, Available at: https://www.imf.org/en/Publications/CR/Issues/2018/09/05/Republic-of-Latvia-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46206, Last assessed: 11.11.2019.

2. European Comission (2018), Semester Stability Programme, Available at: https://ec.europa.eu/info/sites/info/files/2018-european-semester-stability-programme-latvia-en_0.pdf, Last assessed: 11.11.2019.

3. European Comission (2019), Country Specific Recommendations: Latvia, Available at: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-specific-recommendation-commission-recommendation-latvia_en.pdf, Last assessed: 11.11.2019

4. IMF (2019) IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Latvia, Available at: https://www.imf.org/en/News/Articles/2019/08/06/pr19312-latvia-imf-executive-board-concludes-2019-article-iv-consultation-with-latvia, Last assessed: 11.11.2019

5. OECD (2017), Economic Survey: Latvia, Available at: http://www.oecd.org/economy/surveys/Latvia-2017-OECD-economic-survey-overview.pdf, Last assessed: 11.11.2019

Luxembourg

Score 9

Luxembourg's budgetary situation is very stable. The Finance Ministry stated on 14 October 2019 that economic growth of 2.4% was expected for 2020, with an even stronger 3.5% rate in 2021. Furthermore, the employment rate was forecast to rise by 2% to 3.2% annually through 2023, which would result in a total of 517,600 jobs in Luxembourg, in comparison to 466,000 jobs now. Moreover, the inflation rate is supposed to remain below 2%, while the unemployment rate is expected to remain at around 5% through 2023, a historically low value.

Due to this positive development, Luxembourg's current budgetary policy is sustainable. In 2018, the government achieved a surplus of €262 million, although a deficit of €910 million had been forecasted. In 2020, public spending is expected to climb above €20 billion, or 38% of GDP. Fully 47% of this sum will be spent on social benefits and subsidies, while another 23% goes to salaries and 14% to public investments. Total public revenue is about €20 billion. Half of this comes through direct taxes. The national debt is 19.8% (Maastricht limit: 60%) of GDP. Although this percentage is falling, the absolute value of the debt is rising. With regard to public investments, climate protection has the highest priority. As a part of this goal, public transportation services were to be made free beginning in 1 March 2020. In addition, the tram network will be expanded. The state also intends to improve the climate efficiency of its buildings.

Citation:
Le projet de loi concernant le budget des recettes et des dépenses de l'État pour l'exercice 2020 et le projet de loi de programmation financière pluriannuelle pour la période 2019-2023 ont été déposés le 14 octobre 2019 par le ministre des Finances à la Chambre des députés. https://gouvernement.lu/fr/gouvernement/pierre-gramegna/actualites.gouv_igf%2Bfr%2Bactualites%2Barticles%2B2019%2Boctobre-2019%2Bprojet-de-budget-2020.html. Accessed 20. Nov 2019.
Les principaux chiffres du budget 2020, paperjam, 14.10.2019.
"Haushalt 2019: Das Wichtigste im Überblick." Luxemburger Wort, www.wort.lu/de/politik/haushalt-2019-das-wichtigste-im-ueberblick-5c7e42a4da2cc1784e33f13e. Accessed 20 Nov 2019.
"Luxembourg Budget Law 2019 voted – Corporate tax rate reduction, and revamp of tax unity regime." www.pwc.lu/en/newsletter/2019/luxembourg-budget-law-2019-voted.html. Accessed 20. Nov 2019.

Netherlands

Score 9

Although budgetary policy has considerably improved over the last few years due to strong economic growth, worries remain over its long-term sustainability. In both 2019 and 2020, there is/will be a projected budget surplus (respectively of 1.2% and

0.3% GDP). Overall government debt is expected to fall to 47.7% of GDP, well under the EU norm of 60%. The long-term structural budget, which showed a surplus of 0.3% GDP in 2019, was projected to shift to a deficit of 0.4% of GDP in 2020 – just inside the maximum allowable deficit of 0.5% of GDP. The government has chosen to change its own rules of budgetary policy by stretching its expense ceiling and income framework due to additional financial burdens deriving from policy successes, including the pension agreement, the climate agreement and the push for more housing and investment. Both the Council of State and the Center for Economic Policy Analysis have criticized the government for its expansive budgetary policy due to the of lack state income from gas sales, and because the government's extra spending on defense, security, care and education violates the prudential budgetary rule (which states that windfalls may not be used to finance new structural policies). The government, however, views its budgetary policy as an investment in future economic growth. Promised risk-assessment procedures for budget policy have been delayed, despite the serious risk factors in the global economy (Brexit, trade conflicts) and the high probability of a new recession in the near future. The national budgetary system has also been criticized because national budget cuts are proportionally allocated to local-government budgets even though national policy has in recent years burdened local governments with new tasks (e.g., youth and elderly care) without structural budget compensations. Ad hoc nationwide increases have not diminished the volatility of local-government budgets. Overall, local-government budgets will decline despite the lasting period economic prosperity.

From the perspective of democratic and public accountability, the General Accountability Office (Algemene Rekenkamer) has warned since 2016 that an ever-larger share of nationally collected taxes (fully two-thirds in 2019) is actually spent without any parliamentary budgetary oversight. Provincial and local governments, independent public organizations like schools and universities, the police, the executive agency for employee insurances (UWV), the Social Insurance Bank (SVB), other social funds, and the EU all spend tax money under much restricted or fragmented accountability arrangements.

Citation:
Raad van State, 13 September, 2019. Septemberrapportage begrotingstoezicht 2019

VNG, VNG-reactie op de Rijksbegroting 2020. Bijzondere ledenbrief, 24 September 2019

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

Algemene Rekenkamer, 13 July 2016. Inzicht in publiek. geld. Uitnodiging tot bezinning op de publieke verantwoording. (rekenkamer.nl, accessed 8 November 2019)

New Zealand

Score 9

Since the 2008 global financial crisis, budgetary policy has been prudent and sustainable – under both National Party (2008–2017) and Labour-led governments (2017–present). In the financial year 2017/18, New Zealand reported a budget surplus of NZD 5.5 billion. In the 2018/19 year, the surplus increased by a further NZD 2 billion to NZD 7.5 billion. In the same time frame, net government debt fell to 19.2% of GDP from 19.9%. Capital spending for 2018/19 was NZD 6.7 billion – up NZD 0.8 billion from 2017/18. This included purchases of NZD 0.9 billion of school property, NZD 0.7 billion for defense equipment, NZD 0.4 billion for prisons, and NZD 0.2 billion for hospitals. Investments included NZD 1.1 billion for state highways, NZD 0.3 billion for KiwiRail, and NZD 0.2 billion for district health boards. In 2019, New Zealand became the first industrialized country to design its entire budget based on well-being priorities. In particular, Labour's "well-being" budget focuses on mental health services (NZD 1.9 billion) and child poverty (NZD 1 billion), and includes a record investment in measures to tackle domestic violence (NZD 320 million). Despite these allocations to health and well-being, the Treasury's Budget Economic and Fiscal Update published in May 2019 forecasts a surplus of NZD 1.3 billion for 2019/20.

Citation:
The Treasury, Budget 2019 (https://treasury.govt.nz/publications/budgets/budget-2019)
The Treasury, Budget Economic and Fiscal Update 2019 (https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019)
The Treasury, The Wellbeing Budget 2019 (https://treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2019)

Norway

Score 9

The Norwegian government has done a good job of managing the 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, though it will decrease gradually. However, the drop in oil and gas market prices led to a significant reduction in economic activities and state revenue in 2015 and 2016. Technological changes and climate change have also generated greater 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. In the longer run, the demand for fossil fuel energy is likely to decrease in Europe. Nonetheless, extraction costs in Norway have decreased significantly, the country's fields are competitive by international standards, and the investment climate remains politically stable.

Gas is increasingly important as the production of oil has been in decline over the last few years. Many experts anticipate a decline in petroleum revenues by 2025 at the latest, which requires that significant changes be made to the government's budget. In the past, lower oil and gas prices have necessitated 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 away from its "petro-state" status to become more an "investor state." It might therefore be less exposed to the risk of volatile oil prices, but has become more exposed to volatile global financial markets. Since revenues from the fund are used to cover the public budget deficit, the Norwegian economy is increasingly sensitive to volatilities in global 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 three budgets have generated surpluses. Overall, these developments indicate a continuing broad 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 center-right 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.

After the 2018 election, the coalition government between the Social Democrats and the Green Party continued, although with the additional parliamentary support of the Liberals and the Center Party. In return for their support, the Liberals and Center Party presented an extensive list of demands to the government. Even so, however, the 2019 budget proposal submitted to parliament in late 2019 shows a surplus of SEK 130 billion (€12 billion).

There are only two clouds on this otherwise bright sky. One is the level of private lending, which the National Bank of Sweden and other financial observers find alarming given that interest rates may rise over the next few years. The other source of concern is the low rate of inflation, despite very low general interest rates.

Citation:
The Swedish Government (2019), The budget in numbers. https://www.regeringen.se/sveriges-regering/finansdepartementet/statens-budget/statens-budget-i-siffror/

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

Finanspolitiska rådet (2019), Finanspolitiska rådets rapport 2019.
http://www.finanspolitiskaradet.se/download/18.3503cfdc16c417dd2ae56a76/1567153042967/Swedish%20Fiscal%20Policy%202019.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 https://www.regeringen.se/49f5b0/globalassets/regeringen/dokument/finansdepartementet/pdf/2016/utredningars-prm/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 has been for many years comparatively little incentive to limit expenses. The political parties seemed 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 changed under the former coalition alliance between the ÖVP and FPÖ. The FPÖ represents a younger electorate of largely non-unionized employees, working outside government bureaucracy. As such, the FPÖ may be more tempted than other parties to cut through the “red tape” which protects traditional interests. Against this political background, the ÖVP-FPÖ coalition promised to reach “zero deficit” within a short timeframe.

Government attempts to consolidate Austria’s budget made some progress but the end of the coalition in summer 2019 made further progress difficult. As the electoral results of September 2019 made it clear that the ÖVP will again be the senior partner in the next government coalition, budget consolidation will continue.

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.

Austria enacted the 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 significant future economic growth grew increasingly out of reach, contradicting interpretations of Keynesian policies became sharper under the SPÖ-ÖVP government in power until 2017. The SPÖ preferred using the deficit as an instrument to boost economic growth, while the ÖVP argued that – in the long run – deficit spending would result in disaster and proposed introducing a zero-deficit clause into the Austrian constitution. With the SPÖ out of government, the Keynesian tradition has come under threat. At the end of 2019, negotiations to form a new coalition have not been finalized and the possibility of a return of the SPÖ as a junior partner in an ÖVP-led government cannot completely be ruled out. Nevertheless, the old "Austro-Keynesianism" form is unlikely to return.

Estonia

Score 8

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 fairly stable, despite the increase in excise duties in recent years.

The current state of and forecasts regarding the future of social security funds in Estonia pose the largest risk to fiscal sustainability. At present, the national public pension fund runs a deficit equivalent to nearly 2% of GDP each year. The recent government decision to make second-pillar pension schemes voluntary and allow insured persons to withdraw savings prior to retirement poses a significant challenge to the government's ability to secure citizens' welfare while adhering to the principles of fiscal sustainability. The country's Health Insurance Fund and Unemployment Insurance Fund lost autonomy over their significant reserves when the funds' reserves were merged with the government liquidity reserves in 2011 – 2012. As a result, the government now draws on social insurance reserves to cover the government's daily operating costs – a situation that has drawn criticism from the auditor general.

Ireland

Score 8

The 2020 budget was developed in the shadow of Brexit. The central assumption was that there would be a no deal Brexit. Given such an assumption the Department of Finance forecasted that GDP would only grow by 0.7% in 2020 and that real GNP would fall by -0.1%. This is in sharp contrast to the European Commission's forecast of 3.5% GDP growth for 2020, which was based on the assumption of a soft Brexit. The minister of finance provided a package of €1.2 billion, excluding EU funding, to respond to Brexit. He also anticipated increasing external borrowing in the event of a no deal or a disorderly Brexit, and indicated that he would draw on money in the "rainy day" fund to mitigate any harsh Brexit measures. Furthermore, he decided not to transfer the expected €500 million from the 2020 budget into the "rainy day" fund.

There has been sustained progress toward correcting budget imbalances. The general government budget balance as a percentage of GDP fell to 0% in 2018 and moved to a small surplus of 0.2% in 2019. The most recent data show that the national debt-to-GDP ratio, which peaked at 120% in 2013, fell to 64% of GDP in 2018. When consideration is given to the government's assets, the net debt position relative to GDP is expected to fall to 59% of GDP in 2019. As a percentage of modified GNI, it had fallen from 97% in 2017 to 91% in 2018 and is expected to fall to 87% in 2019. Given that modified GNI is far more representative of the underlying behavior of the economy, the debt to modified GNI is still excessively high.

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:
Department of Finance, Budget 2020.
Irish Fiscal Advisory Council, Fiscal Assessment Report, November 2019.

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 was around 0.5% during the 2017 – 2019 period, decreasing slightly to 0.4% in 2019 due to the reforms passed in the middle of 2018. Government debt also expanded during the crisis, reaching 39.8% of GDP in 2012 (from a pre-crisis low of 16% in 2008). This measure is projected to stabilize around 37% to 38% of GDP over the coming years. In November 2019, the IMF observed that "the small surplus projected for 2019 will fall short of the budget [forecasts] due to revenues that have not kept up with output growth and a higher wage bill and social spending, especially poorly targeted child benefits. With growth exceeding expectations and higher than last year, fiscal policy in 2019 is unnecessarily pro-cyclical."

Despite 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 expenditures related to an aging population, a relatively restrictive immigration regime, and the vulnerability of the country's 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. The government is also revising the state budgeting system, with the purpose of extending the time horizon for budgeting and strengthening the link between expenditure and overall economic policy.

Spending pressures are increasing, as evidenced by the significant autumn 2019 street protests launched by public sector employees during the debates over the 2020 draft budget. However, it has proved difficult to increase total tax revenues. The tax reform that came into effect in 2019 somewhat reduced government revenues due to the easing of the overall tax burden on labor, though this was partially delayed in late 2019 in order to compensate for the increases in social spending planned for 2020, in particular with regard to old-age pensions and child benefits.

The government's initial draft 2020 budget sought to increase alcohol, tobacco and fuel excises; expand real-estate taxation; and introduce new taxes on cars and retail chains. This draft projected a deficit of €1.1 billion, although the general government balance was otherwise expected to show a surplus of 0.2% of GDP in 2020. The IMF considered the draft's projections to be based on overly optimistic revenue projections. In the end, the Lithuanian parliament rejected some of these taxes, dropping the retail-chain tax altogether, while increasing the tax on financial-institution profits. It additionally postponed their others' entry into force until mid-2020, thus reducing projected revenues by around €95 million, and further increasing the tension between planned revenue and projected spending increases, some of which were added as a result of the public protests. The tendency to water down planned tax increases and increase spending can be largely attributed to the influence of the forthcoming parliamentary elections in autumn 2020. As concluded by the IMF, domestic risks are related "to upcoming parliamentary elections next year, and the lack of progress in structural reforms. External risks are related to uncertainty surrounding trade tensions, Brexit and the European Commission's Mobility Package, with the latter having a potentially large impact on the recently booming transportation sector."

Citation:
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2019: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-lithuania_en.pdf
Commission Autumn 2018 economic forecasts – Lithuania: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin
IMF staff concludes visit to the Republic of Lithuania, November 21, 2019: https://www.imf.org/en/News/Articles/2019/11/21/IMF-Staff-Concludes-Vi sit-to-the-Republic-of-Lithuania_forecast_autumn_081018_lt_en.pdf

Malta

Score 8

Budgetary developments since 2013 have demonstrated that Malta is set to meet most standards of financial sustainability. As of June 2015, Malta was no longer subject to the EU's Excessive Deficit Procedure. 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 increased substantially to 3.9% of GDP in 2017, but decreased to 2.0% in 2018 (although it was larger than originally projected). It is expected that the surplus will decrease to 1.1% of GDP in 2019 in view of increased expenditures. The European Commission found Malta's 2019 budget to be line with the euro area's Stability and Growth Pact, and the country was one of only 10 EU members to have passed the fiscal test.

The government is expected to maintain a surplus between 2019 and 2022. The introduction of legislation to enhance the transparency of government finances represents an additional step forward. In the 2020 budget, social spending accounts for 35% of total spending. The government is expected to register a surplus of €114 million in 2020, and public debt as a percentage of GDP is expected to fall from 43.2% to 40.4%. However, the Malta Fiscal Advisory Council cautioned the government to remain vigilant when it came to 2019 fiscal targets. The 2019 European Commission Staff Working Document on Malta's Country Specific Recommendations also notes the problem of sustainability with regards to the healthcare and pension systems, further stating that age-related expenditure is expected to increase at a rate faster than that experienced by other member states, thereby creating challenges to fiscal sustainability. The government has introduced a number of measures intended to contain these challenges (such as gradual increases to the age of pension eligibility and incentives to defer early retirement). The 2018 IMF Country Report stressed the importance of containing financial integrity risks particularly within the context of fast-growing sectors such as remote gaming, real estate and the heavy reliance of the fiscal surpluses on the Individual Investment Program (IIP), especially in the context of a series of tax-reduction measures in 2020.

Air Malta, a state-owned enterprise, continues to face difficulties after enjoying a brief profitable period in 2018. Meanwhile, the country's energy provider, Enemalta, was given a positive review by the S&P Global Ratings agency in 2019 in view of its gradual reduction of long-standing government-guaranteed debts and cleaner energy plans.

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.
European Economic Forecast Spring 2018 p.100, p.101
National Statistics Office (NSO) News Release 069/2017
European Economic Forecast Spring 2018 p.109
European Economic Forecast Spring 2019 p. 123
http://europa.eu/rapid/press-release_MEMO-15-4971_en.htm
Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Malta and delivering a Council opinion on the 2019 Stability Programme of Malta COM (2019) 518 final p.2
Times of Malta 20/09/2019 Malta Fiscal Advisory Council Publishes Assessment
Commission Staff Working Document – Country Report Malta 2019 SWD (2019) 1017 final p. 20
National Reform Programme Malta 2019 p.27
IMF Country Report No. 19/69 p.7
Times of Malta 29/08/2019 Air Malta 'Back in the Red' - Report
The Malta Independent 21/03/2019 Enemalta Says Its Financial Sustainability Re-Confirmed by Standard and Poor's
https://www.enemalta.com.mt/news/enemaltas-financial-sustainability-re-confirmed-standard-poors/
https://corporatedispatch.com/european-commission-greenlights-malta-2020-budget/
Times of Malta 14/01/10 Budget 2020 as it happened

Portugal

Score 8

The budget deficit for 2018 stood at 0.4% of GDP. This is the lowest rate since democratization in 1974, the second lowest since 1964 and an improvement on the government's target of a 0.7% deficit.

As in 2017, the budget deficit for 2018 was inflated by a one-off capital transfer to a bank. However, the transfer was much lower in 2018 than 2017, allowing for this record low deficit. Without this injection of capital, Portugal would have had no deficit.

These positive results have continued into 2019. The government estimates a deficit for 2019 of 0.2% of GDP and the results for the first semester of 2019 are consistent with this target.

The decrease in the budget deficit has positively affected public debt. While the absolute level of public debt remains very high, at 122.2% of GDP in 2018 (only lower than Greece and Italy in the European Union), this is a 3.8 percentage point improvement vis-à-vis 2017 and a 9.3 percentage point improvement vis-à-vis 2016.

These positive results have helped Portugal regain international credibility, as evidenced on two levels. First, in terms of the evaluation of credit agencies. During the period under review, Portugal's rating was upgraded by Standard & Poor's to BBB in March 2019, and both Moody's and S&P gave Portugal a positive outlook rating.

The second level is the political recognition afforded to Portugal's minister of finance, Mário Centeno. After being dubbed the "Cristiano Ronaldo of the Ecofin" in May 2017, Centeno was elected president of the Eurogroup by the finance ministers of euro area member states in December 2017 – a result that is inevitably bound to Portugal's improving budgetary consolidation. During the period under review, Centeno's international recognition was confirmed when he was mooted as a candidate for the head position at the IMF.

While Minister of Finance Centeno enjoys a good reputation regarding budgetary matters both within and beyond Portugal, it should be noted that there are several so-called cativações within the budget which refer to funds that have been allocated but cannot be spent. These inevitably impinge on the ability to deliver public services.

Citation:
Eurostat, "General government gross debt – annual data," available online at: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1

Eurostat, "Government deficit/surplus, debt and associated data," available online at: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

IMF (2019), "Portugal: IMF Country Report No. 19/221," July 2019.

Jornal de Negócios (2019), "Défice de 2018 foi ainda mais baixo: 0,4% do PIB," available online at: https://www.jornaldenegocios.pt/economia/financas-publicas/detalhe/defice-de-2018-foi-ainda-mais-baixo-04-do-pib

Jornal de Negócios (2019), "Défice no primeiro semestre fica nos 0,8% por causa do Novo Banco," available online at: https://www.jornaldenegocios.pt/economia/financas-publicas/detalhe/defice-no-primeiro-semestre-fica-nos-08-por-causa-do-novo-banco?ref=HP_UltimasNoticias

Pordata, "Estado: despesas efectivas, receitas efectivas e défice/excedente em % do PIB," available online at: https://www.pordata.pt/Portugal/Estado+despesas+efectivas++receitas+efectivas+e+défice+excedente+em+percentagem+do+PIB-2767

https://eco.pt/2018/10/16/centeno-nao-abre-mao-das-cativacoes-no-ultimo-oe/

Australia

Score 7

While net federal government debt currently stands at approximately 18% of GDP, 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. The combination of weak commodity prices and a real-estate-induced economic slowdown may lead to a significant deterioration in the country's fiscal position. At the same time, Australia's population is continuing to grow, while showing less demographic aging than is the case in many other economies. Considering these two factors, budget policy appears to be somewhat too conservative.

Australia’s fiscal position improved in the review period, and indeed is forecast to be in surplus in the 2019 – 2020 period. Rather than explicit measures increasing revenue and reducing expenditure, the key drivers of this return to fiscal balance have been improvements in commodity prices and hence company profits, as well as bracket creep, in which the non-indexation of tax thresholds has resulted in a rise in the average tax rate on income.

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

Canada

Score 7

Canada’s government is in a relatively strong fiscal position. For the current fiscal year of 2019 – 2020, the Parliamentary Budget Officer projects a budget deficit of CAD 17.7 billion, which represents a roughly CAD 4 billion increase from last years’ deficit. Still, Canada’s 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 drop below 29% in the next five years.

In its most recent 2018 fiscal sustainability report, the Parliamentary Budget Office (PBO) estimates that the federal government could permanently increase spending or reduce taxes by 1.4% of GDP (CAD 29 billion in current dollars) while maintaining net debt at its current (2017) level of 31.1% of GDP over the long term. The same cannot be said for long-run provincial fiscal sustainability, where debt ratios range from roughly 3% in Alberta to over 40% in Quebec, Newfoundland and Labrador. The PBO considers current fiscal policy in the provinces to be unsustainable, primarily due to rising healthcare costs.

The current Trudeau administration was elected with a promise to increase the deficit by almost CAD 10 billion in order to fund its campaign promises. This increased budget deficit would drastically change forecasts, but the Trudeau administration says it will keep the debt-to-GDP ratio below the fiscal-anchor level of 31%.

Recent changes to the Financial Administration Act require the government to seek parliamentary approval to borrow in debt markets. In November 2017, the Borrowing Authority Act came into force which sets a maximum amount on the government’s total stock of market debt and on borrowing by agent enterprise Crown corporations, and requires the government to report to parliament on the status of borrowing.

Citation:
Department of Finance, Government of Canada, Annual Financial Report of the Government of Canada

Fiscal Year 2017–2018 accessible at https://www.fin.gc.ca/afr-rfa/2018/index-eng.asp

Parliamentary Budget Officer, Fiscal Sustainability Report 2018, posted at https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/FSR%20Sept%202018/FSR_2018_25SEP2018_EN_2.pdf

Parliamentary Budget Officer, Economic and Fiscal Outlook – October 2018 – Revised Oct. 31, 2018, posted at https://pbo-dpb.gc.ca/en/blog/news/EFO_Oct_2018

Cyprus

Score 7

The Law on Fiscal Responsibility and Fiscal Framework of 2014 provided for budget design and implementation processes that meet the strategic targets set by the government. This required the administration to gradually acquire strategic-planning capacities. Assigned to the minister of finance, the process and oversight, from design to implementation, produced positive results, with large fiscal surpluses and a reduction in the public debt. Performance was also assisted by tax, tourism and other buoyant revenues.

Praise for the country’s economic performance in post-program surveillance reports also included warnings: these urged against loosening the strict spending discipline and for promoting structural reforms to enhance spending reviews.

The 2020 budget aims at consolidating growth and further reducing the public debt, keeping it below 100%. A modest budgetary impact expected from the gradual reestablishment of public sector salaries could develop into a major risk following a court decision declaring the benefit cuts unconstitutional. In addition, sustaining the partly implemented national health system as well as insecurity from buoyant revenues may increase the risks.

GDP was expected to grow by 2.9% in 2019 compared to 3.9% in 2018. The debt-to-GDP ratio was expected to recede to 95.2% (IMF) or 93.8% (EU) in 2019.

Citation:
1. European Commission, European Economic Autumn Forecast, November 2019, https://ec.europa.eu/info/sites/info/files/economy-finance/ip115_en_0.pdf
2. IMF Downgrades projections for Cyprus, Cyprus Mail, 15 October 2019, https://cyprus-mail.com/2019/10/15/imf-downgrades-projections-for-cyprus/
3. European Commission Country Specific Recommendations, Cyprus, https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-specific-recommendation-commission-recommendation-cyprus_en.pdf

Czechia

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 also allowing some expansion of domestic demand. While the central government has posted small deficits, the general government budget has shown a surplus since 2016. Public debt fell from 34.7% of GDP in 2017 to 32.7% in 2018, and was expected to decline further to 31.3% in 2019. Despite the slowing economic growth, the government met its fiscal targets in 2019. Lower-than-budgeted investments and better-than-expected EU fund flows helped make up for a slight tax shortfall. In order to limit the central-government budget deficit in 2020, the government has postponed planned tax cuts. The 2020 budget was adopted only with the help of President Zeman, who convinced the Communists to support it.

After years of controversy, the government won approval for the Act on Fiscal Responsibility in January 2017. This act set debt limits for all tiers of government, introduced a central-government expenditure ceiling and created an independent Czech Fiscal Council (Národní Rozpočtová Rada, ÚNRR). This latter body has since published annual reports on the long-term sustainability of Czech public finances, as well as quarterly assessments of the country's fiscal developments. In 2019, it criticized the government for its costly pension reform, for one-time changes in VAT payments and for basing the 2020 budgets on tax reforms that had not yet been adopted. The council has also highlighted the fiscal risks associated with the aging of the population. Responding to the draft 2019 and 2020 budgets, the council criticized the small envisaged central-government deficits for being pro-cyclical, and called for policies that would provide more fiscal flexibility in hard times. In April 2019, Czechia eventually acceded to the European Fiscal Compact, being the last EU member to do so.

Finland

Score 7

The agenda of the Sipilä government built on its predecessors' initiatives, structural policy programs and public-finance adjustment policies. Consequently, the government's economic policy program was aimed at strengthening the economy's growth potential, raising the employment rate, bolstering household spending power and improving international competitiveness. Accordingly, the Sipilä government was committed to an active fiscal policy that supported economic growth and employment, aimed at a reduction of the central government's debt-to-GDP ratio. These ambitions were moderately successful; between 2017 and 2018, the debt-to-GDP ratio was reduced from 61.29% to 60.52%.

The Rinne government announced plans to increase state expenditures by €2.1 billion during 2020, entailing an increase in the national debt to €109 billion. The government's ambition was to increase the employment rate to 75%, and to balance the public finances by the year 2023. However, as of the time of writing, short-term prospects for these goals appeared gloomy. The budget deficit for 2020 was projected to be €2.3 billion, as opposed to €1.7 billion in 2019. Moreover, the economic growth rate was expected to slow to a projected 1.0% in 2020.

Citation:
European Commission, "Assessment of the 2018 Stability Programme for Finland," https://ec.europa.eu/info/sites/info/files/economy-finance/26_fi_assessment_of_2018_stability_programme.pdf
"Budget Review 2020." Ministry of Finance publications 2019:60.

Germany

Score 7

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 80.1% in 2010, and was expected to fall below the Maastricht limit of 60% at the end of 2019 (Sachverständigenrat 2019). This decrease has resulted from surpluses in general government balances since 2010 as a consequence of dynamic employment growth, a stable GDP increase and historically low government-bond interest rates. In addition to this favorable environment, a constitutional debt limit is in place (Schuldenbremse) that restricts the federal government's cyclically adjusted budget deficit to a maximum of 0.35% of GDP, and will require German states to maintain balanced cyclically adjusted budgets from the year 2020 onwards. The year 2019 also showed a strong positive balance, with the full surplus projected at €49.2 billion (1.4% of GDP) by the German Council of Economic Experts (Sachverständigenrat 2019). Although surpluses are now forecasted to decline, the short-run perspective remains favorable. This has even led to some debate over whether the constitutional debt brake is still appropriate, should be loosened or even given up. Arguments in favor of debt-brake reform relate to the low interest rates that are expected to stay at a low level for the foreseeable future, along with the perceived lack of public investment.

As the review period closed, the short-run budgetary outlook thus remained good despite the cyclical downturn of the economy. However, the medium- and long-run challenges resulting from demographic change are substantial. According to calculations based on the generational accounting methodology developed by Bernd Raffelhüschen and his coauthors (Bahnsen et al., 2019), Germany's "implicit debt" (i.e., the government's spending promises not covered by future tax revenues) are on an increasing path, and have reached 160% of GDP in 2019.This deterioration of long-run solvency is driven both by less optimistic revenue expectations and numerous political decisions that have increased spending within the social security system on a permanent basis without offering compensating revenue measures.

Citation:
Sachverständigenrat (2019): Den Strukturwandel meistern, Jahresgutachten 2019/20, Wiesbaden.

Bahnsen, Lewe, Tobias Kohlstruck, Gerrit Manthei, Bernd Raffelhüschen and Stefan Seuffert (2019): Ehrbarer Staat? Die Generationenbilanz, Update 2019, Stiftung Marktwirtschaft, Argumente zur Marktwirtschaft und Politik, Nr. 146, Berlin.

Iceland

Score 7

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 gradually decreased to 34% of GDP at the end of 2019 and is projected to decline to 24% by 2023. Reflecting a reduction in the public debt-to-GDP ratio, which stems in part from a fairly rapid expansion in output since 2011, interest payments on the public debt have declined from 4.5% of GDP in recent years to 3% in 2019. According to the IMF, Iceland's foreign debt burden should remain sustainable. Nonetheless, fiscal sustainability remains a serious concern for the government given the dire financial situation of several key public institutions, such as the State University Hospital.

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 2009 – 2013 government increased fishing fees significantly and budgeted for further increases, the center-right 2013 – 2016 government reversed course and reduced fishing fees against IMF advice, a policy continued by the center-right 2016 – 2017 government and the left-right government formed in late 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, schools and universities, 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, 2018 Article IV Consultation, IMF Country Report No. 18/318, November 2018, https://www.imf.org/en/Publications/CR/Issues/2018/11/14/Iceland-2018-Article-IV -Consultation-Press-Release-Staff-Report-Staff-Statement-and-46357. Accessed 18 December 2018.

Slovakia

Score 7

Slovakia managed to reduce the general government fiscal deficit from about 8% of GDP in 2009 to 3% in 2015 and 1.1% in 2018. 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. The Pellegrini government stuck to the third Fico government's commitment to achieve a balanced budget in 2019. Due to the unexpected economic slowdown, however, this goal could not be met and a fiscal deficit of about 0.9% has materialized. While Slovakia has a relatively high public debt, risks to the public finances are largely long-term and related to population aging and the lack of pension and healthcare reform. The budgeting framework still shows certain gaps in terms of coverage, time horizons and reliance on cash accounting. In the period under review, the government continued its “Value for Money” project, and finalized a third round of spending reviews covering agriculture, social inclusion policies and the public wage bill.

Citation:
OECD (2019): OECD Economic Surveys: Slovak Republic 2019. Paris, 26-32.

Slovenia

Score 7

The Cerar government succeeded in bringing the fiscal deficit down from 3.4% of GDP in 2014 to 0.0% in 2017, thus exiting the European Commission’s excessive deficit procedure in June 2016. Despite the unexpected economic slowdown and the resulting need for a budget revision, the Šarec government managed to achieve a small fiscal surplus in 2019. Buoyed by the surplus, active public debt management, low interest rates and substantial privatization proceeds, public debt fell from 70.4 % of GDP in 2018 to 66.7% in 2019. Projections suggest that it will decline further, reaching less than 60% in 2021.

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. In December 2018, the Fiscal Council warned of a deterioration of the fiscal stance. As a matter of fact, the revised 2019 budget did not fully meet the targets of the medium-term budgetary framework.

Citation:
European Commission (2020): Country Report Slovenia 2020. SWD(2020) 523 final. Brussels (https://ec.europa.eu/info/sites/info/files/2020-european-semester-country-report-slovenia-en.pdf), 17-18.

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 these fiscal rules was abandoned to cope with the consequences of the crisis. There is now a fiscal council, the Office for Budget

Responsibility (OBR), and looser fiscal rules, including provision for surpluses in "good times," were included in a Charter for Budget Responsibility.

Since the crisis years, UK chancellors have ostensibly focused on reducing the national debt and borrowing – a goal that was supported by moderate but steady economic growth. Initially, the aim of the 2010 coalition government was to balance the net position of public finances by 2015, although in practice the deadline was repeatedly extended. Yet, 2019 may mark a turning point for this policy with announcements by the leading parties that "austerity is over." Despite some risks associated with lower economic growth, the main political parties have pledged to boost public spending and mitigate uncertainties around Brexit.
In addition to the slowing economy, both Prime Minister Johnson and the leader of the opposition, Corbyn, made enormous spending pledges. The Conservatives under Boris Johnson have promised an overall increase of £13.9bn until 2024, consisting of investments and tax reductions, with their biggest single item being an additional £900m per year to the NHS in order to hire more nurses. Under Jeremy Corbyn, Labour's spending plans even add up to the impressive £230.7bn until 2024.

The European Commission's 2019 autumn forecasts show the UK growing at the EU average rate of 1.4% in 2019 and edging upwards in 2020. OBR analyses suggest the United Kingdom's underlying growth rate has declined to around 1.5%, implying future governments will need to exercise restraint in promises to boost public spending. Experience suggests rather extravagant promises in the 2019 election campaign will be fudged.

Citation:
Autumn Statement 2018: https://www.gov.uk/government/publications/budget-2018-documents
https://www.gov.uk/government/speeches/budget-2018-philip-hammonds-speech
https://www.ons.gov.uk/economy/grossdomesticproductgdp
https://www.bbc.com/news/election-2019-50545673

Belgium

Score 6

Belgium's public debt, because it is currently above 100% of GDP, is in the preventive arm of the Stability and Growth Pact, and subject to the debt rule of the European Semester. This requires that the government prioritize public debt reduction. Similar to several other EU member states, this translated into cuts to public investments, healthcare and pension spending, and sluggish improvements in the education system and environmental protections.

It is fair to say that Belgium is thus well on track to maintain its solvency. However, it is doubtful that its current approach is sustainable – given that growth is anticipated to remain rather sluggish (1.5% – 1.6% over the next five years), productivity is not improving, and the gap between the supply and demand of skills in the labor market is widening – potentially putting the competitiveness of the country at risk. The Council of Europe, in its July 2018 recommendations (paragraph 19), states that “The proportion of graduates in science, technology and mathematics is one of the lowest in the [European] Union and shortages in these fields could become a major barrier to [economic] growth and innovation.” The Belgian Sustainable Development Indicators point to a structural and continuing decline in lifelong education since 2004, in contrast with the rest of the EU28. It is also unclear whether the pension system will still be able to protect those currently under the age of 40, as it has supported the two or three older generations.

Citation:
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910(01)&from=EN
http://www.indicators.be/en/i/SDI_G04_LLL/Lifelong_learning
https://www.plan.be/press/communique-1788-fr-perspectives+a+cinq+ans+pour+l+economie+belge+ralentissememnt+de+la+croissance+economique+taux+de+chomage+au+plus+bas+et+pas+de+retour+a+l+equilibre+budgetaire+sans
https://www.plan.be/admin/uploaded/201807091124340.REP_CEVSCVV2018_11684_F.pdf

Croatia

Score 6

When Croatia joined the European Union in July 2013, it was almost immediately placed under the European Union’s excessive deficit procedure. However, successive governments have managed to reduce the general government fiscal deficit from a peak of 7.8% in 2011 to about 1% in 2016. Since 2017, general government has run small, yet declining surpluses. As a result, Croatia’s relatively high public debt ratio has fallen since 2016. These improvements in the fiscal stance allowed Croatia to exit the excessive deficit procedure in June 2017. Despite the fiscal surpluses, however, fiscal policy has been procyclical in 2018 and 2019. Moreover, the fiscal surplus has largely been the result of higher-than-expected GDP growth and a decline in interest payments on government debt, rather than from much-needed expenditure reform. Given Croatia’s level of economic development and its quality of governance, general government expenditure relative to GDP is still rather high from a comparative perspective. Croatia’s budget remains riddled with bloated expenditure categories, which suggests the presence of clientelistic arrangements. It is indicative that the sum of government expenditure on intermediate consumption, compensation of government employees and public subsidies amounts to a staggering 20.8% of GDP (2001 – 2017 average). This result places Croatia fourth among the EU-28 (only behind the wealthy and well-governed Scandinavian countries). Concerns about the medium-term sustainability of budgetary policy have increased due to the slow progress in amending the 2011 Fiscal Responsibility Act and improving budgetary planning, as recommended by the European Commission and the IMF for some time.

Citation:
Kotarski, K. (2019) The Political Economy of Euro Introduction to Croatia: a Golden Goose or a Stinging Viper? Zagreb: Hanns Seidel Stiftung.

Šimović, H., M. Deskar-Škrbić (2019): Fiscal Policy and European Semester in Croatia: Why Should we focus on

public debt?, in: Petak Z. and Kotarski, K. (eds.) Policy-Making at the European Periphery: The Case of Croatia. Cham: Palgrave Macmillan, 147-168.

Greece

Score 6

Greece has made progress in the area of fiscal sustainability. Budget surpluses have been attained for three consecutive years: 0.5% in 2016, 0.8% in 2017 and 1.1% in 2018 (excluding debt repayments). Nevertheless, the country's public debt levels have remained at prohibitive levels (182% of GDP in the first quarter of 2019, compared to a euro area average of 86%).

Transforming a large budget deficit into a surplus over a short time span resulted from two government actions. First, in 2016 and 2017, tax laws were changed in order to impose historically high taxes on middle- and high-income individuals and companies. Second, the post-2015 government continued a practice commonly adopted by previous governments: it grossly delayed payments and refrained from paying private suppliers who had already delivered goods and services to Greek ministries and state agencies. Increased taxation and delays in state payments nearly made some private businesses collapse (outside the thriving tourist sector; problems were particularly acute in the industrial and commercial sectors). Moreover, public consumption and social security transfers declined in 2018.

This was an expected reaction to the chronic spiraling of pension expenditures. Greece dedicates 55% of all social-protection expenditures to pensions (EU average: 39%, latest data available from 2015). Facing periodic military threats from Turkey, Greece's budget also must dedicate large funds to defense expenditure. In 2017 this constituted 2.5% of Greece's GDP (EU average: 1.3%). Greece is among NATO's highest defense spenders.

In the period under review, the government distributed a one-off cash allowance to low-income households in order to appease its electoral clientele. This policy measure was taken against the policy advice of the country's lenders, who would have preferred that the government revive the private economy by paying arrears owed to private suppliers. The government change in July 2019 led to an initial reduction in land-property tax rates (the ENFIA tax), a government initiative to alleviate the tax burden faced by of small and medium-size property owners.

Through the summer of 2019, the government followed the fiscal-policy guidelines contained in Greece's Third Economic Adjustment Program (2015 – 2018), raising taxes, cutting public spending and achieving a spectacular 4.4% primary surplus in the 2018 state budget (versus an already high 3.9% in 2017). The real cost for this achievement was paid by the middle classes, while economic growth was anemic, at just 1.4% compared to a target of 2.7%.

A primary surplus of 3.5% in 2019 appears to be attainable. However, the new government hopes to negotiate a lower target with the country's creditors for 2020, so that it has fiscal space to cut taxes. The IMF also seems to support lower fiscal targets, pointing to the damage austerity has inflicted on public investment and social spending.

Citation:
The general government primary balance utilizes a differing methodology for calculating categories of revenue and spending from those outlined in the bailout program.
Information on the Greek state budget and public debt is drawn on Eurostat statistical tables available at https://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics
Information on defense spending is also drawn on Eurostat data and on the primary surplus on the Bank of Greece.

IMF, Greece, IMF Country Report, No 19/73, March 2019 (https://www.imf.org/en/Publications/CR/Issues/2019/03/08/Greece-First-Post-Program-Monitoring-Discussions-Press-Release-Staff-Report-and-Statement-by-46654)

Israel

Score 6

Israeli's history of successful budgetary reform continues to contribute to the stabilization of the Israeli economy. Along with prudent monetary policies, budgetary reform measures helped the country weather the recent global economic crisis relatively successfully.

After the economic crises of the mid-1980s, 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 in parallel with each budget, consisting of numerous restrictions and amendments designed to secure the state's financial goals.

According to figures released by the Ministry of Finance, Israel ended 2019 with a fiscal deficit amounting to 3.7% of GDP, which is above the level of 2.9% of GDP planned in the 2019 budget.
Regarding the budget deficit, according to recent preliminary reports (October 2018), the Israeli government has exceeded the deficit ceiling set by the Budget Deficit Reduction Law following a jump of more than one percentage point (from 2.5% to 3.8%) in the deficit. If Israel exceeds the deficit ceiling, Israel's credit rating might suffer, with serious repercussions on the interest rate of its external deficit. In 2019, the IMF published a report stating that – without reducing the deficit immediately – the deficit will increase and Israel's international credit rating will be affected. The

report reinforces another OECD report, according to which Israel's deficit will increase in 2019. With Israel's political parties unable to form a government in 2019, it seems that any actions to reduce the deficit will wait for the next government.

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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, primarily in order to avoid a repetition of the 1982 debt crisis or the "Tequila Crisis" of 1994. 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.

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. During the period under review, the new president, López Obrador, announced a balanced budget for 2019. Though the budget for 2019 had been drafted by the outgoing administration.

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 on programs that lacked adequate monitoring, auditing 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 party control of the executive office. Opacity in public spending was partially addressed in 2016 with the creation of the National Anti-corruption System, a set of laws that requires 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, which 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 transparency around public budget allocations.

In September 2019, the new government announced its first self-drafted budget plan for 2020. Under the new plan, Finance Minister Arturo Herrera promised to "generate macroeconomic stability, financial certainty, and to strictly adhere to fiscal discipline." This statement stands for a general austerity policy that was maintained by the Mexican government in 2019. Furthermore, due to the estimated low crude oil production, the government may have to announce further spending cuts in the future. However, on the other side, local business groups are demanding greater state investment to animate the weakened economy.

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Poland

Score 6

Benefiting from the strong economic growth and higher than expected revenues, former Minister of Finance Mateusz Morawiecki, the current prime minister, succeeded in bringing the general government fiscal deficit down from 2.7% in 2016 to 0.2% in 2018. Despite strong revenues, the fiscal stance slightly deteriorated in 2019 with the deficit climbing to about 1.0% as a result of spending increases in the run-up to the 2019 parliamentary elections. For 2020, the government has announced a balanced budget, but this goal looks difficult to achieve without creative accounting. The medium- and long-term outlook is clouded by the strong increase in social spending and the lowering of the retirement age 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 form of penalization for violations of EU law. 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 member states, still does not have an independent fiscal council.

South Korea

Score 6

South Korea's public finances remain sound, and public debt levels remain low in comparison to those of most other OECD countries. National debt as a share of gross domestic product (GDP) was 40.7% in 2018. During the period under review, Korea ran a healthy primary surplus of almost 2% of GDP, giving the government the leeway to implement its plans to increase public investment and social spending. In 2020, the Moon government plans to increase spending to a total of KRW 513.5 trillion (8.5 billion), a 9.3% hike compared to 2019. While debt at the national level is generally sustainable, an increasing number of local governments and public enterprises are struggling due to insufficient revenues.

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Spain

Score 6

The failure to approve the 2019 Budget Bill in February 2019 resulted in the automatic extension of the 2018 budget through 2019. Thus, the expenditure for 2019 covers virtually the same levels of expenditure as the 2018 budget. However, revenue will be affected by the absence of new tax measures. The consolidated budget out-turn of the government in June 2019 was a deficit of -2.14% of GDP (central government: -0.91%, regional governments: -0.65%, social security system: -0.68%, local administrations: -0.03%) against -1.88% recorded in June 2018.

Driven by the cyclical improvement of the economy, declining interest expenditures and an increase in tax collections, the deficit shrank from 4.5% of GDP in 2016 to 2.3% of GDP in 2019. Due to this effort, in June 2019, the European Council closed the excessive deficit procedure for Spain, confirming that Spain reduced its deficit below the European Union’s 3% of GDP reference value. Spain is now in the preventive stage, where the European Commission no longer sets targets for reducing the nominal deficit but focuses on the progressive correction of the structural deficit. Regarding the 2020 budget, the European Commission sent a letter to the Spanish government warning that there was a significant probability that Spain would fail to comply with the planned deficit and asking that Spain implement a €7.5 billion readjustment.

Despite continued robust GDP growth, government debt as a share of GDP remains high. According to the Stability Program, the government debt-to-GDP ratio is expected to decrease from 97.1% in 2018 to 95.8% in 2019, before reaching 88.7% in 2022.

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Turkey

Score 6

General government revenue, according to the IMF (2019), increased from 31.4% of GDP in 2017 to 31.5% in 2018, but is expected to decrease to 30.2% of GDP in 2019, before increasingly slightly to 30.5% during 2020. On the other hand, general government expenditures increased from 33.6% in 2017 to 34.6% in 2018, and is expected to further increase to 34.8% in 2019 and to 35.2% in 2020. As a result, the general government’s fiscal deficit increased from 2.2% in 2017 to 3.1% of GDP in 2018, and is expected to increase further to 4.6% in 2019 and to 4.7% of GDP in 2020.

To appeal to voters in the run-up to the municipal and parliamentary elections in 2018 and 2019, the government abandoned its earlier focus on budgetary moderation and adopted expansionary fiscal policies. The government increased wages and social transfers, and purchases of goods and services. For example, temporary tax reductions and an employment incentive scheme were introduced, and minimum wage subsidies were increased. According to the IMF (2018), the fiscal impulse is estimated to have been close to 1% of GDP in 2017. Additional incentives were introduced during 2018. Notably, contingent liabilities arising from public-private partnership (PPP) projects were not included in fiscal balance calculations. As a result, the fiscal deficits reported above are underestimates. According to the IMF (2018), investment in PPP projects in the public transport, energy and healthcare sectors amounts to $61 billion. Of these PPP projects, 60% are under construction. Contingent liabilities could arise from demand, exchange rate, investment guarantee and contract termination clauses issued by Turkey's Ministry of the Treasury and Finance. These developments intensified in the run-up to the 31 March 2019 municipal elections.

As a result of these developments, according to the IMF, gross public debt totaled 28.2% of GDP in 2017 and 30.2% of GDP in 2018. The public debt-to-GDP ratio is expected to decline slightly to 30.1% in 2019 and then increase to 30.8% in 2020.

The armed conflict in north-eastern Syria will affect Turkey's fiscal balances and debt-to-GDP ratio. If the armed conflict lasts longer than expected then fiscal balances will deteriorate and the debt-to-GDP ratio will increase. However, it is too early at this stage to forecast the extent of these changes.

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France

Score 5

France's budgetary situation is still unsatisfactory with regard to European commitments and long-term sustainability. Over recent years, many new commitments (public servants' salary increases, security and military expenses, disputable rescue operations) have further increased public spending in spite of public declarations. For example, the number of civil servants was supposed to be decreased by 150,000 during the five-year presidential term; however, the total number has barely shifted, with only 50 civil service posts due to be eliminated in 2020.

After his election, Macron and his government decided to stick to EU budgetary-consolidation obligations, and make sure that France respected its commitments in 2017 and the following years. The president's aim was not only to return to a position of sound public finances and regain financial maneuvering room, but also to recover lost credibility in Europe, a precondition for any ambitious proposal to reform the European Union or to influence the European Union's policy agenda.

However, Macron's hopes that economic growth would support his strategy have been disappointed. The economic growth forecast had to be lowered further in 2019 and in the 2020 draft budget (to 1.3%) Furthermore, the cost of the "urgency measures" announced on 10 December 2018 in response to the Yellow Vests' social protests created still another impediment to a balanced budget. Given that very few sustainable economies have been realized and the reform of the administration is stagnating, the structural budgetary deficit will see little diminution, and the budget deficit will exceed the 3% limit of the European Stability and Growth Pact (with a deficit 3.1% forecast).

Hungary

Score 5

In the run-up to the 2018 parliamentary elections, Hungary's fiscal policy turned pro-cyclical in 2017 and 2018. Despite strong economic growth, the fiscal deficit widened and became one of the highest in the European Union, so much so that the European Council launched a significant deviation procedure for Hungary. In 2019, the government tightened fiscal policy. The general government fiscal deficit is projected to decline from 2.3% of GDP in 2018 to 1.8% of GDP in 2019. While the structural deficit is expected to decline, the decline has been smaller than recommended by the European Council. Fiscal policy has also suffered from a lack of transparency. Budgets are being passed as early as May or June, before important information about the coming year is available. Fiscal planning has remained narrowly focused on the annual budget.

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Italy

Score 5

Italian governments have struggled over the past years to pursue budget consolidation 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.

Fiscal policies for 2017 and 2018 benefited from the improved economic conditions. Taking advantage of the flexibility allowed by the European Union for countries introducing significant structural reforms, Italy's government pursued a path of modest fiscal consolidation balanced by measures intended to sustain economic recovery. Tax reductions and incentives for entrepreneurial activities were only partially offset by reductions in public expenditure. In general, cuts to public expenditure, proposed in the government's spending review, were implemented more slowly than initially proposed. This was due to resistance from interest groups and fear that such cuts would have recessionary effects. The pace of privatization of public assets was slower than anticipated.

The first Conte government initially sought to diverge significantly from this prudent path, proposing (contrary to previous agreements with the European Commission) an increase in the public deficit for 2019 to 2.4%, and a delay in efforts to reduce the public debt until 2020 or 2021. This rapidly produced tensions in the financial markets, and the spread between 10-year Italian and German government bonds rose in November 2018 to a high of 311 basis points (from about 140 under the previous government). After tense negotiations between the Italian government and the EU, and further bargaining within the government itself, the proposed deficit level was reduced to about 2%. However, the possibility that the EU might open an excessive deficit procedure emerged again in the spring of 2019, and this eventuality was avoided only through further revision of the budgetary goals. The economic stagnation of 2019 created difficult conditions for the new 2020 budget. The fall of the first Conte government, triggered by Salvini and the Northern League, left Conte's new majority (supported by the Five Star Movement and the PD) with a difficult budgetary situation. The new government decided to pursue a path of fiscal prudence, and to take a more cooperative approach toward the European Commission. This has calmed financial markets, but has left few resources available to address the country's social problems.

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Romania

Score 4

As the Dăncilă government has continued to increase public sector wages and public spending, the fiscal deficit has further increased. Despite robust economic growth, it has risen from 2.9% of GDP in 2018 to 3.6% in 2019 and is set to widen to 4.4% in 2020 and 6.1% in 2021. This means that the debt ratio is likely to rise from about 35% of GDP in 2018 to 40% of GDP in 2021. Despite the still relatively low level of debt, rating agencies and other market observers have been pessimistic about the sustainability of Romania's public finances, given the rather high financing costs the country has to bear.

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United States

Score 4

Budget policy in the United States is a complex issue and raises different concerns regarding short- or long-term deficits respectively. 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, by all accounts, the country's long-term deficit seriously exceeds acceptable levels. As the Congressional Budget Office has testified, "federal debt appears to be on an unsustainable path." The primary driver 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 (healthcare for the elderly) and Social Security (retirement) programs.

In 2019, the federal budget deficit nearly hit $1 trillion (4.7% of GDP), and economists are raising growing concerns about the sustainability of the country's fiscal plan. A Congressional Budget Office (CBO) report projected deficits above $1 trillion every year from 2020 to 2029, with government debt totaling close to $30 trillion by the end of the decade.

Overall, the Trump administration's policy changes have exacerbated the country's long-term fiscal challenges. Furthermore, Congress has proved increasingly less able to deliver a budget on time. In 2019, it managed to enact the required appropriations bills and avoid a repeat of the January 2018 shutdown. A Bipartisan Budget Act loosened the (largely ineffective) discipline on new spending measures. It also removed the debt limitations that had allowed for highly disruptive partisan brinkmanship, such as that witnessed in 2011 with Republican threats to force default on government bonds.

Japan

Score 2

Gross public indebtedness in Japan amounted to about 240% of GDP in 2018, the highest such level among advanced economies. The primary balance continued to show a significant deficit of about 3.8% in 2018, although with a declining tendency. If a serious global recession were to emerge, these numbers could rise again. In 2018, the government shifted back its goal of achieving a balanced primary budget to 2025, but it was unclear how this was to be achieved.

Nominal interest rates remain low, partly due to 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 – 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.

As the central bank already holds some 40% of government debt, it seems that decision-makers are at least implicitly swinging toward a policy of debt monetization, an uncharted and highly perilous strategy.

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

Given the record levels of public indebtedness in global comparison, along with the imminent risk of a global recession, Japan's fiscal sustainability looks extremely fragile.

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