Budgets Report

Budgetary Policy

Sustainable Governance Indicators 2022

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SGI Sustainable Governance Indicators

| BertelsmannStiftung

Indicator

Budgetary Policy

Question

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

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

10-9 = Budgetary policy is fiscally sustainable.

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

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

2-1 = Budgetary policy is fiscally unsustainable.

Switzerland

Score 10

Budgetary policy in Switzerland is fiscally sustainable. According to OECD data, general government gross debt rose from a low 33% of GDP in 1990 to a peak of 58% in 2004, but fell again to 41% in 2019. During the pandemic, debt increased to almost 43% in 2021, but is expected to return to lower levels soon. Structurally adjusted budgets were balanced even during the crisis of 2008 and 2009. During the pandemic, deficits increased temporarily. It must be noted that the Swiss federal state is very slim by international comparison. Only around one-third of state expenditure is spent by the federal government. Since the turn of the century, the federal budget has almost always been in the black or at least balanced, with the government spending less than it has received – excluding 2002 to 2004 and during the pandemic (EFD 2021). Often, the federal budget surplus, as well as those of cantons and most municipalities, has 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:
IMF 2021: https://www.imf.org/en/Publications/WEO/weo-database/2021/October

OECD 2019: Economic Survey Switzerland, November 2019, Paris: OECD

EFD 2021: https://www.efv.admin.ch/efv/en/home/themen/finanzstatistik/uebersicht-staatsfinanzen.html

Chile

Score 9

In general terms, Chilean budgetary policy has been very successful in the past 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.

The application of and general compliance with this rule 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.

The original Fiscal Consulting Council (Consejo Fiscal Asesor) was transformed into an autonomous entity called the Autonomous Fiscal Council (Consejo Fiscal Autónomo). It represents a key factor in support of fiscal transparency, and helps to validate the public accounts.

Even before the social and political crisis Chile experienced in late 2019, the country's budgetary policy had come under pressure due to declines in the price of copper, slowing economic growth, state spending that had risen faster than GDP, a rising structural deficit and an increase in debt – although this latter was still within reasonable proportions, considering the positive trend of the last 20 years and the country's level of debt (34.4% of GDP) in comparison with the OECD average (78.02% of GDP). Thus, the pandemic found the country in difficult circumstances regarding it's adherence to fiscal orthodoxy.

In order to attend to the demand for a reinforced social agenda and the restoration of the damaged public infrastructure following the social and political crisis, the

government tapped the Pension Reserve Fund (Fondo de Reserva de Pensiones, FRP) and the Economic and Social Stabilization Fund (Fondo de Estabilización Económica y Social, FEES). By the end of 2021, both funds together reached a market value of about $10 billion, a diminution of about $13 billion in comparison to 2019, when the total value of both funds had reached approximately $23 billion.

Citation:
Ministery of Finance (Ministerio de Hacienda), "Estado de la Hacienda Pública 2021", September 2021, https://www.hacienda.cl/areas-de-trabajo/presupuesto-nacional/estado-de-la-hacienda-publica/estado-de-la-hacienda-publica-2021, last accessed: 13 January 2022.

Dirección de Presupuesto – DIPRES, "Informe de Finanzas Públicas 3er Trimestre 2021", September 2021, https://www.dipres.gob.cl/598/w3-article-244741.html, last accessed: 13 January 2022.

Dirección de Presupuesto – DIPRES, "Balance estructural 2019/2020", https://www.dipres.gob.cl/598/w3-propertyvalue-16156.html, last accessed: 13 January 2022.

Instructions on the implementation of the budgetary law in the public sector 2022 (Ley de Presupuesto), https://www.dipres.gob.cl/597/w3-multipropertyvalues-15168-34905.html, last accessed: 13 January 2022.

Autonomous Fiscal Council (Consejo Fiscal Autónomo), https://cfachile.cl, last accessed: 13 January 2022.

Consejo Políticas de Infraestructura, "Gobierno estimó en USD$ 1.400 millones los daños a infraestructura tras el estallido social", 16 January 2020, http://www.infraestructurapublica.cl/gobierno-estimo-usd-1-400-millones-los-danos-infraestructura-tras-estallido-social, last accessed: 13 January 2022.

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OECD – Economic Outlook Chile (2021), http://www.oecd.org/economy/chile-economic-snapshot, last accessed: 13 January 2022.

Centro de Investigación Periodística – CIPER, "¿Existe más espacio en la billetera? Radiografía al esfuerzo fiscal para ayudar a los chilenos en la pandemia", 26 May 2020, https://www.ciperchile.cl/2020/05/26/existe-mas-espacio-en-la-billetera-radiografia-al-esfuerzo-fiscal-para-ayudar-a-los-chilenos-en-la-pandemia, last accessed: 13 January 2022.

DIPRES: Fondos Soberanos
https://www.dipres.gob.cl/598/w3-propertyvalue-21941.html

Denmark

Score 9

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

Fiscal policy has been satisfying these norms, with exceptions for the emergencies allowed as a consequence of the pandemic. 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 several 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 regarding disability pensions, social assistance and grants for higher education studies. Critical for these assessments is the continued political support for increasing the retirement age in concert with longevity, as is stipulated by the so-called indexation formula.

Citation:
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn 2021 report.

Ministry of Finance, Økonomisk Redegørelse, August 2021

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 transparent national fiscal legislation (Fiscal Discipline Law) and overseen by an independent fiscal council. The framework has previously been described as rigorous by the OECD (2017).

The current coalition has emphasized a commitment to addressing the country's economic challenges, and its fiscal stance has been recognized by the IMF (2019) as reversing the past pro-cyclicality and ensuring continued fiscal prudence.

The budget framework and government-debt cap of 60% of GDP, prescribed by the Law on Fiscal Discipline, has been maintained, with overall debt reaching 47.3% of GDP in 2020. Latvia remains broadly compliant with the principles of fiscal discipline.

In 2020, the general government budget deficit was equivalent to 4.5% of GDP, rising to an estimated 9.3% of GDP in 2021. This was twice as high as had been planned in the budget law. The government has provided strong public support and stimulus packages during the COVID-19 crisis. In 2020, the support approved by the government for mitigating COVID-19 consequences had a price tag of €1.3 billion (4.5% of GDP).

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 accessed: 05.01.2022.

2. European Commission (2021), Semester Stability Programme, Available at: https://ec.europa.eu/info/sites/default/files/2021-latvia-stability-programme_en.pdf, Last assessed: 05.01.2022.

3. European Commission (2020), Country-Specific Recommendations: Latvia, Available at: https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:52020DC0514&from=EN, Last accessed: 05.01.2022.

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: 05.01.2022.

5. OECD (2017), Economic Survey: Latvia, Available at: http://www.oecd.org/economy/surveys/Latvia-2017-OECD-economic-survey-overview.pdf, Last assessed: 05.01.2022.

6. OECD (2019), Economic Survey: Latvia, Available at: https://www.oecd.org/latvia/oecd-economic-surveys-latvia-25222988.htmf, Last accessed: 05.01.2022

7. Treasury of Latvia (2020) Government Debt Management: An overview, Available at: https://www.kase.gov.lv/sites/default/files/public/SSD/P%C4%81rskati/Gada%20p%C4%81rskats/VK_Parada_parskats_2020_LV_FINAL.pdf, Last accessed: 05.01.2022.

Luxembourg

Score 9

In the long-term perspective, Luxembourg's budgetary situation is sound and stable. On 16 December 2021, the state budget for 2022 (titled "Our Way out of the Crisis") was adopted by the Chamber of Deputies. In his accompanying statement, Finance Minister Pierre Gramegna emphasized that the country's economic recovery had been fully launched, and that the country had at the start of 2021 already reached its pre-crisis GDP level. Thus, the government stated that the 2022 budget aimed to promote qualitative and job-creating growth, with strong social and digital dimensions, and an emphasis on climate objectives.

Luxembourg will invest around €3.2 billion in infrastructure and innovation projects, or 4.4% of its GDP (the average over 2016-2021 have being 3.9%). Social expenditure (47% of the budget) will be dedicated to subsidies for disadvantaged households, and the National Solidarity Fund will reach €367 million (+5% compared to 2021), due especially to the €200 million. increase in the cost-of-living allowance and social inclusion income. A fund dedicated to housing development will receive €228.2 million (+77% compared to 2021), and €27 million will be applied to the so-called Pacte Logement 2.0 (subsidies for municipalities that are developing housing). The investments in the field of climate and the environment will total €765 million, and will increase by €975 million by 2024 (roughly doubling from 2019). Some €1.8 billion are foreseen for the implementation of the national energy and climate plan. As part of efforts to reduce CO2 emissions, €300 million will be invested in the country's rail infrastructure in 2022, and €12.6 million annually until 2025 to develop new electric charging stations. In the digital field, €1.1 billion will be spent until 2025, of which €234 million will be dedicated in 2022 to investment in the cybersecurity, 5G infrastructure and high-speed internet fields. Luxembourg's Innovation Fund will receive €132 million in 2022, and the education budget will reach €3.1 billion (+10% compared to 2021) to finance the recruitment of 1,000 additional teachers, free daycare during school periods, free school lunches for children from low- and middle-income families, and free music education.

Government revenue will amount to €22.3 billion (+4.3% compared to 2021). Due to the ambitious investment policy, public spending will total €23.5 billion (+3.4%

compared to 2021). Municipalities are expected to operate with a surplus of €234 million, while the social security surplus should reach €853 million. In 2022, the public administration balance will be almost at the break-even point, with a deficit of €143 million, or 0.2% of GDP, which is well below the bar of 3% of GDP provided by the European treaties and the Stability and Growth Pact principles. The public debt was estimated at 24.8% of GDP in 2020, 25.8% of GDP in 2021, 26.6% of GDP in 2022, and is expected to reach around 27% of GDP in the medium term (below the 30% of GDP cap that the government set in its coalition agreement concluded in 2018).

Citation:
"De Budget 2022." Luxembourg's Stat Budget 2022 official website. The Government of the Grand Duchy of Luxembourg. https://budget.public.lu/lb.html. Accessed 3 January 2022.

"Gramegna delivers final budget speech as Minister of Finance." RTL Today (15.12.2021). https://today.rtl.lu/news/luxembourg/a/1833434.html. Accessed 3 January 2022.

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"2022 Budget Prioritises Investment in Climate Action, Housing, Digitalization." Chronicle.lu (13 October 2021). https://chronicle.lu/category/finance-1/38001-2022-budget-prioritises-investment-in-climate-action-housing-digitalization. Accessed 3 January 2022.

"Government at the Glance 2021. Country Factsheet: Luxembourg." OECD (9 July 2021). https://www.oecd.org/gov/government-at-a-glance-22214399.htm. Accessed 3 January 2022.

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New Zealand

Score 9

In 2020, due to the COVID-19 economic crisis, the budget swung from a surplus to a deficit of $28 billion (9.6% of GDP). However, in 2021, New Zealand's government reported a marked improvement in its finances. The New Zealand Treasury said it had a budget deficit $4.6 billion in the year to end June 2021, compared with a shortfall of $15.1 billion forecast just a few months earlier. Revenue was higher and expenditure lower than forecasted, as economic activity rebounded strongly and unemployment fell much more quickly than expected (RNZ 2021a).

The centerpiece of the 2021 budget is a $3.3 billion boost to working-age benefits, which are set to rise between $32 and $55 a week per adult. The payment increases began in July 2021 and were slated to increase again in April 2022. According to government projections, those changes will lift between 19,000 and 33,000 children out of poverty. According to the latest figures, 157,800 children in New Zealand live

below the poverty line. The boost to benefits also brings welfare payments into line with recommendations from a 2019 report that the Labour government commissioned, but was subsequently criticized for failing to implement (Cooke 2021). However, there has been little movement toward being more systematically inclusive of diverse groups of women in the process of government budgeting. The OECD has been advocating on behalf of gender responsive budgeting for some years now, but the current government has resisted providing a systematic intersectional gender lens to their budget allocation process (Curtin et al, 2021)

According to the latest forecast, the government expects annual GDP growth to average 2.9% over the next five years. Net debt is now forecast to peak at 40.1% of GDP in 2023 before declining to nearly 30%, while the budget is forecast to be back in surplus in 2023/24 (RNZ 2021b).

Citation:
Cooke (2021) "Budget 2021: Labour spends big on benefits, health in its first unleashed Budget." https://www.stuff.co.nz/national/politics/300312294/budget-2021-labour-spends-big-on-benefits-health-in-its-first-unleashed-budget

Curtin J. et al (2021). The Conversation, 21 May 2021 https://theconversation.com/nz-budget-2021-women-left-behind-despite-the-focus-on-well-being-161187

RNZ (2021a) "Govt books: 2020 / 2021 financial statements show deficit of $4.6 billion." https://www.rnz.co.nz/news/political/453386/govt-books-2020-2021-financial-statements-show-deficit-of-4-point-6-billion

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Norway

Score 9

The Norwegian government has, since the 1990s, successfully managed the large flow of income from the extraction of offshore gas and oil. This income is projected to remain substantial over the next few decades, though it will decrease gradually as petroleum resources are depleted. This however, is partly compensated by the yield from the state petroleum fund, built up by income from petroleum taxes. The fund was created in 1990 by the Norwegian parliament as a means of sharing oil proceeds between current and future generations, and to soften the effects of volatile oil prices. The fund is administered by Norges Bank Investment Management (NBIM), an arm of Norway's central bank, which invests exclusively in non-Norwegian assets. As the fund has grown, Norway has gradually moved away from its "petro-state" status to become more of an "investor state." It might therefore be less harmed by fluctuating oil prices, but more exposed to global financial markets. As revenues from the fund are used to cover the public budget deficit, the Norwegian economy is increasingly sensitive to volatility in global financial markets.

Public finances remain sound, but are likely to be significantly more strained in the future. Revenues from the petroleum sector are expected to decrease, whereas an aging population implies rising costs for health and pension expenditures. The state

will also have to play a key role in the transition to a less carbon-based economy. However, the population's willingness to pay high taxes seems to be stable.

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 (Brenton and Pierre, 2017).

The consequences of the pandemic put a considerable strain on the budget during the last two years. The budget approved by the Riksdag for 2022 was based on the government proposal, but also included amendments, taking into account the adjustments proposed by the Moderate Party, the Sweden Democrats and the Christian Democrats. Tax reductions for work income and on the income of persons over 65, higher salaries for police officers, and tax reductions on petrol and diesel were included in these amendments (Regeringskansliet, 2021).

However, there is cause for concern regarding public debt, which is now under 40% of GDP. The Swedish Fiscal Policy Council reports that the rate would have exceeded this limit but for a technicality involving the method used to count the financing for currency reserves (Finanspolitiska rådet, 2021). This comparatively low level of public debt is projected to decrease further, but the continuing pandemic injects a level of uncertainty into any projection. Finally, the Swedish National Accountability Office (Riksrevisionen) is critical of the budget in the sense that its fall 2021 numbers do not leave any room for adjustment in the spring of 2022, when the spring adjustment normally takes place (Riksrevisionen, 2021).

Citation:
Brenton, Scott and Jon Pierre. 2017. "Budget Surplus Goal Experiments in Australia and Sweden." New Political Economy, 22 (2017):557-72.

Finanspolitiska rådet. 2021. "Svensk Finanspolitik: Finanspolitiska Rådets Rapport 2021." https://www.fpr.se/download/18.3e9ba604179f5fc737de1d0/1624285470841/Svensk%20finanspolitik%202021.pdf

Regeringskansliet (Government Offices of Sweden). 2021. "Genomförande av Riksdagsbesluten om Statens Budget för 2022." https://www.regeringen.se/artiklar/2021/12/genomforande-av-riksdagsbesluten-om-statens-budget-for-2022/

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Austria

Score 8

In the past, Austrian budgetary policies followed a biased Keynesian approach. In times of low economic growth, the government engaged in extra spending, which it regarded as an investment in fostering growth. In times of high growth, however, available funds were not used effectively to prepare the government for poorer times.

The two major political parties, the SPÖ and ÖVP, which formed a long series of grand coalitions together, seemed reluctant to confront their specific clienteles (farmers and public servants for the ÖVP, and unionized workers and retirees for the SPÖ) and advance policies that might undermine their particular interests. In 2009, Austria enacted the Federal Medium-Term Expenditure Framework Act (BFRG). The BFRG introduced binding ceilings on future expenditures four years in advance on the basis of five categories that correspond to the main functions of the federal government. The formation of the ÖVP-FPÖ government in 2017 led to further budget consolidation.

The coronavirus pandemic, or the public measures launched to cope with it, marked an unprecedented challenge for the federal budget. With a budget deficit of 10.1% for 2020, this score was considerably higher than for the crisis year of 2009 and marked the highest yearly deficit since 1945. However, it is largely agreed that Keynesian-style public spending during the pandemic was key to keeping many industries and businesses afloat, and has thus contributed significantly to minimizing the economic impacts of the crisis.

In November 2021, the governing parties passed the budget for 2022, which projected a reduction in the overall deficit to 2.3% of the gross national product and a slightly reduced debt quota of 79.1%. Due to its strong economy and the overall economic outlook, it is fair to assume that Austria will follow a path of debt reduction over the medium to long term.

Citation:
https://www.diepresse.com/5909300/die-61-milliarden-euro-krise

Bulgaria

Score 8

Bulgaria has featured sound budgetary policy for most of the last 25 years. The budgetary position worsened during the global recession and the bankruptcy of one of the country’s largest businesses in 2009 – 2010 and of its fourth-largest bank in 2014 – 2015, but budgetary discipline was swiftly restored. The country has registered effective fiscal surpluses of 1-2% of GDP ever since 1998. This has allowed the government to reduce its foreign debt rather swiftly.

Bulgaria’s fiscal rules, which are stricter than EU fiscal rules, have been compromised only once, during the budget planning and updates at the end of 2020

and 2021. Economic recovery during the second half of 2021 provided the opportunity for the country to return to near-balanced budgets for 2022 and 2023, but the mid-term macroeconomic fiscal framework plans a 4% budget deficit for these years.

Local governments, which lack their own revenue, are generally politically dependent on the central government. A pending reform involves ensuring that 1/5 of income taxes derived from a specific area are to remain in the location.

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 can meet future financial obligations without placing extra burdens on future generations. The overall tax burden has remained fairly stable throughout the years.

While in 2019 the government stated that it would achieve a balanced budget in 2020, the COVID-19 crisis turned those promises upside down. Between 2020 and 2021, the budget turned deeply negative and government spending was supported by increased borrowing, albeit from very low levels previously. According to Ülo Kaasik, the vice-president of the central bank, the current tax system offers no hope to balance the budget in the foreseeable future and either increasing the tax base or significantly cutting spending is necessary. The incumbent liberal government will most likely opt for the latter.

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 and intergenerational fairness. The Health Insurance Fund and Unemployment Insurance Fund lost part of their autonomy over their budgets when the funds' reserves were merged with the government liquidity reserves in 2011–2012.

Citation:
Postimees (2. January 2022). Interview with Ülo Kaasik. https://majandus.postimees.ee/7421246/ulo-kaasik-rahatrukita-oleks-vaesus-suurem (accessed 07.01.2022)

Finland

Score 8

In December 2019, the Ministry of Finance's economic outlook estimated that general government finances would be in deficit for the next few years in the absence of measures to improve employment and productivity in the local and

central governments (Ministry of Finance 2019). The Rinne government's plan to balance the budget was connected with the aim to increase the labor market participation rate substantially. During its first year in office, just before the COVID-19 pandemic, the Rinne/Marin government increased spending.

Prime Minister Sanna Marin's government program, published in December 2019, aimed to increase the employment rate to 75% and the number of people in employment by a minimum of 60,000 by the end of 2023. According to the program, "given normal global economic circumstances, Finland's general government finances will be in balance in 2023." As for fiscal policy, the government program emphasized scaling fiscal policy in accordance with economic conditions, meaning that general government revenue and expenditure can be adjusted automatically according to economic conditions (Prime Minister's Office 2019). However, the COVID-19 pandemic completely changed the outlook for government finances.

In Finland, there is widespread awareness among politicians that the population age structure, with a very large cohort born immediately after the Second World War, will necessitate an increase in public spending in order to maintain the social security system and access to welfare services. However, so far, the government has taken no determined actions to cut the budget deficit, and there are currently no debt limits or other fiscal rules to prevent excessive public debt. However, the budget process is transparent. In September 2021, the Ministry of Finance (2021) estimated that the general government deficit would shrink substantially in 2021 and in 2022, as the economic recovery and rapid rise in employment were expected to boost tax revenues and reduce unemployment expenditure. The ministry also forecast that the general government finances would improve as the need for engage in COVID-19 spending dropped away. However, the ministry also emphasized that a temporary economic recovery would not eliminate the structural imbalance affecting Finland's public finances.

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 and 56% in 2021. As a percentage of modified GNI, it had fallen from 97% in 2017 to 91% in 2018. As a result of the fiscal turmoil caused by the pandemic and the necessity of increasing the budget deficit, the debt to GNI climbed again in 2021 to reach €236.7 billion or 106.2% of GNI. Given that modified GNI is far more representative of the underlying behavior of the economy, the ratio of debt to modified GNI is still excessively high.

Leaving aside the ever-present possibility of adverse external shocks, there is a clear risk now facing the Irish economy 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, given the impact rising inflation is having across Irish society.

Citation:
Department of Finance, Budget 2022.
Department of Finance, Budget 2021.
Department of Finance, Budget 2020.
Department of Finance, Budget 2019.
Irish Fiscal Advisory Council, Fiscal Assessment Report, December 2021.
Irish Fiscal Advisory Council, Fiscal Assessment Report, November 2019.

Lithuania

Score 8

Despite relatively high rates of economic growth, the government in power between 2012 and 2016 was only able to reduce the budget deficit toward the end of its political term. 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 provided an incentive to maintain a balanced fiscal policy as the economy kept growing. In the 2016 – 2019 period, Lithuania actually registered budgetary surpluses. The pandemic contributed to a very significant growth in the fiscal deficit and overall debt in 2020, as a result of contracting tax revenue and increased expenditure. The deficit stood at 7.2% of GDP in 2020, but was projected by the European Commission to fall to 4.1%, 3.1% and finally 1.1% in the 2021 – 2023 period. Gross public debt jumped up by 10 percentage points in 2020 (to 47% of GDP), but is projected to remain rather stable until 2023. In contrast to all previous crises, Lithuania adopted an expansionary fiscal policy stance. Given the Lithuanian economy's comparatively very good performance during the pandemic, some analysts have argued that fiscal policy was too loose, contributing to overheating and inflationary pressures.

Lithuania faces a number of challenges in terms of keeping its public finances sustainable over the long run. Factors such as projected expenditures (and potentially lower tax revenues) 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. The government is 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. Economic growth during the pandemic that was better than initially forecasted, along with accelerating inflation, allowed the government to collect more tax revenues than planned; this in turn allowed it to increase funding for wages in the education and healthcare sectors as well as for pensions in 2022.

As noted by many observers and politicians, including current Prime Minister Šimonytė, there is a fundamental tension within the Lithuanian fiscal regime due to a mismatch between the extensive obligations the state has committed to on the one hand, and tax revenue that is insufficient to finance all those obligations adequately. The tax reform that came into effect in 2019 somewhat reduced government revenues due to the easing of the overall tax burden on labor. The Šimonytė government has halted any major tax reforms for 2021, but plans to introduce substantial changes starting in 2023. In particular, there are plans to eliminate certain exemptions, and to restructure (and increase) environmental taxation as well as property taxes.

Citation:
OECD, Economic Surveys: Lithuania, 2020
European Commission, Autumn 2021 Economic Forecast: From recovery to expansion, amid headwinds, 2021, https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2021-economic-forecast_en

Canada

Score 7

Going into the pandemic, Canada was in a relatively strong fiscal position. While the federal government had incurred a deficit of CAD 14.9 billion in 2018-2019, the federal net debt was 30.8% of GDP, and the country as a whole still registered the lowest net debt-to GDP ratio among G-7 countries. However, as the government rolled out extensive programming to support businesses and workers as they sustained extensive financial losses and loss of employment, federal expenditures soared. Indeed, federal measures accounted for the majority of spending during the pandemic. As a result, the last federal Fiscal and Economic Update of 2021 indicates that the federal deficit for 2020-2021 stood at CAD 327.7 billion and federal debt at 47.5% of GDP.

The OECD in their recent country survey notes that “prudent” fiscal management previous to COVID-19 did provide the country with needed room in undertaking such expansionary measures – for the short term. However, the country also needs to set in place a clear “fiscal roadmap” regarding plans for recovery. This is of course all the more daunting as Canada enters another severe wave of Omicron transmission – and associated economic shutdowns and overload on the health system. Moreover, recent Finance Canada estimates for closing in on the federal deficit by 2026-2027

are premised on economic recovery and a reduction in pandemic spending. Clearly budgetary policy is still in a fragile situation given the uncertainties ahead.

In its most recent 2021 fiscal sustainability report, the Parliamentary Budget Office (PBO) estimates that the federal government could permanently increase spending or reduce taxes by 0.8% of GDP (CAD 18 billion in current dollars) while maintaining net debt at a level of 37.7% of GDP over the long term – a figure which remains higher than those seen before the pandemic. The same cannot be said for long-run provincial fiscal sustainability where, with the exception of Quebec, Ontario and Nova Scotia, PBO considers current fiscal policy to be unsustainable, primarily due to rising healthcare costs. However, it is worth noting that the rebound in oil and gas prices (and related commodities such as potash) will have a positive impact going forward.

Citation:
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Government of Canada, Investing in the Middle Class: Budget 2019, https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf.

OECD, Economic Surveys: Canada 2021, 2021, Paris: OECD Publishing.

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Cyprus

Score 7

The Law on Fiscal Responsibility and Fiscal Framework of 2014 provided budget design and implementation processes that meet the government’s strategic targets. This required the administration to gradually acquire strategic planning capacities. Positive results were achieved, with large fiscal surpluses and a reduction in the public debt. The good performance of the previous years, assisted by tax, tourism and other buoyant revenues was interrupted by the pandemic. However, surpluses helped the authorities to face the repercussions of the pandemic by providing support to businesses and people.

Praise for the country’s economic performance in surveillance reports also included warnings, for example, not to loosen strict fiscal discipline and to promote structural reforms to enhance spending reviews.

The 2022 budget aims to consolidate economic recovery and growth, and reduce the public debt below 100% of GDP. Officials have referred to it as “the budget for reforms and a green economy.” Concerns are linked to uncertainty around the development of the pandemic and its impact, among other things, on the national healthcare system, GESY. GESY is a source of worry, as expenses have exceeded initial estimates.

GDP was expected to grow by 5.4% in 2021 compared to a contraction of 5.3% in 2020. The debt-to-GDP ratio was expected to recede to 104.1% in 2021 and 97.6% in 2022, against 115.3% in 2020.

Citation:
1. European Commission, Council Recommendation, on the 2020 National Reform Programme of Cyprus…, May 2020, Brussels, https://eur-lex.europa.eu/legal-con tent/EN/TXT/PDF/?uri=CELEX:52020DC0 513&from=EN
2. IMF, Cyprus: Cyprus 2021 Article IV Consultation – Press Release and Staff Report, June 2021, https://www.imf.org/-/media/Files/Publications/CR/2021/English/1CYPEA2021001.ash x
3. Green transition deal will be painful for some warns minister, Cyprus Mail, 23 October 2021, https://cyprus-mail.com/2021/10/23/green-transition-deal-will-be-painful-for-some-warns-minister/

Germany

Score 7

Before government budgets in Germany were hit by the fiscal consequences of the pandemic, they looked back at an unprecedented eight-year period of balanced budgets and, since 2015, significant surpluses of 1% of GDP or more. The combination of stable economic growth with rising surpluses had led to a strong decline of the debt-to-GDP ratio from 82.4% in 2012 to 58.9% in 2019, which was below the Maastricht reference value of 60% (AMECO Database 2022). This success stands in sharp and favorable contrast to the other large euro area countries for which debt levels have been trending upwards and had reached magnitudes of 100% of GDP or even higher before the pandemic.

When the pandemic hit the country, the government was quick to set up a massive rescue package that, relative to GDP, was among the largest in the OECD (International Monetary Fund 2021). This reaction was in compliance with the constitutional debt brake, which foresees an escape clause in case of an emergency. The rescue package included additional resources for the health sector and containment of the pandemic, transfers to households, generous short-time work incentives, subsidies and liquidity support for companies, and temporary tax cuts (most prominently a temporary cut of VAT rates). This strong fiscal reaction was buoyed by a large economic policy consensus that a comprehensive fiscal answer was justified to mitigate the longer-run economic damage of the pandemic. Despite this massive fiscal engagement, the consequences for the government balance and public debt were much milder than in many other EU and OECD countries: The debt-to-GDP-ratio is projected to peak at a moderate level of 71.4% in 2021 and to fall subsequently. Thus, the fiscal performance in the pandemic so far rather reflects a responsible and rather successful stabilization policy that took advantage of the fiscal leeway created in the years before.

However, the medium- and long-run challenges resulting from demographic change are substantial and, so far, convincing answers of how to cope with it are missing. According to calculations based on the generational accounting methodology developed by Bernd Raffelhüschen and his coauthors (Stiftung Marktwirtschaft

2021), Germany's "implicit debt" (i.e., the government's spending promises not covered by future tax revenues) even exceeds the official debt and amounts to 105% of GDP in 2021. The new German government has developed no strategy for making the welfare state more sustainable and limiting the rising burden being placed on the federal budget with its increasing transfers to the pension system. Pension experts criticize both the previous and new governments of focusing one-sidedly on increasing benefits and lacking a sense of reality for the long-term constraints on financing (Börsch-Supan 2021).

Citation:
AMECO Database (2022): Annual macro-economic database of the European Commission's DG for Economic and Financial Affairs, https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/macro-economic-database-ameco/ameco-database_en (accessed: 3 January 2022).

Börsch-Supan, Axel (2021): Die Verdrängung des demographischen Wandels, Frankfurter Allgemeine Zeitung, 24 December 2021, p. 22.

International Monetary Fund (2021): Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, July 2021.

Stiftung Marktwirtschaft (2021): EU-Nachhaltigkeitsranking 2021: Corona geht – Demografie bleibt, Pressemitteilung, 13 December 2021.

Israel

Score 7

Israel's fiscal policy is characterized by rather strict budgetary discipline, which is maintained by the significant power of the Ministry of Finance, a fiscal framework that sets limits on public deficits and annual increases in public spending, and the so-called Arrangements Law. The Arrangements Law is an omnibus law that is passed in parallel with each budget, consists of numerous restrictions and amendments, and is designed to secure the state's financial goals.

Israel's comparatively strong fiscal position was maintained during the pandemic. In terms of the deficit, Israel posted a budget deficit (ILBUD=ECI) of 4.6% of gross domestic product by the end of 2021, down from 5.5% during the same period in 2020. The improvement came as an economic rebound that has led to higher-than-expected tax revenue. Over the past year, tax income is up 23.1% from the same period in 2020 (BOI 2021). Consequently, the increase of public debt has been relatively low in comparison to other OECD countries.

The ILS 609 billion (4 billion) spending plan for 2021 is the first budget Israel has passed since 2018. This delay was due to a prolonged political deadlock, which saw successive governments fall before they could bring a proposal to the Knesset. The 2022 spending plan stands at ILS 562.9 billion (0 billion). The overall budget marks a major reorientation of Israel's allocation of resources and financial priorities in the coming years. It is based on the principles of streamlining government operations, upgrading public services, boosting economic competitiveness, cutting regulations to support public and private sector growth, limiting Israel's shadow economy,

boosting transportation, housing, energy and technology infrastructure, and investing in human capital by training and integrating marginalized populations into the workforce (Ben David 2021).

The Knesset's approval of the 2021–2022 budget has reduced political uncertainty and risks to public finances, affirming the government's capacity to advance legislation. Fitch Ratings increased Israel's rating from A to A+. According to Fitch Ratings, "Israel's A+ rating balances a diversified, high value-added economy, which proved resilient to the COVID-19 pandemic, strong external finances and solid institutional strength" (Fitch Ratings 2021).

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Malta

Score 7

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 European Union's Excessive Deficit Procedure. Indeed, deficit levels decreased, and the island went on to register surpluses between 2016 and 2019.

Pre-pandemic projections anticipated that the government would be able to maintain a surplus between 2019 and 2021. Nonetheless, the pandemic disrupted this growth pattern, and budgetary expenditure shifted drastically to cater for a broad range of subsidies and incentives that the government provided to keep the economy afloat. The government was expected to register a surplus of €114 million in 2020 and public debt as a percentage of GDP was expected to fall from 43.2% to 40.4%. However, the government recorded a deficit of 10.1% of GDP in 2020. It has also been confirmed that the budget deficit will amount to €1.6 billion or 12% of GDP. This policy was assisted by the EU budgetary escape clause valid for 2020 and 2021.

Projections presented by the Maltese government in its 2021 Stability Programme and the European Commission figures indicate that the government deficit in 2023 could range from 4.7% to 3.9%. European Commission figures project gross public

debt at 63.6% in 2023. In its recommendations on the program, the European Commission stressed the need to prioritize fiscal reforms that will address the problem of sustainability with regards to the healthcare and pension systems. In this regard, the government has introduced a number of measures intended to contain these challenges (e.g., gradual increases to the age of pension eligibility and incentives to defer early retirement). Malta faces a medium risk to fiscal sustainability over the medium term, according to the latest debt sustainability analysis. Recommendations for Malta included prioritizing sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition, and strengthening the coverage, adequacy and sustainability of healthcare and social protection systems.

Air Malta, a state-owned enterprise, continues to register losses of over €170,000 daily in view of COVID-19-related losses, which has led the government to request permission from Brussels to provide state aid amounting to €290 million. Meanwhile, the country's energy provider, Enemalta, was given a positive review by the S&P Global Ratings agency in 2021, despite the pandemic.

Citation:
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European Economic Forecast Spring 2018 p.109
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http://europa.eu/rapid/press-release_MEMO-15-4971_en.htm
Central Bank of Malta Economic Projections 2019-2021
Council Recommendation delivering a Council opinion on the 2021 Stability Programme of Malta COM(2021) 518 final p.5, p.6
Ministry of Finance Malta: Annual Report 2020 p.3
Times of Malta 27/08/2021 2021 Deficit Confirmed at €1.6 billion
Times of Malta 14/02/2021 Air Malta is Losing More Than €170,000 daily – Finance Minister
Malta Today 25/03/2021 S&P Keeps Enemalta Rating at BB - With Negative Outlook

Netherlands

Score 7

Since the euro zone crisis, the government has steadily improved the state of its finances. Therefore, in 2020 it was relatively well prepared for the coronavirus crisis. As of the time of writing, at the end of 2021, it is still considered well positioned for a post-coronavirus restoration and investment effort. The state budget reversed from a surplus of 1.7% of GDP to a deficit of 4.3% of GDP in 2020, followed by a deficit of 5.9% of GDP in 2021. This is due, of course, to generous wage cost subsidies (estimated at €82.1 billion and counting, as when coronavirus infections were on the rise again, the policy was extended until spring 2022) and other types of financial support, as well as the decline in tax revenues due to the pandemic-triggered recession. While in 2019, public debt stood at 48.6% of GDP, it is approximately 9 percentage points higher in 2021 and 2022; it is projected to reach 60.4% of GDP in 2025. Despite all this, interest payment on public debt will be lower in 2022 (0.4% of GDP) than in 2019 (0.8% of GDP) because of very low interest rates. The deficit and

the increase in public debt will stay well under average in the euro zone.

Most financial experts agree that government finances are not in danger, and there is room for government spending on urgent issues. The extra spending is kept outside normal budget rules by creating special funds. A large part of the spending will be dedicated to climate measures, as the Netherlands has missed most of its climate goals over the years, and is still among the most polluting countries in the European Union.

Meaningful project- and policy-driven spending from these funds will generally extend over periods longer than an ordinary four-year government period. This is supposed to alleviate investors' fear of long-term investments, especially in training workers to acquire the necessary new skills needed for large-scale climate change and energy transition projects. At the same time, other experts have warned against too loose of an approach, and are urging a return to conventional rules for budget discipline. They warn against overheating the economy, where in some sectors a shortage of labor (infrastructure, housing, care) and inflation (especially in the energy sector) are no longer expectations but realities.

Nevertheless, the four political parties that will build the next Rutte IV government, take the risk of a big spending spree: €35 billion for a climate change fund (for green industrial policy), €25 billion for a nitrogen fund (for the greening of farming), €7.5 billion for a housing fund (to quickly build appr. 100,000 new houses), €3 billion for infrastructure in the northern provinces (to compensate homeowners for earthquake damages and a new railway connection). Defense and education will structurally get billions of euros to help restore years of underfunding in the past. Of course, taxes will also increase, somewhat more for firms than for citizens.

The rosy financial picture on national level is not mirrored on the provincial and local levels. At these levels there is a dormant financial crisis. National budget cuts (2013-2019) have been proportionally allocated to local government budgets even though national policy, especially since 2015, burdened local governments with new tasks (e.g., youth and elderly care, and recently more tasks and responsibilities in town-and-country planning) without structural budget compensations. Nearly all local governments, irrespective of political make-up, are confronted with loss of subsidies for welfare, culture and sports; as well as substantial cutbacks for anti-poverty and town district policies, maintenance and services. At the same time, charges for parking, garbage collection and processing, and property taxes have increased for citizens. The coalition agreement does not mention reform of the system for local finances, the Gemeentefonds, which covers approximately 70% of local government budgets. It merely promises more financial resources for local governments in order to implement national policy initiatives.

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 much 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 highly restricted or fragmented accountability arrangements. The Council of State (Raad van State) is more and more concerned about this problematic situation, which tends to erode the principle of no taxation without representation.

Citation:
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NRC, Stellinga en Rutten, 15 December 2021. Rutte IV wil problemen te lijf met een doorgeladen bazooka vol geld.

NRC, 26 October 2021, DNB, CPB en Financiën: veel ruimte voor incidentele investeringen, niet voor permanente verhoging uitgaven.

Algemene Rekenkamer, 30 September 2021, Coronarekening – editie Prinsjesdag 2021

NRC, 20 October 2021 Harde kritiek op nieuwe verdeling gemeentegeld

Raad van State, 15 September 2021. Septemberrapportage begrotingstoezicht 2021 en advise Miljoenenota 2022

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

Centraal Planbureau, January 2022. Analyse coalitieakkoord 2022-2025

Portugal

Score 7

In 2019, Portugal posted a budget surplus of 0.1% of GDP. This was the first such surplus since democratization in 1974, and only the second time this had occurred since 1964.

In June 2020, Finance Minister Mário Centeno left the government to become governor of the Bank of Portugal. However, the loss of Centeno, dubbed the “Cristiano Ronaldo of the Ecofin” in May 2017 by then-German Finance Minister Wolfgang Schäuble, did not lead to a significant change in budgetary policy.

While the new minister, João Leão – previously a junior minister under Centeno – maintained the goal of ensuring balanced budgets, the pandemic inevitably generated a significant deficit in 2020, totaling 5.8% of GDP. However, that was lower than the EU-27 (6.9%) or euro zone (7.2%) deficits for 2020. The pandemic also reversed the downward trajectory in terms of debt, which had fallen from 131.5% of GDP in 2016 to 116.6% of GDP in 2019. In 2020, it rose back to 135.2% of GDP, an increase that reflected not only the higher levels of public expenditure during the pandemic, but also the reduction in nominal GDP. Speaking in late December 2021, the finance

minister stated that the goal of a 4.3% deficit in 2021 would be achieved, as would a reduction of debt to 127% of GDP.

Portugal's international credibility continues to be strengthened, with Portugal's rating having been upgraded by Moody's to Baa2 in September 2021.

It should be noted that these positive results have been achieved in part through low levels of government investment, the lowest in the EU in both 2019 and 2020; and through 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:
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Eurostat, "Investment share of GDP by institutional sectors," available online at: https://ec.europa.eu/eurostat/databrowser/view/sdg_08_11/default/table

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Post-Programme Surveillance Report - Portugal, Spring 2021
https://ec.europa.eu › economy-finance › ip152_en
PDF

Slovakia

Score 7

Before the COVID-19 pandemic, Slovakia managed to reduce the general government fiscal deficit from about 8% of GDP in 2009 to 0.9% in 2019. While the consolidation of the budget was facilitated by strong and higher-than-expected economic growth, the Smer-SD led governments also succeeded in limiting expenditure growth.

Relatively low fiscal deficits and public debt before the pandemic provided the space for a significant fiscal expansion. General government fiscal deficits reached 6.2% in 2020 and 7.4% in 2021, letting the gross public debt-to-GDP ratio from less than 50% in 2019 to more than 60% in 2021. The government expects the general government fiscal deficit to fall below 3% in 2023 and the gross public debt-to-GDP ratio to fall below 60% in 2023. In order to make the fiscal adjustment credible, the government has proposed amendments to the existing fiscal rules, including a modification of the prevailing debt rules, the introduction of multi-annual

expenditure ceilings and an expansion of the responsibilities of the independent Council for Budgetary Responsibility (Rada pre rozpočtovú zodpovednosť, CBR) (OECD 2022: 28-34).

Citation:
OECD (2022): Economic Survey Slovak Republic. Paris (https://doi.org/10.1787/78ef10f8-en).

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 the Labour government between 1997 and 2008, 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 the Charter for Budget Responsibility.

After the global financial crisis, UK chancellors ostensibly focused on reducing 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.

After Boris Johnson became prime minister, the government promised an end to austerity policies and committed itself to higher spending, especially on health and social care. After securing a large majority in the 2019 general election, other spending priorities were added, notably to promote “leveling-up” and to invest in infrastructure. Despite these promises, the government sought to further consolidate public finances.

As elsewhere across the developed world, the coronavirus pandemic altered the situation, with the chancellor promising to do “whatever it takes” to cushion the economic crash, initially committing to fiscal interventions worth £280 billion. As a result both of the pandemic and a deviation from classically Conservative fiscal prudence, the government is on track to increase both the tax take and the size of government spending to levels not seen for decades, with public spending rising from 39.8% of GDP before the pandemic to 41.6% in 2026/27 – the highest share of GDP since the late 1970s. Since this will be balanced by higher taxes, however, net

borrowing will conform with prior plans. The recovery in economic growth during 2021 and the projection that economic growth will continue during 2022 should ease the task of ensuring fiscal sustainability.

Citation:
Autumn Statement 2021: https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents
https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U
https://obr.uk/docs/dlm_uploads/Executive_summary_Economic_and_fiscal_outlook_October_2021.pdf

Australia

Score 6

Net federal government debt rose from approximately 19% of GDP in 2019 to 25% in 2020 and is forecast to reach 45% in June 2022. While this increase is directly attributable to an appropriate fiscal response to the coronavirus pandemic, it nonetheless creates significant challenges for future fiscal policy sustainability. At the same time, Australia has significant infrastructure shortages, which would require additional government spending.

Over the longer term, 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-2012 levels, and expenditure demands are projected to increase over coming years, partially due to an aging population. Prior to the pandemic, Australia's population was continuing to grow, with immigration in particular helping to reduce population aging. However, population growth has been approximately zero in 2020 and 2021, and it is unclear how quickly immigration will pick up.

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

Net government debt: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202122/CommonwealthDebt

Belgium

Score 6

Between 2014 and 2019, Belgium's public debt decreased from 107% to 97.7% of GDP. In 2020, as in all other OECD countries, the COVID-19 crisis called for massive public intervention to stabilize the economy. This intervention was successful in the case of Belgium. This increased the debt-to-GDP ratio to 112.8% by the end of 2020 (Eurostat data). Importantly, while the Belgian debt ratio was the fourth-highest in the EU in 2019, it fell to the seventh-highest in 2020, a sign of the efficacy of the Belgian stabilization program.

Belgium's history of high levels of public debt since the 1970s also gives it an advantage in terms of debt management. According to government officials, the debt maturity has been lengthened to a great extent. This will protect Belgium from interest rate swings over the coming years.

While this is evidence of excellent debt management, the long-term sustainability of the public finances may need to be improved. Due to its consistently high levels of public debt, Belgium was already in the preventive arm of the Stability and Growth Pact, and subject to the debt rule of the European Semester. The complex and inefficient federal constitution also increases the number of institutions that can contract debt, and prevents a coordinated debt reduction policy.

By 2050, the budgetary cost of population aging is estimated to reach 30% of GDP (Federal Planning Bureau, July 2021), with variability of about +3 percentage points possible in case of slower migration or productivity growth, and of about -1.4 points in case of unexpectedly high mortality rates among the elderly or higher migration rates. Altogether, while the financial position of the federal government remains solid, that of the federated entities has been weakened by the COVID-19 crisis and by the floods that hit Wallonia in the summer of 2021. In December 2021, Moody's "downgraded by one notch the ratings of Communauté Française de Belgique, community of Flanders, the Walloon region, as well as two government-related issuers (GRIs)." The rating of the Walloon region dropped from A2 to A3 (upper medium grade, one notch above Baa grade), and that of Flanders from Aa2 to Aa3 (still in the high-quality range).

The Council of Europe's "semester" was largely suspended due to the COVID-19 crisis. Back in 2019, it highlighted the tax reforms as potentially growth enhancing, and the Council stated: "The composition and efficiency of public spending can be improved in order to create space for more public investment. In spite of a recent decrease, total expenditure as a share of GDP in Belgium remains among the highest in the euro area. … Given the high level of public expenditure, the outcomes of certain policies and the quality of certain public services raises questions of cost efficiency. Spending reviews and policy evaluations can help Belgium prioritize and improve the efficiency of public expenditure. Furthermore, spending reviews could be used to assess the efficiency of the indirect public support for business research and development."

Fast forward to 2021: Today, the European NextGenerationEU Recovery and Resilience Facility translates into an almost €6 billion plan in Belgium. Fully 88% of the plan targets investments in physical capital (FPB, April 2021). The Federal Planning Bureau expects a 0.2-percentage-point GDP boost in the short run due to demand-side effects (or a peak impact of 4,000 jobs with a public investment of €1.5 million per job), and a long-term 0.1-percentage-point GDP boost (or 1,000 jobs) in the long run, due to enhanced productivity and capital, before the effects of enhanced export prospects are taken into account.

Two main critiques emerged in the press: first, many of the proposed measures just recycle pre-existing government wishes, and some are not targeted at enhancing the economy's dynamism (such as the renovation of the palace of justice in Brussels). Second, the Walloon plan lacks strategic thinking and prioritization: It is a laundry list of 319 measures, without key performance indicators or any proposed assessment of their efficacy. This is exactly the issue that was raised by the Council of Europe two years earlier.

Citation:
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910(01)&from=EN

FPB: https://www.plan.be/uploaded/documents/202104301033290.FPB_RRP_Economic_impact_12401_E.pdf

https://www.plan.be/press/communique-2137-fr-les_mesures_recentes_en_matiere_de_pensions_comme_la_hausse_des_minima_augmentent_le_cout_budgetaire_du_vieillissement_a

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.lesoir.be/409719/article/2021-12-01/relance-wallonne-le-plan-du-gouvernement-critique-de-toute-part
https://www.lesoir.be/art/d-20211201-GR817P

Croatia

Score 6

The Guidelines for Economic and Fiscal Policy 2022-2024 issued by the Ministry of Finance forecast a gradual reduction in the general government deficit and public debt in the years ahead. After a massive fiscal deficit of 7.4% of GDP in 2020, the country was expected to end 2021 with a 3.8% deficit. Projections for 2022 and 2023 were respectively 2.6% and 1.9%. The public debt-to-GDP ratio is planned to shrink from a high of 88.7% in 2020 to 76.8% in 2024. The fiscal support measures adopted in 2020 to alleviate the population's health and economic suffering, and especially to finance extensive furlough schemes and hospitalizations, was broad and decisive. This would not have been possible on favorable lending terms unless the government and the Croatian National Bank had not taken important steps such as entering the EU's Exchange Rate Mechanism (ERM II) and signing the swap-line agreement with the European Central Bank (ECB) in 2020. However, after reaching the highest absolute level of public debt in Croatian history, as well as a relatively swift bounce back from recession, the government decided in 2021 to set a moderate pace of fiscal consolidation over the medium run.

This pace will be supported by record transfers from the EU's Recovery and Resilience Facility (RRF) plus transfers from the former and existing Multiannual Financial Framework. In 2022 and 2023, those transfers will account for a staggering 16% to 18% of total budget revenues. The aforementioned fiscal consolidation will

be important not only from the standpoint of adjustment to the period after the deactivation of EU's "general escape clause" – that is, by installing habits of fiscal responsibility – but also from the standpoint of the government's ambition to adopt the euro as soon as possible. Unfortunately, these favorable developments have been counterbalanced by government inertia with regard to ensuring long-term fiscal sustainability. Namely, the largest spenders of public money, the pension and healthcare systems, have not been put on a sustainable trajectory. When it comes to the pension system, the system itself covers less than 60% of payments made to the retirees by ongoing workers' contributions. The rest is financed out of taxes and debt, which will face some constraints in light of the shrinking workforce and rising interest rates. Furthermore, since the onset of the global pandemic healthcare expenses have skyrocketed, in spite of the fact that the volume of non-COVID-19 treatments has been reduced by 20% to 30%. Interestingly, Minister of Health Vili Beroš opted for an increase in revenues in his reform plan, which was then discarded by Minister of Finance Zdravko Marić, who prefers savings and improved management. However, as of this writing there are no viable reforms of either system on the horizon, in spite of an effort by the Ministry of Finance to set up at least some hard budget constraints in the ongoing negotiations.

Czechia

Score 6

Before the COVID-19 pandemic, Czechia's favorable economic performance allowed the government to retain its objective of reducing the general government fiscal deficit and stabilizing the public debt, while also allowing some expansion of domestic demand. While the central government posted small deficits, the general government budget produced a surplus between 2016 and 2019. Once the Czech government realized the seriousness of the COVID-19 pandemic, it responded in line with the advice of international agencies to do "whatever it takes" to protect public health, and to prevent damage being done to the economy and employment, thus leaving the resulting increase in public debt to be handled later. The result was a general government fiscal deficit of 5.8% in 2020, the highest since Czech independence, followed by a similarly high deficit in 2021. As a result, public debt rose from 30% of GDP in 2019 to 38% in 2020 and to 45% of GDP in 2021. While this is still a manageable level, the increase in debt means a narrowing of the government's future fiscal space.

In order to allow for the increase in the fiscal deficit, the 2017 Fiscal Responsibility Act was amended in April 2020. The amendment approved a structural fiscal deficit of up to 4% of GDP in 2021 and called for annual reductions by at least half a percentage point until the medium-term budgetary objective is met again. Whether or not these targets will be met, strongly depends on the future performance of the Czech economy. In 2020 and 2021, the Babiš government refrained from tapping any potentials for savings on the expenditure side of the budget in 2020 and 2021. Moreover, its controversial 2020 personal income tax reform has caused substantial

revenue losses. The incoming Fiala government has announced that it will speed up fiscal consolidation.

Italy

Score 6

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 slow economic growth, 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 had eased the country's budgetary pressures prior to the pandemic crisis. The acceleration of economic growth through 2017 and 2018, slowed the growth in public debt.

However, the pandemic crisis dramatically changed the situation. The need to support economic activities during the pandemic has necessarily required a huge increase in deficit spending and public debt. The Draghi government, taking advantage of EU funds and of the supportive monetary policies of the ECB, has continued this public spending policy, but has firmly reoriented expenditures to infrastructural and digital investments in order to promote a speedier growth rate (although the implementation of these interventions is still on its way). This strategy has so far paid off as the Italian growth rate in 2021 has significantly exceeded expectations. This also enabled an initial reduction in the public debt stock, which is forecast to continue to decline for the next few years (NADEF 2021).

Citation:
http://www.dt.mef.gov.it/modules/documenti_it/analisi_progammazione/documenti_programmatici/nadef_2021/NADEF_2021.pdf

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.

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.

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 is representative of a general policy of austerity that continues to be maintained by the Mexican government. Although President AMLO belongs to the left-wing political camp, his government has pursued a course of fiscal conservatism, or what it calls “republican austerity.”

When, during the coronavirus crisis, even governments with a responsible spending discipline abandoned their austerity course and invested huge sums to rescue their economies, often substantially increasing social spending, the Mexican government responded with only minor additional spending.
Autonomous institutions and local and regional administrations have been particularly affected by the austerity course, and have demanded a halt to the government’s strict austerity course. For this reason, the AMLO administration has been accused of pursuing a course of recentralization with the goal of allocating more power to central government agencies.

Citation:
https://www.latinnews.com/component/k2/item/81521.html?archive=33&Itemid=6&cat_id=819153:mexico-lopez-obrador-s-first-budget-disappoints
https://www.latinnews.com/component/k2/item/86516.html?archive=33&Itemid=6&cat_id=824116:mexico-facing-another-year-of-austerity

Poland

Score 6

Benefiting from strong economic growth and higher-than-expected revenues, the PiS government succeeded in bringing down the general government fiscal deficit 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. The government’s budgetary response to the COVID-19 pandemic and the resulting increase in public debt were substantial. The revised 2020 central budget, approved by the government on August 20, targeted a central government deficit of 4.9% of GDP and a general government deficit of 12% of GDP, compared with a balance in the original budget. The 2021 budget, as adopted in December 2020, still assumed a general government deficit of 6% of GDP. At the end, however, borrowing needs turned out to be lower. The 2022 draft budget foresaw a decline in the general government fiscal deficit to 2.8% of GDP (Pogorski 2021).

The government’s budgetary response measures have suffered from a lack of transparency. First, the various anti-crisis shields have been amended several times. Second, the government has stuck to its strategy of channeling an increasing proportion of spending through special funds outside of the official budget. Many of

the anti-crisis measures have been off budget, financed by the state development bank Gospodarstwa Krajowego (BGK) and the Polish Development Fund (Polski Fundusz Rozwoju, PFR). Third, Poland's fiscal framework has remained 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.

The medium- and long-term fiscal outlook is clouded by the strong increase in social spending and the lowering of the retirement age under the PiS government. Moreover, the government strongly banks on massive EU transfers, which might decrease if cuts in transfers are embraced by the European Commission as a penalty for violating EU law.

Citation:
Pogorzelski, K. (2021): The 2022 Polish budget is less expansionary than expected. ING, (https://think.ing.com/articles/the-2022-buget-bill-less-expansionary-than-expected/).

Slovenia

Score 6

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. But the COVID-19 pandemic and the associated economic shutdowns changed those positive trends, leading to a substantial rise in public debt – due to the Janša government's financing of anti-coronavirus measures – to almost 80% in 2020. The general government cash-flow deficit is estimated at 4.6% of GDP in 2022 and 2.7% of GDP in 2023, below the Maastricht level.

Interest payments on servicing public debt amounted to 1.7% of GDP in 2020, which is more than €300 million lower than in 2014, when it amounted to 2.9% of GDP. In the 2020–2021 period, more than €4.4 billion has been paid out of the state budget for anti-COVID measures.

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. In 2021, the Fiscal Council issued several warnings that projections for the coming years in the adopted budget documents are not based on appropriate facts, which has increased the risk of a structural deterioration in public finances.

The state budget deficit is expected to amount to almost €4 billion in 2021, which is €0.5 billion more than in 2020, according to the Fiscal Council.

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.

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South Korea

Score 6

South Korea’s healthy public finances and relatively low public debt levels provided the fiscal space for a large economic stimulus (about 11% of GDP) to mitigate the impact of COVID-19. Some of this stimulus was already planned before the pandemic as part of President Moon’s five-year plan for achieving a people-centered economy. Various pre- and post-COVID budget priorities have been folded into Korea’s New Deal. Beyond an immediate stimulus to the economy, the New Deal constitutes an opportunity to transition to innovative (Green New Deal, Digital New Deal) and inclusive (Human New Deal) growth. Accordingly, from an average government fiscal surplus of 1.5% of GDP for the period 2010-2019, Korea recorded a fiscal deficit of 2.3% of GDP in 2020. Government debt as a share of gross domestic product (GDP) was 51% in 2021 (11th lowest in the OECD), up from 48% in 2020 and 42% in 2019.

While budgetary oversight mechanisms are generally in place and any expenditure increase is subject to parliamentary approval, the unprecedented level of supplementary spending will need to be reined in as the economy normalizes. To ensure fiscal prudence in the long run, the government set new fiscal rules (effective 2025) limiting government debt to 60% of GDP and the consolidated fiscal balance deficit to 3% of GDP.

While debt at the national level is generally sustainable, an increasing number of local governments and public enterprises are struggling due to insufficient revenues. Local governments differ quite substantially in their ability to provide public services as the central government is reluctant to support poorer local governments.

Citation:
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Spain

Score 6

Measures taken by the government to overcome the crisis caused an exceptional deterioration in Spain's public finances in 2020. According to the European Commission's autumn economic forecast, the public budget deficit was expected to rise to 12.2% of GDP and the gross public debt to 120.3% of GDP by the end of 2021. The supportive macroeconomic scenario, partly due to the implementation of the RRP, as well as the action of automatic stabilizers, will help the debt-to-GDP ratio decrease to 118.2%, and keep improving the general government budget balance, with the deficit expected to fall to 5.2% in 2022.

The budget plan forecasts that government spending as a share of GDP will fall to 44.7% in 2022, from 49.6% in 2021 and 52.4% in 2020. The high share was due to the sharp downturn in the economy caused by the pandemic, as well as the government's measures to support families and businesses to mitigate the consequences of the recession.

However, the 2022 budget bill will also provide for the largest social investment in recent history, with almost 60% of the national budget, €240.4 trillion, allocated to social investment. European funds, of which Spain will receive €27.6 trillion in 2022, will largely be used for investment in energy transition, digitalization and sustainable mobility. Moreover, according to government projections, the economy will grow in 2022, and rising domestic demand and job creation will improve tax revenues by 10.8% compared to 2021.

Citation:
EC(2021), Autumn 2021, Spain
https://ec.europa.eu/economy_finance/forecasts/2021/autumn/ecfin_forecast_autumn_2021_es_en.pdf

Turkey

Score 6

According to the World Economic Outlook Database (2021), general government revenue as a percentage of GDP is expected to decrease from 29.2% in 2020 to 28.2% in 2021, before increasing slightly to 28.4% in 2022. General government expenditure as a percentage of GDP is expected to decrease from 34.6% in 2020 to 33.9% in 2021, then increase to 34.5% in 2022. The general government structural balance as a percentage of GDP, which was -3.3% in 2020, is expected to worsen to -3.4 % in 2021 before recovering again to -3.3% in 2022. The general gross debt-to-GDP ratio is expected to increase from 36.7% in 2020 to 37.1% in 2021, before rising to 38.8% in 2022.

From January to September 2020, tax revenues totaled TRY 578.7 billion. With the increase in the risk premium of the Turkish economy, TRY 107.8 billion of this was applied to interest payments. Due to the COVID-19 pandemic, budgetary

expenditures increased to TRY 870 billion (9.5 billion) for the first nine months of 2020. This amounted to a 17.6% increase on an annual basis. The New Economic Program of 2020-2022 initially anticipated that the budget deficit would be 2.9% of GDP. Due to the pandemic, however, this number was later revised to 4.9%. The budget expenditure in 2020 was TRY 1.20 trillion while revenues were TRY 1.03 trillion. The 172.7 billion lira deficit in 2020 amounted to a 38.5% increase in comparison to 2019.

The primary surplus that had persisted since 2002 fell back into balance in 2018 due to expansionary fiscal policies, and reverted to a primary deficit starting in 2019. The depreciation of the Turkish lira since 2018 put Turkey's payment obligations at risk. Reuters sources estimated that the central bank of Turkey spent more than $100 billion to cushion the currency shock. TEPAV (2020) similarly indicated that expansionary fiscal policies harmed the budget. The government's attempt to balance the budget by collecting one-time revenues rather than through implementing structural adjustments increased the share of interest expenses in the budget.

The fiscal deficit figures presented above do not account for fiscal risks arising from public-private partnership (PPP) projects. PPP projects in the transportation, energy and health sectors involve explicit minimum guarantees and components expressed in foreign exchange terms. According to one credible source, the PPP projects such as the Akkuyu nuclear power plant, the Yavuz Sultan Selim Bridge, the Istanbul Airport and city hospitals, most of which were sponsored by pro-government businessmen, amount to a total cost of TRY 150 billion. The immense cost of megaprojects such as the Canal Istanbul project are adding additional costs to the public budget. According to official estimations, the costs of the canal alone are projected at TRY 75 billion. Finally, the astonishing rise in expenditures by the President's Office must also be noted. Since 2014, the first time Erdoğan was elected as president, these expenditures have increased by 1,506%.

Citation:
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IMF. "IMF Staff Country Report." https://www.imf.org/en/Publications/CR/Issues/2021/06/11/Turkey-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50205

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France

Score 5

France’s budgetary situation is still unsatisfactory with regard to European obligations and long-term sustainability. Over recent years, the commitment to reduce public spending (cuts in the number of public servants, in security and military expenses, and in social benefits) was not fulfilled due to the outbreak of the pandemic. Faced with the necessity to compensate for the collapse of economic activities, the government had to inject massive resources in the private and public sectors, pushing the budget deficit to 9.1% in 2020 (8.0% in 2021) and forcing the government to borrow massively.

The president’s aim, which was to return to a position of sound public finances and regain financial maneuvering room, but also to recover lost credibility in Europe, has not been realized. If the new scenario created by the pandemic has paradoxically provided some breathing space given the new conditions that all European countries are facing, the ability to land on more stable ground might be difficult in the forthcoming years, not only in budgetary terms, but also from a social and political point of view. It will be difficult to increase taxes while the expectations of the citizenry, far from diminishing, are actually increasing.

The huge deficits in the 2020 and 2021 budgets were permitted by the “whatever it costs” strategy launched to fight the pandemic’s dramatic economic consequences, and were facilitated by the accommodating policy of the European Central Bank (ECB) and by the very low rates of interest. Furthermore, the financial facilities created by the NextGenerationEU fund should be mentioned, as they helped to finance €40 billion of the total €100 billion envisioned in the France Relance recovery plan. This easygoing policy might face tough challenges in the near future if interest rates increase again, rendering the debt unsustainable. Much will depend on the EU framework in the coming years, for instance with regard to the revision of the stability pact, the establishment of EU-level taxes (carbon tax) or the funding by the EU of some national expenditures, for instance in the field of energy, climate change or security. France strongly advocates this kind of measures and is counting on its EU presidency to push them forward.

Greece

Score 5

Greece made progress in the area of fiscal sustainability before the onset of the pandemic, reporting budget surpluses every year between 2016 and 2019. However, in 2020 and 2021, the government was obliged to effect budget deficits to counter the negative economic and social impact of the pandemic. All in all, the government's support measures turned the surplus into a deficit. Eurostat data that shows that the budgetary impact of the measures was 6.4% of GDP in 2021. It is expected that this impact will be phased out in 2022, if the pandemic subsides.

In 2020, the budget deficit was -10.1% of GDP (EU average: -6.9%), while in 2021 the deficit was -7.6%. In the meantime, the public debt surged from 180.7% of GDP in 2019 to 206.3% in 2020 (the highest in the European Union).

Besides the fiscal cost of measures to counter the pandemic's impact, the government also bore the burden of mitigating unforeseen risks on three different fronts.

First, facing periodic military threats from Turkey, Greece must dedicate a large proportion of the budget to defense expenditure. In 2019, this constituted 2.0% of Greece's GDP (the highest in the European Union along with Estonia's defense spending. EU average: 1.2%). In 2020 and 2021, rising tensions with Turkey made it necessary to increase defense spending. Greece agreed with France to purchase French fighter planes (Rafale fighter jets) and combat ships (the Belhara frigades).

Second, wildfires in the summer of 2021 devastated agricultural production and households across a very large area of Euboea, Greece's second-largest island, as well as in other areas of the country. The government stepped in to provide financial support to victims of the wildfires.

And third, the government responded to a spike in energy prices toward the end of 2021 by subsidizing electricity costs for low-voltage consumers and increasing the heating benefit for low-income households.

Despite all, according to the European Commission, a primary surplus of 1.2% in 2022 appears to be attainable. However, if the pandemic continues, the government may need to implement additional measures to support businesses and households, as it did in 2020 and 2021.

Citation:
Eurostat information on the Greek state budget and public debt is available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Government_finance_statistics#General_government_surplus.2Fdeficit
and at the European Commission's "Enhanced Surveillance Report on Greece," 12th round, November 2021, available at https://ec.europa.eu/info/sites/default/files/economy-finance/ip164_en.pdf

Eurostat data on defense spending is available at https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210827-1

Hungary

Score 5

Hungarian public debt gradually declined from almost 80% of GDP in 2012 to less than 67% in 2019. This debt reduction and the resulting increase in independence from foreign creditors featured prominently in the Orbán government's success propaganda before the COVID-19 pandemic and allowed the government to present itself as a fiscal savior. Upon closer inspection, however, fiscal performance has been less impressive. The decline in the debt-to-GDP ratio from 2012 to 2019 reflected strong economic growth rather than an ambitious consolidation policy. 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. While the government tightened fiscal policy in 2019, the envisaged decline in the structural deficit was smaller than recommended by the European Council. Fiscal policy has also suffered from weak fiscal institutions and a lack of transparency. Budgets are passed as early as spring, before important information about the coming year is available. Fiscal planning has remained narrowly focused on the annual budget

As for budgetary policy, the Orbán government initially reacted reluctantly to the COVID-19 pandemic. Supported by the Budgetary Council, it originally hoped to keep the 2020 deficit below 3%, despite the pandemic. Many economists thus criticized the government for a lack of fiscal stimulus. At the end, however, the Hungarian central budget closed 2020 with a record deficit of almost 8% of GDP, up from the pre-pandemic prognosis of a historically low 1%. While this was partly caused by the revenue shortfalls and extra spending needs associated with the pandemic, the government also seized the opportunity presented by the crisis to push through some of its pet projects and to adopt a number of popular measures in the run-up to the parliamentary elections in April 2022. With a view to the parliamentary elections in April 2022, budgetary policy remained highly expansive in 2021 and early 2022, with the government frontloading many popular measures in the months before the elections (Virovacz 2022). As deficits were threatening to run out of control, the government was forced to surprisingly freeze some planned investment at the end of 2021 (Than 2021).

Citation:

Than, K. (2021): Hungary trims 2022 budget deficit target to shield local bond market. Reuters, December 17 (https://www.reuters.com/markets/rates-bonds/hungary-cuts-2022-budget-deficit-target-49-gdp-59-2021-12-17/).

Virovacz, P. (2022): Hungarian budget deficit balloons. ING Bank, March 8 (https://think.ing.com/snaps/hungarian-budget-deficit-balloons-february-2022).

Iceland

Score 5

Fiscal sustainability remains a serious concern in view of the dire financial situation of several key public undertakings and institutions, such as social security and the State University Hospital, which declared a state of emergency during the COVID-19 pandemic. Several other public institutions remain in financial difficulty, including the State Broadcasting Corporation (RÚV). The fiscal balance is not on a firm, sustainable foundation, and vital public institutions and infrastructure continue to suffer from long-standing financial neglect. The rapid expansion of public spending and debt, partly to finance COVID-related measures, has led to the re-emergence of inflation, which will exacerbate the fiscal policy situation as interest rates rise globally.

Citation:
Iceland: 2021 Article IV Consultation-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Iceland. https://www.imf.org/en/Publications/CR/Issues/2021/06/08/Iceland-2021-Article-IV - Consultation-Press-Release-Staff-Report-Staff-Statement-and-50201. Accessed 31 January 2022.

Romania

Score 4

The pandemic has intensified Romania's public spending, with the budget deficit increasing from 9.4% of GDP in 2020 to 9.8% of GDP in 2021 – significantly more than the government's estimate in November 2020. Romania's budget posted a deficit above RON 100 billion for the first time in the country's history, maintaining a budget gap of RON 102 billion, more than double that of the 2019 budget. This came despite a budget revenue increase in 2020 of 0.4%, to RON 323 billion. But expenditures rose to RON 424.4 billion, an increase of nearly 15%. The Ministry of Finance argued that the increase of 4.5% of GDP in spending was caused by the COVID-19 pandemic. Romania's debt-to-GDP ratio has reached 50%, increasing from 47% in 2020. As a result of running high deficits, before and during the pandemic, the European Commission started an excessive deficit procedure against Romania in April 2020. The Romanian government has remained steadfast in limiting the budget deficit to 7% in 2021. Moreover, while public sector payroll has increased by 2.6% in 2020, it decreased as a percentage of annual GDP by 0.5%, to 6.3% of GDP.

Citation:
Ernst, Iulian. "Romania's budget deficit shrinks on one-off, deferred tax payments from Covid period." Romanian Insider, September 2021. https://www.romania-insider.com/budget-deficit-shrinks-january-august-2021
Neagu, Bogdan. "Romania's budget deficit soars to 9.8% of its GDP." EURACTIV, January 2021. https://www.euractiv.com/section/politics/short_news/romanias-budget-deficit-soars-to-9-8-of-its-gdp/

United States

Score 3

Budget policy in the United States is a complex issue and raises different concerns regarding short- or long-term deficits respectively. In 2019, the federal budget deficit nearly hit $1 trillion, and economists are raising growing concerns about the sustainability of the country's fiscal plan. In the aftermath of the COVID-19 pandemic and the emergency spending it triggered, the federal budget deficit increased suddenly, reaching a record $3.1 trillion in 2020, before declining only slightly to $2.8 billion in 2021.

Overall, both the pandemic and the Trump administration's tax cuts have exacerbated the country's long-term fiscal challenges. As for President Biden's administration, for the 2022 fiscal year he has proposed "a $6 trillion budget (…) that would take the United States to its highest sustained levels of federal spending since World War II as he looks to fund a sweeping economic agenda that includes large new investments in education, transportation and fighting climate change." (Tankersley, 2021) If implemented, his proposal would mean "deficits running above $1.3 trillion throughout the next decade" (Tankersley, 2021).

Citation:
Tankersley, Jim. "Biden to Propose $6 Trillion Budget to Make U.S. More Competitive," New York Times, June 17. https://www.nytimes.com/2021/05/27/business/economy/biden-plan.html

Japan

Score 2

Gross public indebtedness in Japan amounted to nearly 260% of GDP in 2021, the highest level among advanced economies. Though the primary balance has shown a declining tendency since 2009, it dropped sharply from -3.3% in 2018 to -10.3% in 2020, largely as a result of the COVID-19 pandemic. In 2018, the government shifted back its goal of achieving a balanced primary budget to 2025. However, in November 2021, the government announced that it was unlikely to achieve this until 2027, even under a high economic growth scenario.

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 appear to have little interest in lower bond prices, which can help 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 could then create serious problems for the Japanese government budget and the country's financial sector.

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, Japan's fiscal sustainability looks fragile.

Citation:
Japanese Public Finance Fact Sheet, April 2021, Japan Ministry of Finance, https://www.mof.go.jp/english/policy/budget/budget/fy2021/02.pdf

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Takashi Oshio, Managing Japan's debt and the financial risks, East Asia Forum, 5 August 2018, http://www.eastasiaforum.org/2018/08/05/managing-japans-debt-and-the-financial-risks/

Keiichiro Kobayashi, The Tenuous Myth of Japan's Fiscal Infallibility, The Tokyo Foundation for Policy Research, 15 November 2018, http://www.tokyofoundation.org/en/articles/2018/tenuous-myth-of-fiscal-infallibility

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