Sustainable Budgeting

Sustainable Governance Indicators 2024

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Sustainable Budgeting Policies

Question

To what extent do existing budgetary institutions and procedures support or hinder sustainable budgeting?

30 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 institutions and policies are fully aligned with the goals of sustainable budgeting.

8-6 = Budgetary institutions and policies are largely aligned with the goals of sustainable budgeting.

5-3 = Budgetary institutions and policies are only somewhat aligned with the goals of sustainable budgeting.

2-1 = Budgetary institutions and policies are not at all aligned with the goals of sustainable budgeting.

Denmark

Score 9

For some years, economic policy has focused on long-term issues arising from an aging population. Governments have regularly published long-term plans, typically with a 10-year horizon, to assess the sustainability of public finances. As a result, a number of reforms – particularly focused on increasing employment rates and postponing retirement – have fulfilled criteria for fiscal sustainability (Ministry of Finance 2023, Economic Council 2023). However, the budget profile implies that a sequence of years with surpluses will follow due to the phasing in of higher retirement ages, which means it will take some time to catch up with increases in longevity. Governments have ensured their own fiscal flexibility, allowing freedom to act in case of crises. This was evident during the COVID-19 crisis, when a number of initiatives were taken that contributed to making the drop in activity only temporary.

The long-term focus in fiscal policy was formalized in the budgetary law passed in 2012 and took effect as of 2014. The law was a response to earlier developments and complied with the European Union's fiscal pact. Originally, the law stipulated that the structural deficit could not exceed 0.5% of GDP. This has recently been changed to 1% of GDP, which is still in accordance with EU rules, since the country's overall debt level is low. The law covers spending at the state, regional and municipal levels (Budgetloven 2012). In times of crisis, such as during the recent pandemic, exceptions are made so that exceptional spending can be allowed if "exceptional circumstances"' are present. This right is granted in §§2.5 and 2.6.

The law has three main parts. The first part stipulates that the minister of finance sets caps on spending for the state and negotiates spending caps for the regions and municipalities with representatives from these entities. If these spending caps are exceeded, the Ministry of Finance withholds transfers to the regions and municipalities. The sanction mechanism works such that 40% of the excess spending must be covered by all municipalities and regions jointly, while the remaining 60% is paid by the transgressing municipalities and regions.

Finally, the Economic Council was assigned a formal role as an independent watchdog, which it has effectively carried out since its establishment in 1962. The council publishes two reports each year, and in the autumn report, it assesses whether government spending is within the spending caps and if such spending is leading to medium- and long-term debt beyond the accepted level. Furthermore, the council must assess the extent to which the spending can be justified under the "exceptional circumstances" measure mentioned above. If the council finds that the government is engaging in debt-producing spending beyond the agreed target, or if it proposes that fiscal policy should be tightened, the minister of finance must explain to the council why the recommendation is not being followed.

In a recent evaluation, the Ministry of Finance found that the law has been effective in securing financial discipline compared to the period from 1993 to 2010 (Ministry of Finance 2022).

The budgetary process is relatively open. Denmark has mostly been governed by minority coalition governments, meaning economic policies, including the budget, are the outcome of broad compromises involving multiple parties. This consensus tradition supports consistency in policies, as leading political parties tend to alternate between being part of the government and the opposition. However, it also makes it difficult for voters to assess who is responsible for specific policies (Hobolt et al. 2013).

The regions are responsible for healthcare and regional development. They have few budgetary freedoms since their overall budget is determined by the state. Hence, the regions' main activity is administering the healthcare system.

The municipalities are responsible for key welfare areas such as childcare, education and old-age care. The municipal tax is not sufficient to finance these activities. Funding from the state is provided (bloktilskud), and an equalization arrangement reallocates funds from richer to poorer municipalities.

While the Budget Law sets clear targets for the evolution of spending and debt in the medium and long term, it does not provide any direction regarding sustainable development goals. These goals are perceived to be a political discussion that political parties need to formulate.

Citation:
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Budgetloven. 2012. https://www.retsinformation.dk/eli/lta/2012/547

Hobolt, Sara B., James Tilley, and Susan Banducci. 2013. “Clarity of Responsibility: How Government Cohesion Conditions Performance Voting.” European Journal of Political Research 52 (2): 164-187.

Ministry of Finance. 2022. “Erfaringer med Budgetloven 2014-2022.” https://fm.dk/udgivelser/2022/april/erfaringer-med-budgetlov-2014-2020/

Norway

Score 9

The unique, solid finances of the state imply that the most important effort in the budgetary process is to keep expenditure pressures at bay. Two institutional mechanisms are important: The first is a rule of thumb labeled “the fiscal rule” (Handlingsregelen) that no more than 3% of the Government Pension Fund Global’s value can be taken into the annual budget. This amount is roughly equal to the total welfare state health expenditures. The other mechanism is a rule that parliament, after the government has put forward its budget proposal in October, shall decide on the absolute total level of public expenditures for the following year before the bargaining over specific expenditures for different purposes begins.

Concrete proposals may be substantiated by reference to long-term plans as well as to the UN sustainability goals. The budget sets next year’s priorities and does not, unless explicitly (and rarely) stated, allocate resources over several years. Since 2023, the national budget comprises a “Green Book” – an annual report on progress and future plans in relation to climate emissions reductions. The Green Book establishes emission targets for different sectors and outlines the government’s action plans for individual sectors as well as for the economy as a whole.
The budget process is relatively transparent. The positions of the different parties are communicated to the general public, often through concrete alternative budgets. The budget must be approved by a parliamentary majority before the end of the calendar year.

Citation:
Ministry of Finance. 2022. “The Norwegian Fiscal Policy Framework.” https://www.regjeringen.no/en/topics/the-economy/economic-policy/economic-policy/id418083/

Finansdepartementet. 2024. “Handlingsregelen.” https://www.regjeringen.no/no/tema/okonomi-og-budsjett/norsk_okonomi/bruk-av-oljepenger-/handlingsregelen/id444338/

Klima – og miljødepartementet. 2023. “Regjeringas klimastatus og -plan.” https://www.regjeringen.no/no/dokumenter/regjeringas-klimastatus-og-plan/id2997247

Sweden

Score 9

Since the mid-1990s and after the financial crisis of the early 1990s, fiscal and budgetary discipline in Sweden has been extraordinarily strong, and its tight budgetary regime has begun to yield benefits. Maintaining sound fiscal policy has been an overarching goal for both center-right and center-left governments. Sweden is one of the few countries that targets a budget surplus, and neither the government nor the opposition plans to diverge (Brenton and Pierre, 2017).

The budget surplus goal issue ultimately relates to the Keynesianism–monetarism controversy. Right-wing parties, currently in government, take a more monetarist approach, while the social democratic opposition has a more Keynesian perspective. This continuum aside, the fiscal and budgetary regulatory framework helps sustain a course of strong and sustained economic development. However, during the recent past, center-right parties and trade unions and employers' organizations have argued for changing the strict rules to invest more money into climate protection measures (von Seth 2023). Indeed, public debt decreased during 2021 and 2022 and is expected to decrease further in 2023 (Government Offices of Sweden, 2022).

Sweden is a country with very low public debt compared to other OECD countries. On the other hand, Sweden has very high private household debt (OECD n.d.), which may cause problems if property prices fall in the near future.

The Swedish Fiscal Policy Council (2022) raises concerns about the volatile geopolitical situation that could change very rapidly. The council does not believe the current fiscal framework can accommodate spending 2% of GDP on defense by 2028, necessitated by Sweden's NATO membership (Finanspolitiska rådet, 2022).

Citation:
Brenton, Scott and Jon Pierre. 2017. "Budget Surplus Goal Experiments in Australia and Sweden." New Political Economy 22 (3): 557-72.

Finanspolitiska rådet. 2021. "Svensk Finanspolitik: Finanspolitiska Rådets Rapport 2022." https://www.fpr.se/download/18.7a353d28187eafb12f910f70/1684825112707/Svensk%20finanspolitik%202023.pdf

Government Offices of Sweden. 2023. "Riktlinjer för statsskuldens förvaltning 2023." https://www.regeringen.se/rapporter/2022/11/riktlinjer-for-statsskuldens-forvaltning-2023/

OECD. n.d. "Household Debt." https://data.oecd.org/hha/household-debt.htm

von Seth. 2023. "Nu är det tack och hej till överskottsmålet." Dagens Nyheter November 28.

Switzerland

Score 9

Budgetary policy in Switzerland is fiscally sustainable. There have been no budget deficits at the federal level since 2008, with the exception of the 2020 – 2022 period due to COVID-19. Between 1990 was 2008, the largest annual deficit was -1.9% in 1993. For the period through 2027, the federal deficit is planned to be between -0.3% and 0% (FFA 2023). Since the federal budget has usually been too conservative in previous years, there is no reason to expect a major deficit in the coming years. However, the federal finance minister points to predictable expenditures in the near future – including on the long-term effects of the pandemic, the military, pensions and support for refugees from Ukraine – that could overstretch the federal budget

(NZZ 2023 12 28). General public debt amounts to around 28% of GDP (2022, according to Maastricht criteria); the federal debt alone totals about 16% of GDP. 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.

This high level of 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 almost all 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.

Despite the country’s very favorable fiscal position, which allows for some fiscal leeway, the Federal Council pursues a very prudent fiscal policy. Even considering that some individual cantonal and municipal governments pursue unsustainable budgetary policies, the total (i.e., general government) budgetary policy achievement arguably places Switzerland in the OECD’s top group in terms of fiscally sustainable national policies. In its recent country surveys, the OECD praised 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 to, inter alia, improve economic and social outcomes (OECD 2019: 34-35, OECD 2022a: 27-36).

Switzerland issues SDG-related action plans on a regular basis (e.g., 2030 Sustainable Development Strategy). The national strategy encourages federal agencies to “incorporate the requirements of the 2030 SDS into their regular budget” (Swiss Federal Council 2021). As the strategy is mostly programmatic and nonbinding, Switzerland has so far only achieved 31 out of 121 SDG targets (OECD 2022b).

The political conflict about fiscal rules such as so-called debt brakes concerns whether deficit-financed counter-cyclical policy and investment in infrastructure may be more advantageous to the economy in the medium and long term, or whether strict adherence to debt brake rules may pay off in the future since – based on experience – debts will otherwise be unlikely to be reduced in the future. Given the extremely favorable development of Switzerland’s public finances, the threat posed by the counter-intentional effects of frugal fiscal policies seems to be greater than the threat of strong increases in public debt. However, this depends very much on political views. The dominant view within the Swiss political elite is clearly conservative-liberal and emphasizes the benefits of frugal policies – except for generous subsidies to agriculture and very pragmatic and interest-driven state intervention in the economy. This heterodox fiscal and economic policy within the framework of a conservative-liberal basic approach to state intervention has been a characteristic of Swiss economic policy for many decades (Gruner 1964; Emmenegger 2022).

The federal government presents its budget to parliament on an annual basis. It also develops financial plans for the legislative term – that is, four years in advance. The process is very transparent; the relevant documents and data are accessible via the government's webpage (FFA 2023). The current budget (2020 – 2024) is presented on about 450 pages in two volumes. The second volume of the budget contains information on how the government aims to acheive sustainable developments in various policy fields (FFA 2023).

Citation:
Emmenegger, Patrick. 2022. "Wirtschafts- und Finanzpolitik." In Handbuch der Schweizer Politik. 7. Auflage., eds. Yannis Papadopoulos, Pascal Sciarini, Adrian Vatter, Silja Häusermann, Patrick Emmenegger and Flavia Fossati. Zürich: NZZ Libro, 731-756

FFA (Federal Finance Administration, Eidg. Finanzverwaltung) 2023. https://www.data.finance.admin.ch/superset/dashboard/bundeshaushalt/ and https://www.efv.admin.ch/efv/de/home/finanzberichterstattung/finanzberichte/budget.html and https://www.efv.admin.ch/efv/en/home/finanzberichterstattung/finanzberichte/grundlagen.html

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NZZ (Neue Zürcher Zeitung). 2023. "Jeder Gemeindehaushalt ist flexibler als der des Bundes." December 28.

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Germany

Score 8

Germany enacted its current constitutional fiscal rule, the Debt Brake (Schuldenbremse), in 2009. The rule's full application was phased in over several years and took full effect for the federal budget in 2016 and for the states in 2020. The Debt Brake is established in Articles 109 and 115 of the German Basic Law, comprising both structural and cyclical elements. The structural component restricts the federal government from incurring new debt beyond 0.35% of the nominal gross domestic product annually. The cyclical element permits additional borrowing during economic downturns, with the obligation to repay when economic conditions recover. Additionally, there is an escape clause that enables the Bundestag to temporarily lift the Debt Brake by a simple majority in cases of natural disasters or other exceptional emergencies beyond the state's control. The states have to balance their budgets without an allowance for a deficit but, like the federal level, can incur deficits in a downturn and also activate an escape clause.

Germany's Debt Brake has served as an effective fiscal rule, helping the government counteract the inherent biases in the political process. Unlike many other EU and OECD countries, Germany managed to reduce its debt-to-GDP ratio following the financial crisis. By 2019, when the country faced the fiscal consequences of the pandemic, Germany was in the favorable situation of having significant fiscal buffers, with a debt-to-GDP ratio of approximately 60%.

In reaction to the pandemic and the energy crisis, the federal government has increasingly used budgetary cosmetics to expand its debt leeway through extra-budgetary funds such as the Climate and Transformation Fund (Klima- und Transformationsfonds: KTF). Through the KTF, a deficit allowance justified by the pandemic emergency was shifted for use in later years. This practice was halted by a significant ruling in November 2023 by the Federal Constitutional Court (FCC). The Court declared this creative construction unlawful and the related budget void. Consequently, in a turbulent and conflict-ridden process, the government had to adjust both the 2023 and 2024 budgets with spending cuts and cuts to tax exemptions that had benefited the restaurant sector and farmers.

The FCC's ruling has clearly strengthened the Debt Brake's effectiveness. The budgetary reactions have demonstrated how helpful such a fiscal rule is for a government to prevail against fierce lobbying pressure. Without the pressure from the strengthened fiscal rule, the government would not have been able to cut tax subsidies for restaurants and farmers, although these cuts find overwhelming support from tax and public finance experts.

Whether the tight Debt Brake presents an obstacle to public investment or other future-oriented spending is the subject of an intensive debate. The Debt Brake does not include a golden rule or similar provisions that would permit additional debt for investment spending. In a recent survey of German economists, a large majority supports the Debt Brake in principle, but 44% favor reforming it (ifo, 2023). Reform supporters often wish to exempt gross or net investment from the deficit ceiling.

The annual budgetary process is embedded in medium-term financial planning. Each year, the government provides budgetary projections for the next five years, adding foresight to the budgetary process. Once per legislative term, the government publishes a Report on the Sustainability of Public Finances (the last report: BMF, 2020), which adopts a very long-term perspective.

The role of off-budget funds outside the core budget has significantly increased in recent crisis years. Fiscal support to cope with various crises – from the pandemic to flood damage and the energy crisis – has been mobilized through these special funds.

Experts have criticized this reliance on off-budget funds, arguing that it damages budgetary transparency. The Constitutional Court's ruling has now initiated a correction. As a consequence of the ruling, the government has announced plans to decrease or close down key special funds.

The German Ministry of Finance has recently implemented a system of SDG tagging, where ministries classify their spending with respect to the SDGs. In the future, the federal budget will more transparently show how it supports the SDGs. Germany has committed to several spending targets, including the NATO spending target of 2.0% of GDP on defense and the development spending target of 0.7% of GDP. However, the government increasingly aims to implement principles of performance budgeting, which implies taking a critical view of mere input spending targets. Instead, the government wants to assess the budget more on the basis of outcomes and impact achieved.

Citation:
BMF. 2020. Tragfähigkeitsbericht 2020, Fünfter Bericht Tragfähigkeit der öffentlichen Finanzen. Berlin.
Ifo. 2023. "The German Debt Brake – Anchor of Stability or Blocker of Investments?" www.ifo.de/en/facts/2023-12-08/german-debt-brake-anchor-stability-or-blocker-investments

Lithuania

Score 8

Budgetary institutions and policies are largely aligned with the goals of sustainable budgeting. Lithuanian governments have been following EU fiscal rules, although with certain temporary derogations during the 2008 – 2009 crisis and the COVID-19 pandemic, as well as during the several years when EU Stability and Growth Pact rules were suspended.

As noted by the European Commission (2023), in 2022 the energy price shock impacted public finances at a time when they had not fully recovered from the pandemic. Still, the budget deficit is projected to remain under the ceiling of 3% of GDP in 2024, while debt was projected to be 37.1% of GDP in 2023, and was expected to decrease slightly to 36.6% in 2024.

In the long run, Lithuania faces several challenges in maintaining sustainable public finances. Russia's war against Ukraine in 2022 underscored the necessity of allocating more resources to defense. The sum expended on this sector has already been steadily increasing since 2014. In 2023, defense expenditure reached around 2.7% of the country's GDP. However, this was partly achieved through a temporary tax on bank profits, which have grown significantly due to interest rate increases by the ECB in 2022 – 2023. Other permanent sources of funding will be needed to sustain increases in defense expenditures in the future, and the political debate on this is ongoing.

More generally, 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 to extend the time horizon for budgeting and strengthen the link between expenditure and overall economic policy. Better-than-forecast economic developments during the COVID-19 pandemic and accelerating rates of inflation allowed the government to collect more tax revenues than planned, and thereby increase funding for wages in the education and healthcare sectors, as well as pensions, in the 2022 – 2024 period.

As noted by many observers and politicians, there is a fundamental tension within the Lithuanian fiscal regime due to a mismatch between the state's extensive obligations and existing tax income, which is not sufficient to finance those obligations adequately. Although the government has launched a tax reform process, it became evident by the end of 2023 that this reform would not be adopted by parliament, partly because of the tensions created by the election cycle, with the next elections scheduled for 2024.

Citation:
European Commission. 2023. "2023 Country Report: Lithuania. Institutional Paper 239."

New Zealand

Score 8

New Zealand's budgetary institutions and procedures are generally designed to support aspects of sustainable budgeting.

To begin with, fiscal frameworks are in place to promote sustainability by projecting financial performance in the medium term (the Fiscal Strategy Model) and the long term (the Long-Term Fiscal Model) (Treasury 2023). Moreover, budgetary practices incorporate elements of performance-based budgeting, focusing on achieving outcomes and results rather than solely input-based allocations (OECD 2017). This approach aims to improve the efficiency and effectiveness of government spending. The budgetary processes are also relatively transparent, providing information on revenue sources, spending priorities and fiscal forecasts (International Budget Partnership 2021). This transparency contributes to greater accountability and public understanding of government finances. Finally, alongside its "well-being" budget approach – focusing both on current and intergenerational living standards – the Labour government introduced gender budgeting in 2023, whereby government agencies applied a gender analysis to their budget bids submitted to the Treasury. This meant New Zealand joined more than 20 other OECD countries that have built a focus on women and girls into the budget process (Curtin et al. 2023).

However, it is important to mention factors that may undermine sustainable budgeting.

Budgeting procedures primarily emphasize financial metrics, overlooking nonfinancial indicators related to sustainability. Nonfiscal aspects of sustainability, such as environmental, social and intergenerational factors, have not been fully integrated into budgetary processes. This omission is evident in the criticism that environmental campaigners directed at the 2023 Labour-Green budget (Wannan 2023). Additionally, despite initial efforts to create an independent parliamentary budget office, this initiative has fallen off the agenda of major political parties (Crampton 2023).

Moreover, as in other countries, short-term political and economic pressures can influence budgetary decisions, potentially overshadowing longer-term sustainability considerations. For example, New Zealand's five-year debt forecast quadrupled when the government increased public spending in the 2020 budget to address the economic slump caused by the COVID-19 pandemic (Giovannetti 2020). Similarly, short-term financial relief measures announced after Cyclone Gabrielle in February 2023 pushed the level of net debt to $1 billion above the forecast (Beckford 2023).

Citation:
Beckford, G. 2023. "Cyclone Gabrielle: Government looking at targeted assistance for immediate, long-term relief." RNZ, 16 February. https://www.rnz.co.nz/news/political/484332/cyclone-gabrielle-government-looking-at-targeted-assistance-for-immediate-long-term-relief

Crampton, E. 2023. "Why New Zealand needs an independent Parliamentary Budget Office." New Zealand Herald, October 19. https://www.nzherald.co.nz/business/dr-eric-crampton-for-a-better-fiscal-outlook/ZHIVVYRQRFHU5BGX63QQLYQBQ4/

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OECD. 2017. Government at a Glance 2017: New Zealand. https://web-archive.oecd.org/2017-09-18/445546-gov-at-a-glance-2017-new-zealand.pdf

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Wannan. 2023. "Budget's most expensive green policies may save more cash than carbon." Stuff, 19 May. https://www.stuff.co.nz/environment/climate-news/132079508/budgets-most-expensive-green-policies-may-save-more-cash-than-carbon

Spain

Score 8

Since the beginning of the COVID-19 crisis, and during the period under review, the suspension of EU fiscal rules provided various levels of government with considerable discretion over overall debt limits. However, this also introduced uncertainty about the normative context of their medium-term budget planning. AIReF warned that debt will start to rise in 2025 if the structural deficit of 4% is not reduced. It pointed out that the RRP is a good opportunity to combine fiscal stimulus with deficit containment. In this regard, the RRP should be seen as an opportunity for the consolidation of public finances. Moreover, the budget for 2024 was issued by an acting government, which supports this direction.

The amendment to section 135 of the Spanish constitution aims to enforce the principle of budgetary stability, binding all public administrations, and to achieve economic and social sustainability. Loans intended for servicing the interest and capital of the state's public debt will always be considered part of budgetary expenditures, and their repayment shall be accorded absolute priority. These allocations cannot be altered or amended as long as they adhere to the terms of the issuance.

Article 135 does not refer to controls and sanctions on sub-central authorities in case of noncompliance with debt limits. However, Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Sustainability specifies the corrective and repressive measures the Ministry of Finance and Public Administrations can take in case of noncompliance. According to Article 32, if the budget settlement results in a surplus, this surplus shall be used to reduce the level of net indebtedness. In the case of the social security system, the surplus shall be applied as a priority to the Reserve Fund to meet the system's future needs.

In general terms, the budgetary process is very transparent. The government delivers its budgetary plan to the European Commission to show how the budget includes the economic policy recommendations presented by the Commission, as well as the long-term planning commitments of the government within the RRP.

The SDGs are mentioned in the 2023 budget law. Virtually all budgetary policies are in harmony with at least two Sustainable Development Goals (SDGs), with most policies aligning with between 4 and 7 SDGs. Similarly, 58% of budgetary programs align with two or more SDGs. Notably, social SDGs are prominent in terms of the number of policies and programs aligned. It is important to emphasize the role of the Recovery, Transformation, and Resilience Plan in aligning budgets with transformational goals, such as digital transformation.

Citation:
Spanish government. 2022. "Alignment Report." https://www.sepg.pap.hacienda.gob.es/sitios/sepg/en-GB/Presupuestos/InformesImpacto/IA2023/Paginas/IAPGE2023.aspx

Austria

Score 7

As with most other European governments, Austrian administrations have committed to reducing public debt and pursuing strategies of sustainable budgeting. The years 2018 and 2019 were marked by relative successes in budgetary consolidation. However, the pandemic caused major setbacks, and in 2020, Austria witnessed a record level of public debt.

In late 2023, the Nationalrat approved the overall spending volume for 2024, which exceeded the government's original projection of more than €17 billion. The opposition parties in the Nationalrat (SPÖ, Neos, and FPÖ) unanimously criticized the government's budgetary policy.

Spending is largely skewed toward an aging population (pensions) at the expense of younger generations, which poses significant problems in terms of intergenerational justice ("Wie soll ich das bezahlen?", Agenda Austria, 2020, https://www.agenda-austria.at/publikationen/wie-soll-ich-das-bezahlen/).

The 2023 annual report of the Austrian Fiskal Advisory Council ("Fiskalrat") – an independent body responsible for monitoring the fiscal discipline of government entities in Austria, comprising 15 public finance experts mandated to act independently – concluded that Austria is on a good path toward a sustainable budget. "Unlike in its fall 2022 forecast, the Fiscal Advisory Council now considers a continuous improvement of Austria's fiscal balance possible (…). Starting from 3.2% of GDP in 2022, Austria's budget deficit will shrink to 2.5% of GDP in 2023 under this 'no policy change' assumption and is assumed to continue to decline, reaching 0.5% of GDP by 2027" (Fiskalrat 2023: 1).

Austria has no official debt brake, unlike Germany; this facilitates budgeting in complicated situations, like the COVID-19 pandemic or periods of high inflation.

In 2021, the national government introduced an SDG budgeting regime. However, this initiative is voluntary and, contrary to recommendations by the Court of Audit, not legally binding. The implementation experience since then suggests that the SDGs have not received higher priority. One reason, arguably, is that SDGs do not feature as independent budgetary goals but are subordinated to existing budgetary goals.

There have also been major differences in the prominence of various SDGs in Austrian budget planning. Gender (SDG 5) has been the most frequently addressed issue, whereas "no poverty" (SDG 1), "zero hunger" (SDG 2), "clean water" (SDG 6), and – interestingly – "affordable and clean energy" (SDG 7) have played hardly any role.

Citation:
https://www.parlament.gv.at/aktuelles/news/Budget-2024-Nationalrat-genehmigt-Defizit-von-209-Mrd-

https://www.derstandard.de/story/3000000196692/budget-im-nationalrat-mit-stimmen-der-koalition-beschlossen

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https://www.parlament.gv.at/dokument/budgetdienst/budget/BD-Budgetanalyse-2024.pdf

https://www.awblog.at/Soziales/budget-fuer-wohlstand-sdg-budgeting-in-oesterreich

Canada

Score 7

Canada is a fiscally and financially prudent country. Special purpose funds, such as pensions, are carefully hedged against risk, and governments running large deficits or debt can expect to suffer at the polls (Hale 2002).

There are few legal limits on fiscal imprudence. Deficit tolerance has allowed debt-to-GDP to rise over the past 30 years, and fiscal consolidation has not occurred during periods of economic growth (Hartle 1978).

Budget reporting is reasonably transparent, with some off-book accounts, such as crown corporations, having separate budgets. However, intergenerational impacts are under-disclosed. Federal budgets typically project only 5 to 10 years ahead, lacking long-term sustainability assessments. Future obligations related to demographics and climate change are often underestimated.

There are no explicit linkages in budgeting to Canada's SDG commitments, for example. Funding tied to development or environmental goals tends to lack multi-year allotments or performance tracking.

Canada has made significant progress in reducing the debt burden imposed by the pandemic. Notably, between Budget 2023 and the Fall Economic Statement (FES) of 2023, the government of Canada's budgetary balance for 2022 – 2023 improved from -.0 billion (Budget 2023, Table 1: 20) to -.3 billion (FES 2023, Table 1: 10). Additionally, Canada boasts both the lowest deficit and net debt-to-GDP ratio among G7 members (FES 2023: 1, Chart 3). Nevertheless, fiscal prudence will continue to be essential, as the federal deficit is still expected to increase by $4.7 billion by 2023 – 24.

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Estonia

Score 7

Estonia has maintained a strict fiscal policy for decades, resulting in the country having Europe's lowest public debt as a percentage of GDP. This enables Estonia to meet future financial obligations without placing extra burdens on future generations. Although the overall tax burden has remained fairly stable over the years, the need to finance increasing demands – including the direct and indirect costs of the Russian war in Ukraine – poses a serious threat to Estonia's excellent fiscal balance. While Estonia's government debt is still the lowest among OECD nations, it more than doubled between 2015 and 2023. The government now faces tough choices between borrowing, increasing taxes and cutting spending. As expected, the incumbent government has opted for the latter.

Despite government rhetoric about reducing bureaucracy, these cuts may in practice lead to inefficiencies in the provision of public goods. When the government broke its promise to raise the base level of teachers' salaries to the national average, teachers' unions organized a nationwide strike that paralyzed schools in January 2024. Emergency services have repeatedly voiced concerns about understaffing and underfunding. Despite vocal criticism from advocacy groups and opposition parties, the government – headed by the Reform Party – adheres to principles of fiscal orthodoxy, applying rules of fiscal balance to public investments and RDI expenditures.

Annual budgets must align with the Strategy of National Budgets (RES), a government decree. Although designed for a four-year period, it is revised annually based on macroeconomic and geopolitical forecasts. In today's turbulent environment, RES does not serve well as a medium-term strategic instrument. In reality, the coalition agreement likely has a more profound effect on budgeting.

The budgetary process is de jure and de facto dominated by the government, and parliamentary proceedings can make only minor changes, if any. In addition to the general government budget, Estonia has social insurance funds – the Health Insurance Fund and the Unemployment Insurance Fund – governed by tripartite boards. Both funds lost portions of their budgetary autonomy when their reserves were merged with government liquidity reserves in 2011 – 2012. Moreover, both funds require additional government transfers because social security contributions are insufficient to balance the budgets.

Finland

Score 7

In Finland, politicians widely recognize that the aging population – particularly the large cohort born immediately after World War II – will necessitate increased public spending to maintain the social security system and access to welfare services. Currently, there are no debt limits or debt brakes to prevent excessive public debt. Instead, at the start of each parliamentary term, the government establishes a framework specifying the maximum limit for budget expenditure and defining the rules governing the framework procedure. The spending limits, which dictate expenditure policy throughout the entire four-year term, are outlined in the initial general government fiscal plan. Each year, in March or April, the government reviews the allocation of budget resources within the established framework detailed in the General Fiscal Plan. Additionally, it adjusts the framework to accommodate changes in cost levels, prices and the structure of expenses within the scope of the spending limits (Ministry of Finance, n.d.a).

The budget process in Finland is transparent. There are no subsidiary budgets outside the normal budget. Additionally, there are no budgetary rules mandating the accumulation of financial reserves during economic expansions to boost financial capacity during times of crisis. The national budget does not explicitly address the SDGs or other transformation goals. Furthermore, there are no target values associated with expenditures for economic and social development.

The objectives of fiscal policy, outlined in Petter Orpo's government program, influence economic structures, thus impacting citizens, households and businesses. Key decisions on taxation, social security benefits, pensions and their funding shape the nation's economic landscape, and these choices are integral to structural social policy with lasting effects on the economy. The implementation of fiscal policy is carried out through instruments such as the general government fiscal plan and the budget.

The fiscal policy of Prime Minister Orpo's government centers on ensuring a welfare society for future generations. The primary goal is to enhance general government finances and reverse Finland's trend of increasing indebtedness. The government aims to limit the general government deficit to a maximum of -1% of GDP by 2027. To achieve this, the government has committed to implementing measures that will improve general government finances by a net €6 billion to €10 billion at the 2027 level of spending (Ministry of Finance n.d.b).

Monitoring and reaction mechanisms ensure the successful implementation of these measures, and the central government's system of spending limits is a key tool for fiscal policy control. Expenditure adjustments, generating permanent savings or increased fee revenue, are estimated to reach a net €4 billion by 2027. Structural policy measures have been outlined to strengthen public finances and stabilize the general government debt-to-GDP ratio by 2027. These measures include reforms to the unemployment benefit system, social security, the tax system, the labor market and other areas, with the aim of boosting employment.

A fixed-term investment program of €4 billion is planned over the current parliamentary term to foster sustainable growth. This program will focus on significant investments in transport infrastructure, reducing the repair backlog and promoting rail projects. It will be financed through the sale of government assets, avoiding an increase in central government borrowing requirements.

The fiscal and structural policy objectives and measures are reported annually in the general government fiscal plan and budget proposals, which align with independent economic forecasts. These documents, including the Stability Program submitted to the European Commission, contribute to the European Semester framework, through which the Commission examines and monitors member states' fiscal policies. However, there are currently no budgetary rules requiring a prioritization of public investment and efforts to safeguard future investment opportunities. The government does not incorporate long-term planning or conduct systematic, forward-looking assessments of the budget's impact. Nevertheless, long-term planning and systematic assessment are included in the government program.

Citation:
Ministry of Finance. n.d.a. "Spending limits in central government finances and the budget." https://vm.fi/en/spending-limits-in-central-government-finances-and-the-budget

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Latvia

Score 7

As a result of long-term efforts, Latvia has achieved a sustainable budgetary policy, maintaining public debt at 40.8% of GDP in 2022, which translates to €8,500 per capita (Eurostat 2023). Latvia also has a balanced budget surplus of -4.4% of GDP in 2022, according to Eurostat data, enabling it to maintain the lowest public debt in the EU. However, the IMF, OECD, and EU recommend that Latvia address its high inflation rate and its negative consequences by investing more in increasing productivity.

Latvia's fiscal policy framework includes a Stability Programme approved by the EU and a national law on a three-year medium-term budgetary framework. The Stability Programme contains forecasts of macroeconomic indicators, fiscal projections, and general government budget balance objectives, and it is a critical element of the annual budgetary cycle. The state budget law is a significant instrument for maintaining fiscal discipline, and the Fiscal Discipline Law sets budgetary policy principles and conditions to ensure a balanced state budget over the economic cycle.

The independent Fiscal Discipline Council provides regular monitoring. In its most recent report, the Council noted that the government demonstrates realism and prudence in its budgetary and fiscal policy but only partially reflects its ambitions for economic transformation.

National priorities are widely discussed publicly during the annual budgetary process and are regulated by the state budget law and the Fiscal Discipline Law. The priorities for 2024 are healthcare, education, and internal and external security, with 62% of the budget allocated to these areas.

The Stability Programme 2023–2026 and the state budget prioritize medium-term public investment. At the same time, the principles outlined in the Fiscal Discipline Law allow the government to accumulate financial reserves for crises, such as providing public support for high energy prices in the winter of 2022–2023, or to prepare for a green transition.

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Netherlands

Score 7

Governmental budgeting is an officially rule-based, standardized, year-long and complex process that involves processing numerous formal statements and account documents. Even members of parliament require specialization, and have begun to complain that they can no longer easily access the most relevant data and policy choices.

In addition to this complexity, the past few years, which have included the COVID-19 pandemic and external events in 2022 such as the war in Ukraine, energy price shocks and asylum crises, have prompted rapid "emergency" responses with significant budgetary consequences. These responses (40 in 2020, 59 in 2021, 34 in 2022) are legitimized by an escape clause in the Comptroller Act, Article 2.27, which allows ministers discretionary power with only retrospective parliamentary approval by appealing to the "national interest."

Moreover, expert views on "sound public budgeting" have evolved considerably in recent years. Under the new thinking: 1) a budget deficit no longer automatically implies austerity policies; 2) budgetary policy can and should be used to positively impact economic growth; and 3) governments can react promptly and decisively during a crisis.

Another recent development is the publication of a Broad Prosperity and Sustainable Development Goals Monitor on the third Wednesday of May (Accountability Day), following consultations between the cabinet, the House of Representatives and the Central Statistical Service (CBS). Efforts are currently underway to integrate the Broad Prosperity Monitor into the regular budget and policy cycle. Experiments with so-called fact sheets are linking key components of departmental budgets with relevant indicators from the Broad Prosperity Monitor and indirectly with the Sustainable Development Goals. These are intended as "growth documents," with the aim of further adapting the set of indicators in the future.

As a consequence of this new budgetary approach, the government has established several special funds outside the regular budget, albeit somewhat constrained by a public investment threshold. These include the Corona Support Fund, the Ukraine Fund, the Climate and Transition Fund, the Nitrogen Fund, the National Growth

Fund, the House Building Fund, the Infrastructure Fund for the Northern Provinces (as compensation for the gas crisis), the Mobility Fund, the Defense Equipment Fund and the Delta Fund. Prioritizing long-term public investments has meant the state has less financial reserve against future financial risks; the CPB projected a public debt of 28% of GDP by 2060 without targeted public investments, but said debt levels would reach 92% with such investments. Another risk concerns the possible erosion of parliamentary budget rights. From a democratic and public accountability perspective, 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 spent with minimal parliamentary budgetary oversight. The Council of State (Raad van State) is increasingly concerned about this problematic situation.

Despite these growing concerns, in September 2022, the Rutte IV government initially committed to a substantial increase in spending for special projects, including the implementation of a price ceiling to limit the effects of sudden increases in energy expenses for most citizens. This was dependent on the presence of very favorable economic conditions, especially a very low interest rate on government loans. However, by April 2023, the minister of finance was already calling for caution, if not a return to austerity measures.

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Portugal

Score 7

Since the 2011 – 2014 bailout period, Portugal’s budgetary policy has prioritized fiscal sustainability. This focus has resulted in a cumulative improvement of 5.4 percentage points of GDP in the budget balance over the past two years. The 2023 government forecast predicts a budget surplus of 0.8%, which could potentially mark the highest surplus in 50 years (Ministry of Finance, 2023).

The impact of the pandemic on public debt appears to have been mitigated, with a projected reduction to 98.9% of GDP in 2023, breaking the 100% barrier and distancing Portugal from the most indebted euro area countries. This positive trend has bolstered Portugal's international credibility, leading to credit rating upgrades by Moody's and Fitch to "A" levels (IGCP, 2023). Additionally, it helps to safeguard future investment opportunities.

Notably, these achievements involve consistently low levels of government investment, below the EU average, and the implementation of "cativações" (blockings) within the budget, referring to allocated funds that cannot be spent (Eurostat, 2023; UTAO, 2023). While contributing to fiscal discipline, these measures inevitably impact the quality of public services.

Regarding the transparency of its budget process, Portugal scored 60 out of 100 in the latest edition of the Open Budget Survey. This survey assesses factors such as the online availability, timeliness, and comprehensiveness of eight key budget documents (IBP, 2022), indicating Portugal's moderate performance in budget transparency.

Significantly, the most recent State Budget Report from the Ministry of Finance (2023) includes, for the first time, a dedicated chapter on the Sustainable Development Goals (SDGs). This chapter aims to pinpoint specific actions contributing to the implementation of various SDGs, detailing the expenditures allocated to each goal. Various entities involved in coordinating the budget programs are responsible for providing this information. The adopted methodology involves allocating the budget of central administration entities across one or more SDGs based on their field of activity. This initiative reflects an effort to integrate sustainable development more thoroughly into the budgeting process and enhance transparency in how public funds are allocated toward achieving these global goals.

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Slovenia

Score 7

Under external pressure during the financial and fiscal crises, the “fiscal rule” was incorporated into the constitution by the National Assembly. The rule states that the revenue and expenditure of the state budget must be balanced in the medium term without borrowing, or that revenue must exceed expenditure. Based on these obligations, the Fiscal Council was also established as an autonomous state authority to oversee fiscal policy management. A temporary deviation from this principle is permitted when exceptional circumstances affect the state.

In recent years, there have been several such circumstances – the global COVID-19 crisis was followed by the energy crisis, and in August 2023, catastrophic floods in Slovenia represented an exceptional macroeconomic and fiscal shock that will require various recovery measures in the future. The decline in the debt ratio from 79.6% in 2020 is expected to be somewhat more gradual than in the previous two years, with an expected decline in GDP of just under four percentage points in 2023 and 2024, while the debt ratio is expected to reach 66.6% of GDP by the end of 2024.
As the Fiscal Council critically assessed in October 2023, the draft budget documents indicated a deterioration in the budget situation and a continuation of the pro-cyclical expansionary fiscal policy. The council warned that, as has been the case for many years, the budget documents once again ignore important and growing long-term challenges, which pose an even greater risk to fiscal sustainability.

In response, the government asserted that Slovenia is below average in terms of public debt-to-GDP in the EU and the eurozone. Furthermore, according to the government, Slovenia is reducing public debt-to-GDP faster than the EU and eurozone average.

Public finances include the state budget, municipal budgets, the pension insurance fund, and the health insurance fund. The state budget is the largest, accounting for 48.4% of the total expenditure of all four public financial budgets, followed by the Pension and Disability Insurance Institute of Slovenia (ZPIZ) with 27.1% and the Health Insurance Institute of Slovenia (ZZZS) with 14.2%.
The municipal budgets account for 10.3% in comparison. The OECD has called for several structural reforms, with one of the most necessary being the pension system reform, as Slovenia has the highest projected increase in pension expenditure due to an aging population. The constitution stipulates that all revenue and expenditure to finance public spending must be included in the state budget. The general government deficit has fallen from 4.6% of GDP in 2021 to 3.0% in 2022; it is expected to be 3.7% in 2023.

Citation:
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Australia

Score 6

Australian governments have grappled with the benefits and disadvantages of budgeting rules versus flexibility (Di Francesco 2016). The previous Liberal-National Coalition Government adopted a 23.9% cap on federal tax revenue as a share of GDP, but this has not been maintained by the current Labor government. In practice, the health and sustainability of public budgets have depended critically on the underlying performance of the economy. In recent years, the national budget has been challenged by the Global Recession of 2008 and its aftermath and massive spending required to sustain economic (and other) organizations during the pandemic. In 2023, the Australian government forecast the nation’s first balanced budget in 15 years but warned of pressures due to inflation (and other challenges) that would likely push the budget back into debt in the near future (Al Jazeera 2023).

One promising trend in public budgeting has been improvements in the transparency of Australian budgets, as measured by the Open Budget Survey (Stewart and Wong 2020). This survey focuses on the adequacy of oversight arrangements, public access to relevant information, and opportunities for citizen engagement, providing some sense of whether resources are effectively and accountably used. In the most recent survey, Australia scored 79 out of 100, an improvement on its performance two years ago when it scored 74. Australia ranks below New Zealand, Norway, and Sweden, but ahead of several economic peers, including the United States, United Kingdom, France, and Canada.

Also conducive to sustainable budgeting at the federal level is the requirement for the Treasury to produce Intergenerational Reports, which offer long-term projections of the economy and the commonwealth budget (Treasury 2023). The first report was produced in 2002, and a total of six reports have been published since then. Shortly after taking office in 2022, the Labor government increased the frequency of these reports to every two years.

At the state level, budget sustainability is more uneven, particularly over recent years when the impact of the COVID pandemic varied across states. Victoria, in particular, now faces a precarious fiscal position due to substantial debt incurred during the pandemic and commitments to expensive infrastructure projects (PBO 2023).

Citation:
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Czechia

Score 6

Czechia is not threatened by budget instability and has implemented rules to ensure ongoing stability. The Czech Fiscal Council, established as an independent body in 2017, oversees and comments on the state of public finances and compliance with legal fiscal responsibility rules. Its membership is dominated by the banking sector, and it typically warns of potential future dangers, as is its remit. The council has welcomed the reduction of budget deficits in the years since the pandemic, while also emphasizing the need for continued deficit reductions to ensure long-term stability.

The state budget has become an issue of internal political controversy, with the Fiala government warning of an imminent and serious threat to budget stability that justified a package of emergency measures. The evidence cited for this threat was an increase in the ratio of gross debt-to-GDP from 30.0% in 2019 to 44.2% in 2022 and 44.7% in 2023, while the budget deficit to GDP ratio was 3.2% in 2022. All of these values are better, or much better, than average by EU standards. Additionally, the debt level in 2019, the base year chosen for the government’s argument, was exceptionally low, while the 2023 level had been matched before. Nevertheless, it was emphasized that debt relative to GDP had been increasing more rapidly than in any other EU member state. This was partly a consequence of exceptionally poor GDP performance, with only 0.2% growth from 2019 to 2022 following poor performance during the pandemic and exceptionally high inflation after Russia’s invasion of Ukraine, alongside slow growth in personal incomes that led to a substantial reduction in real spending and, consequently, both tax revenues and GDP. The chosen method to reduce the budget deficit includes cuts in spending and increases in taxation, with the former contributing two-thirds of the adjustment. This approach is expected to lead to only a slight further reduction in demand, which will be more than offset by a return to wage growth and increased consumer spending alongside declining inflation. The Ministry of Finance predicts that GDP will grow by 1.9% in 2024, following a 0.5% decline in 2023, and that the budget deficit will fall to 3.64% of GDP in 2023 and 2.2% in 2024. Debt, however, will still be rising. It is acknowledged that these predictions could be overly optimistic in light of unforeseen external events.

Changes on the revenue side include an increase in the tax on companies from 19% to 21%. This is judged to have minimal effect on company behavior and possibly to be beneficial for the balance of payments current account, which suffers from increasing repatriation of profits by multinational companies. A further element is a windfall tax on increased profits of energy companies and banks to cover the costs of supporting consumers through the energy price crisis. This too should have no significant disincentive effect, but strong doubts have been raised over whether estimates of the revenue it will raise are exaggerated.

A range of other tax changes will reduce the VAT bands from three to two, increase property tax, and make changes to personal income tax.
Significant changes on the spending side include weaker indexation for pensions, a 2% cut in funding for public sector pay, and sweeping reductions in subsidies to enterprises. All of these carry implications for other government objectives.

The adequacy of pensions is discussed in the Old-Age Poverty Prevention section. Public sector pay can influence recruitment into, and hence the quality of, essential activities such as education and research. Subsidies have also been important for adapting the economy toward reducing carbon dependence.

Any such negative consequences may be partly offset, at least for a few years, by the EU-funded National Renewal Plan (Národní plán obnovy, NPO), which offers the equivalent of 1.5% of the 2023 GDP to be allocated by 2026 for projects in digital transformation, infrastructure and green transformation, education and training, research and development and innovation, health, and some other areas. This will be in addition to the support under existing Structural Funds for 2021 – 2027, equivalent to 9% of 2021 GDP over the seven-year period.

Citation:
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Greece

Score 6

Before the Greek crisis, the Greek budget frequently fell victim to unpredictable pressures from interest groups. Unwarranted government assistance in the form of cash transfers and tax breaks was often dispensed in an irrational, patronage-based manner. Additionally, the budget was influenced by the vicissitudes of Greece's relations with neighboring countries, given Greece's status as a significant defense spender. Greek defense expenditure is double the EU average (Eurostat 2021a). These issues culminated in the economic crisis of the 2010s.

After overcoming the economic crisis of the previous decade, the COVID-19 crisis, and managing challenges with neighboring countries, Greece is now able to establish budgetary rules that ensure fiscal resilience. The government implements budgetary procedures that ensure transparency and sets budgetary priorities reflecting future well-being.

Financial support and technical assistance from the EU have been instrumental in these three dimensions of sustainable budgeting. With the help of the European Commission, the government incorporates long-term planning and conducts systematic, forward-looking assessments of the budget's impact. The budgetary process and implementation are open, transparent, and regularly scrutinized by the parliament, the designated "Office of the State Budget in Parliament," and Greece's audit office, "Elegktiko Syndedrio."

Policymakers prevent a continuous increase in public debt. Greece's public debt (168% of GDP) remains the largest in the EU, but it has continuously fallen since 2020, when it stood at 212% of GDP (IMF World Economic Outlook 2023a).

The Greek state budget is now more consolidated and better processed than in the past. Under EU supervision – specifically the "European Semester" mechanism that applies to all EU Member States – there is systematic planning and programming of government revenue and expenses. Additionally, the level and servicing of the public debt are closely monitored.

Yet, risks still persist. Greece's total government expenditure is higher than the EU average, accounting for 57% of GDP compared to the EU average of 51% (Eurostat 2021b). The general government primary balance, at 1.02% of GDP, is small but remains the highest in the EU (IMF World Economic Outlook 2023b). Due to the substantial loans provided by the country's creditors during the crisis decade, gross interest payments by the general government are comparatively high (OECD 2023).

Greece continues to service its debt. The country's economic growth in the post-Covid period (2.4% in 2023, European Commission 2023) suggests it will likely be able to maintain this. During economic expansion, the government accumulates financial reserves through the Independent Authority for Public Revenue (AADE).

Greece's national budget explicitly addresses the Sustainable Development Goals (SDGs) and target values associated with expenditures for economic and social development through the country's Recovery and Resilience Plan ("Greece 2.0," Greek Government 2021). This plan "is structured around four key pillars inextricably linked to the core priorities and objectives of the SDGs: (i) green transition, (ii) digital transition, (iii) employment, skills and social cohesion, and (iv) private investment and economic and institutional transformation. It is worth pointing out that 37.5% of the national RRP will support climate-related objectives" (Presidency of the Hellenic Government 2022: 35).

Citation:
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The website of "Office of the State Budget in Parliament" is https://www.hellenicparliament.gr/Dioikitiki-Organosi/Ypiresies/Other-Services/Grafeio-Proypologismou-tou-Kratous-sti-Vouli/

The website of the Independent Authority for Public Revenue (AADE) is http://www.aade.gr/

Ireland

Score 6

Output indicators demonstrate progress in budget sustainability, moving from significant indebtedness during the 2008 crisis and a national bailout from 2010-2013 to substantial budget surpluses in recent years. Public debt in 2023 dropped to a still very high 44.7% of GDP (82% of GNI at the end of 2021). Existing budgetary institutions and procedures support sustainable budgeting but are relatively new, emerging from deep institutional learning since the crisis. The most important development is the Irish Fiscal Advisory Council (IFAC), formally established as a statutory body in December 2012, which publishes annual Fiscal Assessment Reports on the government's fiscal stance, macroeconomic and fiscal forecasts, and compliance with fiscal rules. The latest IFAC assessment (2023) was highly critical of government budgetary policy, as was the ESRI (2023). IFAC has produced a long-term fiscal sustainability report for Ireland to 2050, suggesting that the government deficit will grow substantially in the coming decades (IFAC 2020). While IFAC adopts a forecast projection approach, standard in Irish policy analysis, significant uncertainties are associated with long-term forecasting (O'Mahony et al. 2023). As a result, there is a considerable risk that the deficit could be even larger than IFAC has noted. The Parliamentary Budget Office has highlighted that “a point estimate does not reveal the methodology used, its limitations, or the inherent uncertainties in the estimate” (PBO 2024), emphasizing that budgets are neither transparent nor strategically prepared for risk uncertainties.

The budget process is largely public and transparent, but subsidiary budgets are outside the normal budget, such as unbudgeted increases in healthcare, which are seen as excessive overspends indicative of a lack of oversight and accountability. The Parliamentary Budget Office has improved legislators’ capacity to engage with the budget cycle but faces challenges in conducting gendered audits, budgeting, research and analysis (Cullen 2021). The implementation of fiscal rules (e.g., a debt brake) has sometimes compelled policymakers to avoid continuous increases in government debt. Some budget lines explicitly address SDGs or other transformation goals, with target values like indexation or poverty targets associated with expenditures for economic and social development.

There is evidence of policy innovation in Ireland’s development of green budgeting, making it one of the first EU member states to do so (O’Mahony and Torney 2023). However, the green budgeting process is in its early stages and narrowly focused on climate, as illustrated in DoF (2021). This indicates that budgets are framed similarly to national climate action policy practices, overly dominated by technology transitions rather than systemic transformations necessary for addressing broader opportunities (O’Mahony and Torney 2023). While EU and domestic budgetary rules mandate the accumulation of financial reserves during economic expansions, continuous tension and political pressure prioritize current expenditure over budgetary rules that emphasize public investment and safeguard future investment opportunities.

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Italy

Score 6

Italian governments have struggled in recent years to achieve fiscal stability and consolidate their budgets during a period of prolonged economic stagnation. Although fiscal policies have gradually reduced annual deficits and achieved a strong primary surplus, slow economic growth has hampered attempts to reduce the significant public debt. Efforts such as selling off public property or shares in state-owned companies have seen little success or have been postponed. Improved conditions in international markets and the European Central Bank’s policies led to a sharp fall in interest rates on long-term Italian government bonds, easing budgetary pressure before the pandemic crisis.

The acceleration of economic growth in 2017 and 2018 slowed the rise of public debt, but the need to support economic activity during the pandemic required a significant increase in deficit spending. The Draghi government, leveraging EU funds and the ECB’s supportive monetary policy, continued this public spending policy, redirecting spending toward infrastructure and digital investment to promote faster growth (though implementation is still in progress).

The Meloni government has tried to follow a similar approach to public debt control, though most budgetary interventions for both 2023 and 2024 were made in deficit. These decisions are temporary and subject to future confirmation.

The budgetary process in Italy is highly transparent and adheres to strict procedures, though the ability to use the budget in a counter-cyclical manner is limited. While targets are clearly linked to the country’s socioeconomic development, there are few references to the SDGs, sustainable development, and environmental sustainability. The Ministry of Treasury defends the long-term sustainability of the budget, while the government and other ministries focus on short-term expenditures. The Meloni government has attempted to respect financial limits according to EU regulations, but the content of the budget laws for 2023 and 2024 has been controversial regarding their effectiveness in stimulating the economy and ensuring the financing of key policies like healthcare.

United Kingdom

Score 6

Fiscal rules have been in place for 25 years, and the fiscal framework includes the well-regarded Office for Budget Responsibility (OBR), which functions as an independent fiscal council. Following the suspension of fiscal rules during the global financial crisis, there have been frequent revisions. Since 2011, these rules have been embodied in the Charter for Fiscal Responsibility, which has changed eight times since its introduction, according to the Institute for Government.

Currently, a primary fiscal rule mandates that net public debt must fall by the fifth year of the rolling forecast. A complementary rule aims to reduce the annual fiscal deficit within the same timeframe. These rules rely on two forecasts: the government's projections for public finances and the OBR's economic forecasts. Because these forecasts look five years ahead, they do not significantly bind the government in the short term. In the 2023 Autumn Statement, the Chancellor of the Exchequer stated that the government was on track to meet the fiscal rules with greater headroom compared to spring 2023.

The frequent changes to fiscal rules indicate that they are not strongly binding, as the Treasury can modify them. According to legislation, changes must be explained, presented to the House of Commons, and approved (though not as new law) before implementation. Between 2011 and 2019, before the pandemic, the debt ratio rose from 70.8% of GDP to 84.8% and is now around 100%, not projected to fall below three figures for another two years. Additionally, there is a target to contain welfare expenditure within a predetermined cap set by the Treasury.

While UK public finances are sustainable, higher interest rates to control inflation are increasing debt servicing costs, crowding out other public expenditures. The existing budgetary institutions support sustainability, aided by system transparency. However, there is no explicit provision for reducing debt during prosperous times, no formal prioritization of investment (except through tax allowances), or forward-looking plans beyond the five-year rules. The Sustainable Development Goals (SDGs) are not easily identifiable in the system.

Citation:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1131729/Charter_for_Budget_Responsibility_-_AS22_-_FINAL_as_published_in_draft.pdf

Belgium

Score 5

Belgium's public debt-to-GDP ratio exhibited improvement post-2016, briefly dipping below 100% before surging to almost 112% in 2020 due to the COVID-19 crisis. Although it has since decreased (estimated at 104.3% in 2022), international institutions, including the European Commission, express high medium- and long-term risks for Belgian public finances. Despite an already elevated debt-to-GDP ratio surpassing the EU average, projections indicate a further increase in the medium term. This anticipated rise prompted Fitch to downgrade Belgium's rating in March 2023, though the overall rating remains relatively favorable (see Belgian debt agency website).

The European Commission's debt sustainability analysis emphasizes the necessity for significant structural consolidation efforts to stabilize public debt, particularly addressing challenges linked to population aging (European Commission 2022). The

2022 annual report of the Study Committee on Aging forecasts that the budgetary cost of aging will increase by 5 percentage points of GDP between 2022 and 2070, mainly due to rises in spending on pensions and healthcare of 2.6 and 2.8 percentage points, respectively (Conseil Supérieur des Finances 2023).

The European Semester has noted that the full implementation of the 2013 Cooperation Agreement is still pending, affecting the credibility of the overall fiscal consolidation path. The commission emphasizes that Belgium's medium-term budgetary framework falls short of the EU average, lacking a comprehensive multiannual fiscal plan at the national level. Current fiscal rules apply to the federal government, social security sector, and local authorities, but not to the regional level, despite their significant expenditure. Flanders is an exception, as its 2022-2027 multiannual budget incorporates a spending norm for the first time (European Commission 2022).

While the bulk of public debt resides at the federal level, escalating debt ratios at the regional level raise concerns. Revenue autonomy plays a crucial role in debt sustainability, and the federal government possesses more tools in this regard compared to the regions and communities, which lack significant taxation powers. Belgium is also missing green budgetary practices that could improve the budget's transparency and accountability toward green objectives.

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Israel

Score 5

Israel's budgetary policy operates under two main fiscal rules: a deficit ceiling and an expenditure rule that limits year-on-year budget growth. Additionally, a mechanism records all future expenditures based on cabinet decisions and legislation. Consequently, even if certain ministries increase their funding, the government often balances the budget through flat rate cuts across all departments or targeted cuts to specific projects.

During crises, these rules can be marginalized. For example, during the COVID-19 pandemic, the government allocated additional funds for various health and economic needs regardless of the fiscal rules. Nevertheless, while Israel has the fiscal capacity to increase spending during crises, the Ministry of Finance is commonly reluctant to do so.

Each ministry has budgetary reserves. In addition, national reserves are maintained for periods of crisis. The use of these reserves is solely at the discretion of the Ministry of Finance. Moreover, as noted in various reports by the state comptroller, the Ministry of Finance also holds hidden budgetary reserves. These reserves are intended not only for crises but also to counter possible political pressures to increase spending. An example of a hidden reserve involves allocating significantly more funds than needed to a line item for salaries or other rigid expenditures.

There is no prioritization of public investment in existing budget rules. Additionally, there is no long-term planning or evaluation of budget impact. The fiscal rules primarily aim to limit public spending rather than differentiate between regular expenditures and long-term investments (Strawczynski, 2023).

The budgetary process lacks transparency. The Ministry of Finance prepares the budget through the Budget Department, which drafts budget documents and presents them to the ministries. These documents, which detail the necessary budget adjustments, are not available to the public. Following negotiations, each ministry signs a budget agreement with the Ministry of Finance. These agreements also lack transparency. Recently, a petition was filed in court to make these agreements publicly accessible. Moreover, the budget agreements include both the changes introduced to the Knesset and additional changes that will occur during the fiscal year. Because of this lack of transparency, the Knesset remains unaware of the additional promised sums and therefore approves an incomplete budget.

Any budgetary changes made during the budget implementation stage are transparent. All budget transfers are published before being approved by the Knesset's Finance Committee. In addition, all budget figures are publicly available after the budget is approved.
Specific budgets do not include target lines; however, budget figures are accompanied by a more general economic overview from the Ministry of Finance, where goals are mentioned. Additionally, each ministry includes budget objectives, which are part of the budget documents submitted to the Knesset and publicly accessible.

Citation:
Strawczynski, M. 2023. "Searching for Optimal Fiscal Rules: The Case of Israel." SSRN Electronic Journal. https://doi.org/10.2139/ssrn.4512059

Poland

Score 5

In Poland, the national budget adheres to key regulations such as the stabilizing expenditure rule (introduced in 2014), constitutional debt limits and the requirement for local governments to balance current expenditures. Although the budgetary process lacks a formal legal definition, it is governed by the constitution, the Public Finance Act and parliamentary rules. Budget assumptions set by the Ministry of Finance must align with the state's Multiannual Financial Plan.

While the government drafts the budget, the parliament – especially the Sejm – can modify it. The budget bill's review process spans four months, with potential sanctions for delays. Budget execution is closely monitored, with safeguards in place for financial management.

Fiscal policy has been used to support public investments in green initiatives, digital transformation and energy security, utilizing funds from the EU's RePowerEU program. However, due to noncompliance with requirements, the first tranche of Recovery and Resilience Facility funding was transferred to the new government only at the end of 2023.

In 2022, Poland's government debt-to-GDP ratio was 49.30%, well below the constitutional limit of 60%. When debt reaches 55% of GDP, the government is required to adopt a deficit-free budget. To accomplish this, authorities have shifted expenses to special funds like the "Solidarity Fund," and have then borrowed from these funds to pay benefits. High levels of social spending, however, have resulted in very low investments in research and development, slowing innovation.

The principle of balancing revenues and expenditures has not been strictly followed, and the "golden rule," which suggests using budget surpluses from economic booms to cover deficits during recessions, has not been effectively applied. The COVID-19 pandemic and the war in Ukraine further impacted public investments. The 2023 budget sought to address these challenges but faced constraints due to blocked National Reconstruction Plan funds and delayed investments. Priorities for the 2023 budget included defense, the so-called energy shield (a fixed electricity price for households beginning in 2022) and social programs (such as the 500+ child benefit and 13th and 14th pension months).

The budget forecasts were revised in July 2023, adjusting key figures: GDP growth was downgraded from 1.7% to 0.9%, and the expected inflation rate increased from 9.8% to 12%. The 2023 budget, developed in 2022, was based on overly optimistic assumptions about inflation, affecting economic outcomes. The October 15, 2023, elections also influenced the budget revision, leading to an increased state deficit and additional funds allocated to off-budget items, particularly for the armed forces (TVN24 2023).

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United States

Score 5

The U.S. federal government has several institutions designed to assist with the budgeting process. Chief among these are the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB). They play key roles in projecting the fiscal impact of policies, facilitating better-informed decision-making (Schick 2008). The White House and Congress publish documents intended to provide accountability, clarity, and justification for budgeting decisions.

Some federal programs are subject to performance-based budgeting rules. Under the Government Performance and Results Act of 1993, federal agencies must set performance targets and report on their progress toward those targets (Kravchuk and Schack 1996). Failure to meet these targets can have budgetary implications. The federal government also plans for contingencies and emergencies (Radin 2000). For example, the Disaster Relief Fund provides resources to respond to natural emergencies.

The budgeting process itself is reasonably transparent. The president is required by statute to present a budget to Congress. This budget outlines the president's key spending priorities, but the budget document is more of a bargaining chip than a fully accepted fiscal plan (Joyce 1996). Following the president's proposal are weeks of negotiations between the White House, congressional leaders and ordinary members of Congress. The Congressional Budget and Impoundment Act of 1974 sets out a formalized process for budgeting in Congress, but Congress usually misses its own internal deadlines (Hogan 1985).

Members often complain that the final results of negotiations are presented to them at the last minute, requiring them to vote on complex and important budget documents without nearly enough time for proper scrutiny (Schick 1975).

The existence of fiscal rules has a limited effect on curtailing debt and, in many ways, generates more harm than good (Wray and Nersisyan 2022). The Unite States has a statutory debt ceiling, a limit set by Congress on how high the national debt can reach (Kowalcky and LeLoup 1993). If the national debt approaches this limit, Congress must either raise the ceiling, increase public revenues, cut spending, or default. This leads to regular conflicts over the debt ceiling, which become entangled in other policy and partisan debates (Buchanan and Dorf 2013). Thus, the effectiveness of fiscal rules ultimately depends on the norms and political culture surrounding them, as well as the prevailing economic conditions. Because of massive partisan polarization, budget negotiations have become much more problematic in Congress, leading to a 23-day government shutdown during the Trump administration.

Citation:
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France

Score 4

France has run persistent budget deficits since 1973. No public surplus has been registered since then. Since 1992, France has seldom respected the Maastricht rule limiting the yearly public deficit to 3% of GDP (INSEE 2024). A clear trend toward an ever-increasing deficit appears quite clearly. Beyond the Maastricht treaty principle, there is no specific national rule prescribing a limit to public indebtedness. Consequently, public debt has regularly increased, and surpassed the symbolic threshold of 100% of GDP in 2020. The current government, like its predecessors, has generally tried to limit deficits, but none has credibly declared its intention to achieve a balanced budget. Budget rules are tougher for local governments than for the central state, but even here constraints are limited.

Deficits do not prevent long-term planning. For instance, a law on budget planning for the years 2023 – 2027 was adopted in September 2023. The annual deficit is planned to decrease to 2.7% in 2027. In the same perspective, many programming laws – laws relating to general strategy and spending horizons in specific sectors for the coming years – are proposed for areas such as military equipment or research. Investments are planned. Some policymakers argue that specific investments, such as those for the green transition or defense, should not be included in evaluations of the Maastricht public-deficit objectives.

The budgetary process is rather transparent, with the constitution limiting the degree to which legislation with budgetary impact can be passed via regular bills. However, all budgets since 2022 have been adopted through the procedure specified in Article 49.3, which enables the government to pass legislation without the direct approval of parliament if the National Assembly does not manage to approve a motion of no confidence toward the government.

The preparation of the budget now always takes into account issues of sustainable development and the transformation of the state. For instance, the government has indicated it has made “unprecedented” efforts on behalf of sustainable development, with the budget dedicated to this goal rising from $33 billion in 2023 to $40 billion in 2024 (Jacque 2023). The consistency of this aim across all budget areas can, however, be discussed (Blatrix et al. 2021).

Citation:
Blatrix, C., Ledenvic, P., Marcus, V., and Tordjman, F. 2021. “Témoignage. Le budget vert, une vue d’ensemble de l’incidence environnementale du budget de l’État.” Revue française d’administration publique 2021/3 (179): 657-667. Available at 10.3917/rfap.179.0143
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Hungary

Score 4

Hungary’s public debt gradually declined from nearly 80% of GDP in 2012 to less than 67% in 2019. However, this trend reversed during the COVID-19 pandemic when Hungary produced significant budget deficits, which currently remain between 5% and 6%. In terms of overall debt, Hungary ranks in the midfield among its OECD peers, with debt amounting to around 70% of GDP in the first post-COVID years. In the indicator of gross general government interest payments as a percentage of GDP, Hungary ranks poorly, placing second to last among OECD-30 countries.

Hungary’s Fiscal Council has warned of significant risks concerning the 2024 budget. Over the years, the government has shifted its priorities from budget consolidation to promoting growth. Within the government, there appears to be a lack of unity on this issue. Prime Minister Viktor Orbán and Minister for Economic Development Márton Nagy favor growth, while Finance Minister Mihály Varga and Central Bank of Hungary head György Matolcsy (MNB) have sought to protect stability. Tensions between the government and the central bank escalated to unprecedented levels during 2023, a record year for inflation, with an annual rate of 17.6% (Reuters 2023).

In anticipation of the parliamentary elections in April 2022, budgetary policy remained highly expansive in 2021 and early 2022, with the government front-loading many popular measures in the months before the elections (Virovacz 2022). As deficits threatened to spiral out of control, the government unexpectedly froze some planned investments at the end of 2021 (Than 2021). The Hungarian budget heavily depends on the inflow of grants from European funds. Consequently, the European Union’s Article 7 procedure and the subsequent freezing of funding severely impacted Hungary’s budgets.
Consequently, several reforms were halted, and the government announced that wage increases, such as those for teachers, would be impossible unless additional

funds are secured, which partially occurred in 2023 – 2024. Ultimately, the greatest risks to the stability of the Hungarian budget stem from the illiberal stance and the confrontation with international donors. The “sawing off the branch we are sitting on” policy has a significant potential to backfire.

Citation:
Than, K. 2021. “Hungary Trims 2022 Budget Deficit Target to Shield Local Bond Market.” Reuters, December. https://www.reuters.com/markets/rates-bonds/hungary-cuts-2022-budget-deficit-target-49-gdp-59-202112-17/).
Virovacz, P. 2022. “Hungarian Budget Deficit Balloons.” ING Bank, March 8.
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Slovakia

Score 4

Formally, both international and domestic fiscal frameworks and rules require policymakers to prevent a continuous increase in government debt, particularly under the Constitutional Law on Fiscal Responsibility 493/2011, given Slovakia’s membership in the Eurozone. Despite these fiscal responsibility mechanisms, the deterioration of Slovak public finances persisted during the 2020–2023 period. While objective factors such as the COVID-19 crisis, high inflation, and the war in Ukraine contributed to this decline, the lack of political responsibility also played a significant role (Ministry of Finance, 2023).

Following the problematic period of 2020–2021, the public deficit decreased to 2% of GDP in 2022, reducing the government debt level from 61% to 57.8% in the same year. However, the situation deteriorated again in 2023, as parliament approved populist policies following the collapse of the Heger government and the September 2023 elections. According to the EU, Slovak public finances in 2023 are considered the least sustainable within the EU. The caretaker Odor government, which had limited powers, prepared measures to revitalize Slovak public finances (Ministry of Finance, 2023). Some of these proposals were adopted by the new Fico government, which approved a list of consolidation measures and managed to pass the related Law 530/2023 in parliament. However, the EU Commission’s assessment indicates that the draft budgetary plans for 2024 are not fully in line with the Fiscal Council’s recommendations (European Commission, 2023).

Overall, the Commission views the draft budgetary plans of Cyprus, Estonia, Greece, Spain, Ireland, Slovenia, and Lithuania as consistent with the Council’s recommendations. Conversely, the plans from Austria, Germany, Italy, Luxembourg, Latvia, Malta, the Netherlands, Portugal, and Slovakia are considered less aligned.

The Constitutional Law on Fiscal Responsibility 493/2011 does not mandate accumulating financial reserves during economic expansions to enhance financial capacity during crises. The budgetary rules do not prioritize public investment or safeguard future investment opportunities. The governments of 2020–2023 did not engage in long-term planning or conduct systematic, forward-looking assessments of the budget's impact. However, such activities are systematically undertaken by the Council for Budgetary Responsibility, established based on the Constitutional Law on Fiscal Responsibility 493/2011.

The budgetary process in Slovakia is transparent. According to the IMF (2023: 1), "There are relatively strong institutions in place to support fiscal transparency in Slovakia. The evaluation in this report shows that most aspects of Slovakia's fiscal reporting, budgeting, and risk management are in line with the good or advanced practices of the IMF's Fiscal Transparency Code."

The national budget does not explicitly address the Sustainable Development Goals (SDGs) and lacks target values for economic and social development expenditures. For instance, the Heger and Fico governments have overlooked long-term risks to public finances, such as population aging, a shortage of skilled labor, and the need for reforms in the pension, education, and healthcare systems.

Citation:
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Japan

Score 3

Japan has no legal public debt limit. In 2023, Japan had the highest public debt, amounting to 255.24% of GDP, and one of the worst primary balances among OECD countries, amounting to -5.48% of GDP. Even when one takes into account the very high stock of fixed public capital in Japan, the debt level remains exceptionally high by international comparison. Because most public debt (currently 86.2%) is held by domestic investors and bond yields have remained low, the issuance of new bonds has for several decades been used to finance budget deficits. At the moment, the Japanese central bank, the Bank of Japan, holds roughly half of Japanese government bonds (JGB), which likely contributes to low bond yields. How long this policy can continue, however, is unclear. The central bank will find it difficult to end its policy of quantitative easing without higher economic growth and wage growth. Although nominal wages rose by almost 4% in 2023, inflation has meant that real wages continued to decline. As the Japanese population is rapidly aging, it may also become more difficult to find alternative domestic buyers for JGBs once the BOJ withdraws. So far, financial markets have remained confident, however, and JGBs are even attracting growing interest among foreign investors.

The government incorporated some elements of long-term planning into the Basic Policies for Economic and Fiscal Management and Reform issued by the Council on Economic and Fiscal Management. The cabinet has stated its intent to achieve primary balance since the early 2000s but has postponed this target several times. The current government maintains its aim of achieving primary balance and lowering the debt-to-GDP ratio in FY2025, although it may prove challenging due to wage hikes for public employees, expansion of public investment, more spending on childcare and the planned increase in military spending to 2% of GDP by FY2027. The budget takes into account green transformation investments, though it does not refer specifically to SDGs.

The government's fiscal consolidation and structural reform efforts seem insufficient overall. Due to the practice of adopting supplementary budgets, budgetary spending ceilings have repeatedly failed to limit actual government expenditures. The transparency of the budgeting process in Japan is limited because a large number of entities, accounts and policies sidestep spending limits. For instance, according to Article 4 of the 1947 Public Finance Act (PFA), the government can issue "construction bonds" only to finance critical infrastructure but not social spending. To circumvent this rule, Japanese governments have issued ever more "special deficit-financing bonds."

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