

Fiscal Council's call on the new government under formation: Ensure the sustainability of public finances

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The favourable economic and fiscal trends continued at the beginning of 2018. A strong increase in public revenues and a moderate increase in expenditures resulted in a general government surplus of 0.6% of GDP. The year-on-year growth in revenues (6.1%) in the first quarter was associated with a continued increase in economic activity and favourable labour market conditions. The increase in general government expenditures remained moderate (2.1%). The increase in expenditure was mainly the result of the compensation of employees and social transfers, and this year expenditure on intermediate consumption has significantly been on the rise in all public finance budgets. Expenditure on investment also shows an increase, but on an annual level it will probably be lower than planned and will also be the key reason for a lower increase in the total expenditure than planned. According to the Fiscal Council's estimate, these data show that the projected annual surplus under the Stability Programme – amended in 2018 (0.4% of GDP) can be achieved. The structural balance is expected to deteriorate, which implies a cyclically expansionary fiscal policy. Given the cyclical position of the economy, this is unsuitable and represents a missed opportunity for a more sustainable improvement of public finances. Further details are available in the publication *Fiscal and Macroeconomic Trends*.

Any further deviations from fiscal consolidation may prove problematic, including due to increasing risks, particularly from abroad. The realisation of the prevailing negative risks could cause a more considerable slowdown in economic growth than projected, which could further increase short-term and medium-term risks for public finances. The legally binding commitments, which had not been anticipated during the preparation of the budget, caused a temporary suspension of the implementation of the state budget. The resignation of the government in March 2018 postponed the implementation of certain important decisions to a later date; moreover, the impact of demographic changes on public finances will also have to be appropriately mitigated. Stakeholders in the formation of the new government coalition will have to take into account the many decisions to be made by the new government at the outset of its term of office, whose time horizon exceeds the political cycle. These decisions must not jeopardise fiscal consolidation but must ensure the sustainability of public finances. Conditions need to be created for a favourable social and business environment.