Press release: The Fiscal Council assessed the compliance of the general government budgets with the fiscal rules in 2017

In accordance with the provisions of the Fiscal Rule Act the Fiscal Council made an assessment of the compliance of the general government budgets with the fiscal rules in 2017. The Fiscal Council assessed that last year's fiscal policy was countercyclical and restrictive, which is appropriate in view of the economy's currently estimated cyclical position.

Favourable macroeconomic conditions along with last year's economic growth being the highest after the onset of the crisis a decade ago were reflected in a considerable and broad-based growth of general government revenue. These revenues made it possible to increase expenditure above the level determined at budget drafting. Since the growth rate of revenue exceeded the growth rate of expenditure, fiscal consolidation continued and the general government budget showed a slight surplus for the first time. The improvement of the primary balance was less considerable, which indicates the important role of interest in the improvement of the state of public finances.

The Fiscal Council estimates that most fiscal rules were complied with in 2017; the rules referring to the general government expenditure, however, were not observed. The general government expenditure exceeded the limit determined by the Framework for drafting budgets currently in force (May 2017) by EUR 185 million. Considering the legally prescribed expenditure restrictions, the general government budget should have improved even more, thus increasing the fiscal policy leeway in the future years.

Although the appropriate mid-term fiscal objective, i.e. the surplus of structural balance of 0.25% of GDP, was not achieved in 2017, current estimates show that the structural balance was in equilibrium. The dynamics of approaching the objective was faster than required; latest estimates show that the structural effort amounted to 1.0 percentage point of GDP, while the required effort of fiscal policy in 2017 amounted to 0.6 percentage point of GDP. The decrease of the share of general government debt in GDP was appropriate, too, as it amounted to 73.6% of GDP, which is below 78.7% of GDP, the allowed debt level for 2017.

Despite favourable trends, the Fiscal Council estimates that the opportunity for sustained improvement of public finance was missed in 2017. According to the Fiscal Council, economic policy makers should have also seized upon the favourable conditions for the drafting and adoption of measures contributing to a lasting improvement in the state of public finances. The projections of the Stability Programme – 2018 amendment, which were based on the scenario of unchanged policies, namely show that the implementation of the strategy of fiscal consolidation in recent years, when austerity measures were gradually relaxed with the improvement of the economic situation, will no longer be possible because the austerity measures have been largely abolished. Adequate reserves will have to be made for the period when the economic growth is reduced. The reserves would also provide a firmer basis for the sustainable public finances in the medium term, which is one of the conditions for increasing the long-term economic potential and subsequently the welfare of the population.