

Press release: The Fiscal Council assessed the compliance of the general government budgets with the fiscal rules in 2018

In accordance with the provisions of the Fiscal Rule Act the Fiscal Council made an assessment of the executed general government budgets' compliance with the fiscal rules in 2018. The Fiscal Council assesses that the 2018 fiscal policy was neutral since the structural balance did not change, although it should have been restrictive in view of the economy's cyclical position.

Favourable macroeconomic conditions were reflected in the further considerable and broad growth of general government revenue. The increase in revenue exceeded the increase in expenditure, which means that the surplus in the general government balance widened and amounted to 0.7% of GDP. The decrease in interest expenditure played an important role in this respect because the increase in the surplus of the primary general government balance was smaller. The share of gross debt in GDP was further reduced.

The Fiscal Council assesses that the fiscal rules were mostly complied with in 2018; apart from high revenue conditioned primarily by favourable cyclical conditions, this was enabled by the increase of some non-tax categories. The medium-term fiscal objective under the EU rules was achieved in 2018, but only if the allowed deviation is taken into account. The domestic rule referring to general government expenditure was not complied with because the expenditure exceeded the benchmark of the adopted medium-term framework. The decrease in the share of general government debt in GDP was appropriate in 2018.

In addition to favourable macroeconomic conditions, the general compliance with the fiscal rules was also due to the fact that certain measures with unfavourable structural fiscal implications were postponed to future years because of political uncertainty. In the future, the achievement of the medium-term balance over the period of an economic cycle, as provided by the Constitution, will require more than the annual achievement of the medium-term fiscal objective in line with the EU rules as structural surpluses will have to be achieved, too. These will be necessary because of structural deficits generated in past years.

The increase in the risks associated in particular with the anticipated negative fiscal implications of the demographic change further reduces the timeframe for the adoption of measures that will contribute to a more permanent improvement of public finances. Insofar as measures ensuring long-term sustainability are not adopted, this will have much more extensive and far-reaching negative implications for public finances than only a one-year deviation from fiscal rules.