

19 April 2021

Press release: In view of the identified uncertainties, the Fiscal Council cautions about increasing risks to medium-term fiscal sustainability

In the current uncertain climate, deviations from the medium-term balance are permitted due to exceptional circumstances in accordance with the Fiscal Rule Act, provided that this does not endanger fiscal sustainability in the medium term. The projections for 2021 and 2022 in the submitted budget documents indicate an expansionary fiscal policy that is countercyclical according to currently available forecasts; however, certain measures that have already been adopted are also structural and will therefore burden future public finances. The anticipated worsening of the structural position in these two years is mostly the result of the increased investment activity of the state, which is assumed to be financed only to a lesser extent by grants from European funds. In the 2023–2024 period, the anticipated decrease in the headline deficit indicates a slightly more restrictive fiscal policy, which would be appropriate considering the current macroeconomic projections. In addition, for a certain part of expenditure, the projection is not realistic and its outturn would require the adoption of measures that are not presented in the submitted documents. The assumptions regarding the ability to obtain European funds are also quite optimistic. Up to and including 2024, more than three quarters of all grants available in the next ten years are expected to be spent. An increase in debt in a crisis is largely understandable, but the anticipated high nominal growth in debt would have to be efficiently used to strengthen economic potential. In this regard, it should be noted that, if debt is persistently high, this could additionally endanger fiscal sustainability in the long term, particularly considering the public finance challenges of population ageing and eventual new shocks. The Fiscal Council assesses that the measures adopted to limit the consequences of the epidemic were appropriately designed and comparable in extent to those in other EU Member States. However, in addition to the measures to limit the consequences of the epidemic, measures have been recently adopted or announced which, in the opinion of the Fiscal Council, worsen the structural position of public finances and reduce the room for manoeuvre for the implementation of fiscal policy in the years to come. Such measures are particularly inappropriate in the given situation, and we call on all stakeholders to refrain from adopting further structural measures that would additionally reduce this fiscal space.