10 May 2022

Press Release: Assessment of the 2022 Stability Programme

The no-policy-change scenario in the 2022 Stability Programme foresees a gradual improvement in the fiscal situation. However, this improvement will be somewhat limited by the discretionary measures already adopted, and the envisaged 2025 deficit is set to be higher than last year, without taking into account the COVID-related measures. Revenue growth is expected to continue, largely based on the projection that relatively favourable macroeconomic conditions will continue despite a number of negative risks. High tax bases are the result of increased economic activity, due considerably to the expansionary fiscal policy, and the contribution of the higher inflation, which is also related to excess demand. In the medium term, the relatively favourable fiscal balance achieved before the epidemic will not be fully restored, mainly due to the adopted discretionary structural measures which, since the invocation of exceptional circumstances, have not been directly linked to mitigating the consequences of the epidemic. The adoption of these measures significantly limits the room to manoeuvre in terms of the future fiscal policy implementation. Given the fiscal situation and the current estimates of the cyclical position and despite the uncertainty related to the favourable macroeconomic projection, additional fiscal policy support is not necessary, as it could trigger important imbalances. Alternative estimates of expenditure levels and growth show that, even under the no-policy-change scenario, these are generally above the thresholds ensuring medium-term fiscal policy sustainability. The fiscal policy's main aims should be to ensure sustainable growth in current spending, to respond in an appropriate manner to development challenges and to strengthen the economy's resilience with efficient investments financed, to the greatest possible extent, with a higher amount of available European funding.

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Despite the high level of expenditure, the nominal deficit is set to decrease to the permitted ceiling of -3% of GDP next year. Throughout the projection period, its decrease should be largely due to the currently expected relatively high cyclical growth in revenue. Notwithstanding the appropriate declining path, the general government debt would exceed the Maastricht criteria at the end of the period covered by the 2022 Stability Programme as projected, amounting to 68.0% of GDP in 2025.

The high structural deficit is, among other things, the result of a series of measures taken during the epidemic that have brought about a permanent deterioration of the fiscal situation. The total impact of measures not directly related to the epidemic on the general government balance in 2022 is estimated at approximately 2.3% of GDP, and is expected to increase to approximately 3.2% of GDP by 2025. The adoption of such measures has intensified further since the adoption of the budgetary documents in autumn of last year, which is reflected in the strengthened pro-cyclical expansionary trend in fiscal policy in 2022. To a significant extent, this has led to the realisation of risks that the Fiscal Council has recently been calling attention to on a regular basis. The epidemic-based deterioration of the fiscal situation, which was enabled temporarily, will become structural. This type of policy limits the room to manoeuvre that would allow any extensive fiscal policy action to be taken in case of future shocks. This room would be even smaller if the many currently detected negative risks and the consequently slower economic growth were to be realised, taking into consideration the expected tightening of the monetary policy.

Based on the current forecasts, the economy is expected to operate under favourable cyclical conditions with signs of exceeding the supply potential in the coming years, despite increased uncertainties. In such conditions, it is essential to create ample room to manoeuvre for public finance. Otherwise, further fiscal support affecting the demand could cause macroeconomic imbalances. The latter are already starting to show in the form of increased limitations in ensuring the appropriate workforce, inflationary pressures, which do not originate only in the international environment, and the rapid shrinking of the surplus in foreign trade. The deterioration of the structural fiscal policy situation is less visible due to the rapid recovery of economic growth, partly enabled, after the drop in GDP in 2020, by the stimulative fiscal policy as well as the extremely accommodative monetary policy, which has thus far ensured favourable financing conditions and deterred the responses of financial markets to the deteriorated fiscal situation.

In the given situation, the fiscal policy should restrain the planned growth in current spending, excluding expenditure for interest, investments, one-off expenditures and spending associated with COVID-related measures, which was set too high. The 2021 spending was the highest after 2008 and is set to increase further this year. Growth in current public spending should remain within the limits enabled by long-term growth in revenue. It is important to ensure that room for future priorities is created by increasing the efficiency of government expenditure and strengthening bases on the revenue side. The public investments envisaged in budgetary documents should contribute substantially to appropriate responses to the development challenges and strengthening the economy's resilience. It is necessary that their implementation take into consideration the limitations of the absorption capacities of the administration and the economy, which, among other things, can lessen investment efficiency or further increase inflationary pressures.

In the current uncertain situation, the Fiscal Council does not state its opinion on extending the period of exceptional circumstances into 2023. In accordance with the law, it expects to receive a request to prepare such an assessment from the Government in order to present it before the preparation of the autumn budgetary documents. The Fiscal Council once again calls attention to the fact that, after the conclusion of the period of exceptional circumstances, the Fiscal Rule Act provides for the introduction of a corrective mechanism. At the same time, it expects the Government to respond to the challenges of ensuring the long-term sustainability of public finance in a timely manner, the latter having deteriorated again in recent years according to certain indicators.

On several occasions in the current procedure of submitting the documents required by law, the Government acted in contravention of the established norms and relevant legislation. It delayed taking note of the macroeconomic forecasts of the Institute of Macroeconomic Analysis and Development (IMAD), which have proven to be consistent with the principles of accuracy and unbiasedness in the long term. Among other things, it made it more difficult for the Fiscal Council to conduct a comprehensive analysis of budgetary projections within the short statutory deadlines. The Government provided the Fiscal Council with the draft Stability Programme with an 18-day delay relative to the legislation in force and failed to submit for assessment the framework for the preparation of the general government budget, the pivotal document of medium-term budget planning. The legislation in force does not contain any provisions releasing the Government from this obligation. Moreover, after the publication of favourable data on national accounts for 2021 at the end of February and in the light of the improved epidemiological situation, the Government once again failed to ask the Fiscal Council for its assessment as to whether the reasons for the invocation of exceptional circumstances have ceased or continue to exist.