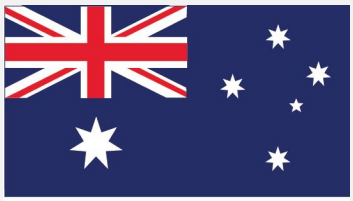
# Australia Case Study Profile

Accessible Version



Source: GAO. | GAO-20-561

## About the Fiscal Rules

The Charter of Budget Honesty Act 1998 (Charter) provides a broad fiscal policy framework and outlines principles for fiscal management for Australia's national government. The purpose of the Charter is to improve fiscal policy outcomes by requiring the national government to establish a fiscal strategy with supporting measures and targets that are to be based on the principles of sound fiscal management. In addition, it requires regular reporting on the government's fiscal outlook.

In summary, the five principles outlined in the Charter for sound fiscal management are to:

1. manage financial risks prudently according to economic circumstances, and maintain debt at prudent levels;
2. ensure that fiscal policy contributes to national savings and moderates cyclical fluctuations in economic activity;
3. pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
4. maintain the integrity of the tax system; and
5. ensure that policy decisions consider their financial effects on future generations.

## Implementation of Fiscal Rules

Australia's Charter requires the government to set and implement a fiscal strategy that includes objectives and priorities for fiscal policy. The government is able to revisit the strategy and make adjustments as needed. The current strategy is underpinned by a number of objectives and priorities for fiscal policy including:

- Maintaining the tax-to-gross domestic product (GDP) ratio at or below 23.9 percent of GDP.
- Building sustainable budget surpluses of at least 1 percent of GDP, as economic circumstances permit to build resilience and fiscal flexibility.
- Reducing government borrowing as a share of the economy over time, which links to improving net financial worth, reducing gross debt, and eliminating net debt.

The government's fiscal strategy guides its budget decisions, although it retains the capacity to respond to economic and other challenges, such as COVID-19, or implement new spending priorities during the year.

The Charter requires the government to report on its performance and to publicly release these reports. These reporting requirements are intended to promote transparency and accountability. Overall, the reports focus on the budget and economic outcomes measured against the targets and goals set in the fiscal strategy:

- **Fiscal Strategy.** Released by the new government, it establishes a framework for evaluating the government's progress towards fiscal policy goals.
- **Budget Economic and Fiscal Outlook report.** Released annually with each new budget, it provides information on the government's fiscal position for the budget year, the following 3 years, and the 10-year medium-term projections.
- **Mid-Year Economic and Fiscal Outlook report.** Released by the end of January or 6 months after each new budget, whichever is later, it provides a mid-year report on the government's progress against the fiscal strategy.
- **Final Budget Outcome report.** Released no later than 3 months after the end of each fiscal year, it reports on the final performance of the budget for the fiscal year.
- **Intergenerational report**. Released every 5 years, it assesses the long-term sustainability of current government policies over 40 years.

## Supporting Institutions

There are several supporting institutions that play a role in setting and implementing the government's fiscal strategy:

- **Australian National Audit Office.** As Australia's supreme audit institution, this office audits the Whole of Government Consolidated Financial Statements, which closely aligns with the final budget outcomes after the end of the fiscal year to ensure

that they meet applicable requirements, including accounting standards.

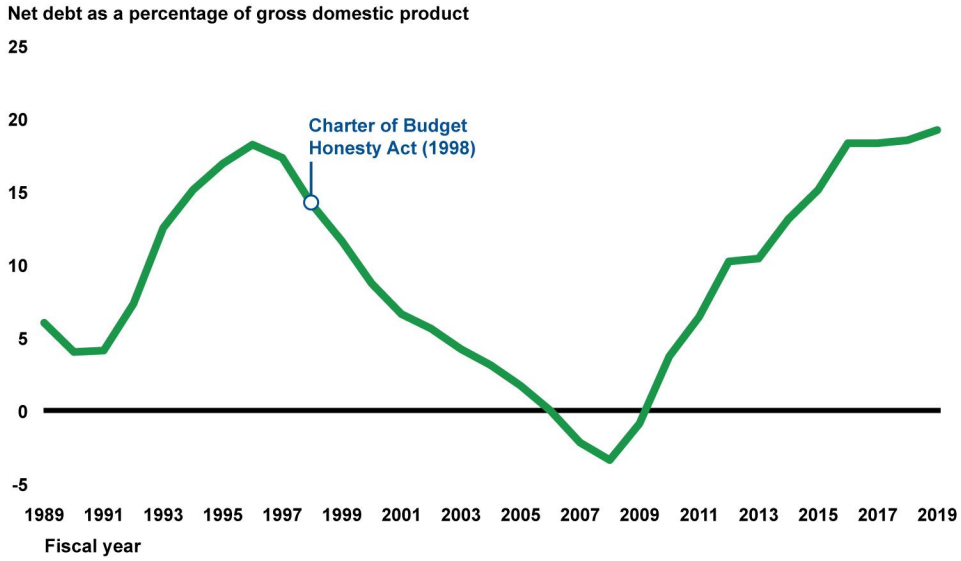
- **Department of Treasury.** This department prepares the economic and fiscal projections and assumptions for the country, and fulfills the reporting requirements set forth by the Charter outlined above.
- **Department of Finance.** This department works with the Department of Treasury to provide current expenditure data for budget forecasting and projections. This budget information also helps the Department of Treasury fulfill the Charter's reporting requirements.
- **Parliamentary Budget Office.** This office is Australia's independent fiscal institution, aimed an enhancing Parliament's and the public's understanding of the budget and fiscal policy. It prepares policy costings and budget analysis for Parliament. Its self-initiated reports include medium-term fiscal projections that provide detailed information to the public on government performance based on the fiscal strategy and budget outcomes.

These institutions provide their data and reports to other government agencies and Parliament, and publish them on their public websites. While they are all involved with providing data and reports, none of the institutions have an enforcement role. Although the Charter did not provide for formal enforcement of the requirements, Australian government officials stated that continued political commitment to the Charter has entrenched its principles into national fiscal policy. In addition, the public relies on the information provided by the fiscal strategy and related reports to hold the government accountable to the plans it establishes, through the parliamentary process.

## Fiscal Outcomes

As shown in figure 3, Australia has seen a rise in debt around economic crises in the past, such as the global financial crisis of 2007-2009. With the government's 2019-2020 strategy focusing on spending constraints, Australian government officials stated that the federal government was on track to achieving surplus within the fiscal year, before the COVID-19 pandemic. Officials stated that the COVID-19 pandemic will have a significant impact on Australia's fiscal position.

**Figure 3: Australia's Debt-to-Gross Domestic Product Ratio, 1989-2019**




Source: GAO analysis of Australia Treasury Department data and applicable law. | GAO-20-561

Note: Data represent general government net debt. Australia's fiscal year runs from July 1 through June 30. For the purposes of this figure, the later calendar year is referenced. For example, data for the fiscal year starting on July 1, 1988, and ending on June 30, 1989, is shown as 1989.

**Accessible Data for Figure 3: Australia's Debt-to-Gross Domestic Product Ratio, 1989-2019**

| Fiscal Year | Debt to Gross Domestic Product Ratio | Major event |
|---|---|---|
| 1989 | 6 | |
| 1990 | 4 | |
| 1991 | 4.1 | |
| 1992 | 7.3 | |
| 1993 | 12.5 | |
| 1994 | 15.1 | |
| 1995 | 16.9 | |
| 1996 | 18.2 | |
| 1997 | 17.3 | |
| 1998 | 14.1 | Charter of Budget Honesty Act Enacted |
| 1999 | 11.6 | |
| 2000 | 8.7 | |
| 2001 | 6.6 | |
| 2002 | 5.6 | |
| 2003 | 4.2 | |
| 2004 | 3.1 | |
| 2005 | 1.7 | |
| 2006 | 0 | |
| 2007 | -2.2 | |
| 2008 | -3.4 | |
| 2009 | -0.9 | |
| 2010 | 3.7 | |
| 2011 | 6.4 | |
| 2012 | 10.2 | |
| 2013 | 10.4 | |
| 2014 | 13.1 | |
| 2015 | 15.1 | |
| 2016 | 18.3 | |
| 2017 | 18.3 | |
| 2018 | 18.5 | |
| 2019 | 19.2 | |

# Germany Case Study Profile

Source: GAO. | GAO-20-561

## About the Fiscal Rules

Articles 109 and 115 of the Constitution for the Federal Republic of Germany (Basic Law) outlines the fiscal goals and basic features of the federal financial management policy adopted by Germany's Parliament. In 2009, Germany amended article 115 of the Basic Law to include its current structural budget balance target—called the debt brake—and replace the "golden rule."

The goals of the debt brake include safeguarding the sustainable development of public finances and promoting countercyclical fiscal policy in which deficits increase during an economic downturn and decrease (or achieve surplus) in good economic times. Starting in 2011, the debt brake requires a:

- structural budget balance target at the federal level, with net borrowing of no more than 0.35 percent of gross domestic product (GDP) from 2016 onwards; and
- budget balance at the state level, with no net borrowing, starting in 2020.

In addition to the debt brake, Germany's federal government reinforced an ongoing political commitment known as the Black Zero in 2018. The commitment included an agreement to maintain no annual budgetary deficits. As a result of COVID-19's impact on its federal budget, the Black Zero will no longer play a role in the forseeable future, according to German government officials.

As a member of the European Union (EU), Germany is subject to the budget balance and debt rules of the Maastricht Treaty, the Stability and Growth Pact (SGP), and the Fiscal Compact.

## Implementation of Fiscal Rules

When executing the annual budget, the federal government uses a separate budgetary account—the control account—to track and monitor deviations from the debt brake. For example, if actual net borrowing exceeds the upper limit for net borrowing at the end of the year, the difference is reflected in the control account. The control account cannot exceed a negative balance threshold of 1.5 percent of GDP. Negative balances exceeding 1 percent of GDP reduce the borrowing authorization in the following year by the excess amount, but by no more than a maximum of 0.35 percent of GDP annually.

Exceptions to the debt brake can be made in extraordinary emergency situations and require a parliamentary majority for approval. For example, at the beginning of July 2020, Parliament approved new net borrowing to, among other things, finance the economic stimulus and crisis management package for Germany's COVID-19 response. Additionally, Parliament requires the approval of a plan to reduce the gap between the additional spending and the debt limit in a reasonable timeframe. According to German government officials, Parliament adopted a repayment plan over 20 years, beginning in 2023, for Germany's COVID-19 response.

The debt brake aligns with the fiscal rules and targets outlined by the Maastricht Treaty and the SGP. Under the Maastricht Treaty, Germany's overall deficit and debt are limited to 3 percent and 60 percent of GDP, respectively. Additionally, under the SGP, Germany has a medium-term objective of limiting its structural budget deficit of the general government to 0.5 percent of GDP. However, in March 2020 the EU declared an exception to these rules for all member states due to the economic downturn caused by COVID-19.

## Supporting Institutions

Germany has several supporting institutions that have a role in implementing, reviewing, and reporting on fiscal rules and targets:

- **German Supreme Audit Institution (Bundesrechnungshof)**. This institution audits federal finances, including annual revenues, expeditures, and social security programs (i.e., health insurance, pensions, and unemployment).This institution also issues a financial audit of federal revenues, expenditures, and deficit to Parliament and the federal government. The report may include comments on individual cases of noncompliance with the fiscal rules by government departments.
- **Parliamentary Budget Committee (Bundestag).** This committee leads the deliberations on budgetary bills and amendments. The committee and its auditing subcommittee work closely with the Federal Court of Audit to oversee the execution of the budget and monitor the federal government's compliance with budget regulations, including the debt brake.
- **Federal Ministry of Economic Affairs and Energy.** This ministry produces economic forecasts and projections, including estimates of tax revenues, social security contributions, and expenditures,

used during the budget development process. These forecasts and projections determine where the economy is in the business cycle.

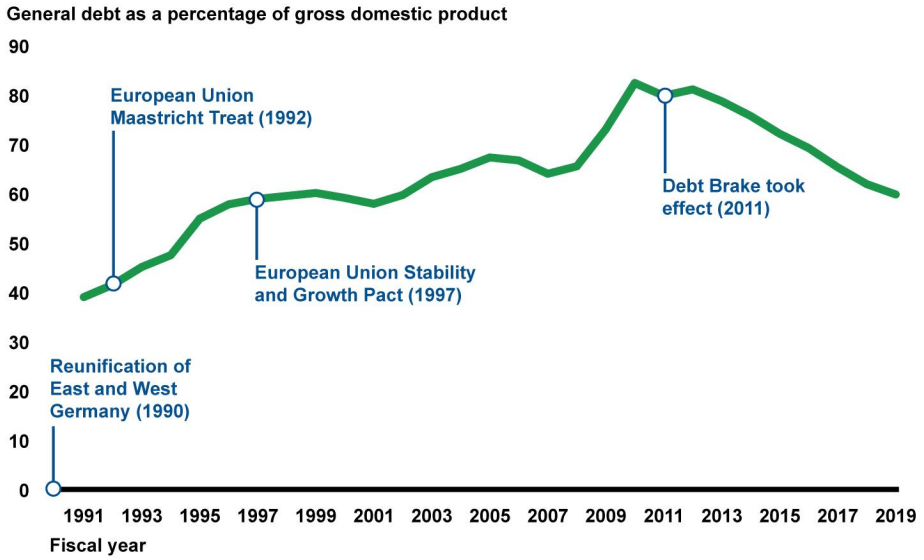
- **Federal Ministry of Finance.** This ministry prepares the draft budget for each fiscal year and ensures that it complies with the debt brake. The ministry also develops medium-term financial plans for a 4-year period. The ministry develops the German Stability Programme Report, an annual report to the EU with an update on Germany's medium-term fiscal plans over the next 4 years, and the Draft Budgetary Plan.
- **Stability Council (Stabilitätsrat).** Comprised of the Federal Ministers of Economic Affairs and Energy, Finance, and the Finance Ministers of Germany's 16 states, this council monitors federal and state budgets, focusing on compliance with EU-level fiscal rules and targets. Beginning in 2020, the Stability Council will monitor the national government's and the individual states' compliance with the debt brake for the previous, current, and following budget year.

Data and reports on Germany's fiscal performance are publically available online to promote transparency and accountability.The data and reports issued by these institutions are provided to Parliament, independent research institutions, and other government ministries.

## Fiscal Outcomes

As shown in figure 4, Germany's debt rose after the reuninification of East and West Germany in the early 1990s. Debt continued to rise during the global finanical crisis of 2007-2009 and remained high during the European sovereign debt crisis of 2010-2012. According to German government officials, Germany's debt has declined since 2010. This may be due to a combination of instituting current fiscal reforms, such as the debt brake, and a strong economy. However, a significant increse in debt is expected by the end of 2020 due to COVID-19.

**Figure 4: Germany's Debt-to-Gross Domestic Product Ratio, 1991-2019**




Source: GAO analysis of information from the Deutsche Bundesbank and applicable law. | GAO-20-561

Note: Data on Germany's debt-to-GDP ratio begins following the reunification of East and West Germany in 1990. Data for 2018 and 2019 are estimated.

**Accessible Data for Figure 4: Germany's Debt-to-Gross Domestic Product Ratio, 1991-2019**

| Fiscal Year | Debt to Gross Domestic Product Ratio | Major event |
|---|---|---|
| 1989 | 35 | |
| 1990 | 36 | Reunification of East and West Germany |
| 1991 | 39 | |
| 1992 | 41.5 | European Union Maastricht Treaty |
| 1993 | 45.1 | |
| 1994 | 47.5 | |
| 1995 | 54.9 | |
| 1996 | 57.8 | |
| 1997 | 58.9 | European Union Stability and Growth Pact |
| 1998 | 59.5 | |
| 1999 | 60.1 | |
| 2000 | 59.1 | |
| 2001 | 57.9 | |
| 2002 | 59.7 | |
| 2003 | 63.3 | |
| 2004 | 65 | |
| 2005 | 67.3 | |
| 2006 | 66.7 | |
| 2007 | 64 | |
| 2008 | 65.5 | |
| 2009 | 73 | |
| 2010 | 82.4 | |
| 2011 | 79.8 | Debt Brake took effect |
| 2012 | 81.1 | |
| 2013 | 78.7 | |
| 2014 | 75.7 | |
| 2015 | 72.1 | |
| 2016 | 69.2 | |
| 2017 | 65.3 | |
| 2018 | 61.9 | |
| 2019 | 59.8 | |

# Netherlands Case Study Profile

Source: GAO. | GAO-20-561

## About the Fiscal Rules

Since 1994 the Netherlands has had a "trend-based" fiscal policy that is designed to balance the budget over the economic cycle while allowing for fluctuations from year to year. The policy accomplishes this approach through separate rules for expenditures and revenues.

Expenditure ceilings (or targets) are set for three categories: central government, social security and labor programs (e.g., parental leave and unemployment benefits), and health care.

For revenues, the coalition agreement specifies changes to taxes at the beginning of each government's term. From there, revenues act as an automatic stabilizer: actual amounts of revenues fluctuate over the economic cycle, increasing in good economic times and decreasing during economic downturns.

The expenditure and revenue sides of the budget are strictly separated. Revenue windfalls are not generally used to finance additional expenditures. Rather, they are used to reduce the deficit. This approach allows for a countercyclical fiscal policy in which deficits increase during an economic downturn and decrease (or achieve surplus) in good economic times.

As a member of the European Union (EU), the Netherlands is subject to the budget balance and debt rules of the Maastricht Treaty and the Stability and Growth Pact.

The Netherlands' 2013 Sustainable Public Finances Act codified its trend-based fiscal policy and its obligations under the EU fiscal rules.

## Implementation of Fiscal Rules

Following general elections, multiple political parties will generally form a coalition to obtain a majority in the House of Representatives. The governing parties negotiate a coalition agreement, which describes policy priorities and their estimated fiscal effects for the government's 4-year term. The coalition agreement also contains annual expenditure and revenue targets.

The Netherlands currently has expenditure and revenue targets for 2018 through 2021, based on the 2017 coalition agreement. For 2020, the expenditure ceilings are €144.3 billion for the central government, €85.6 billion for social security, and €77.6 billion for health care. Revenue targets are calculated based on the tax rates set by the coalition agreement and expressed in terms of changes compared to prior years: the coalition agreement called for policy changes projected to increase net revenue by €3.4 billion over the 4-year period.

The Netherlands' fiscal rules allow for flexibility to respond to changes in the economic cycle, such as recessions. By separating expenditures from revenues, the rules are designed to allow automatic stabilizers to mitigate the effects of a recession. For example, increases in unemployment insurance and social assistance spending caused by economic conditions are not counted towards the expenditure ceilings. Excess spending that falls within the expenditure ceilings is generally compensated with spending reductions, usually from within the same ministry. In exceptional circumstances such as the COVID-19 pandemic, the governing coalition is free to make decisions that deviate from the original coalition agreement. For example, in response to COVID-19 the government announced a discretionary package of emergency measures, including wage support for businesses. According to Dutch government officials, the fiscal rules are not applied to coronavirus-related expenditures.

In addition, the Netherlands is bound by the Maastricht Treaty's limits on its overall deficit and debt, which are 3 percent and 60 percent of gross domestic product (GDP), respectively. Under the Stability and Growth Pact, it also has a medium-term budgetary objective limiting its structural budget deficit to 0.5 percent of GDP. However, in March 2020 the EU declared an exception to these rules for all member states due to the economic downturn caused by COVID-19.

## Supporting Institutions

The Netherlands has several supporting institutions that have a role in implementing, reviewing, and reporting on fiscal rules and targets:

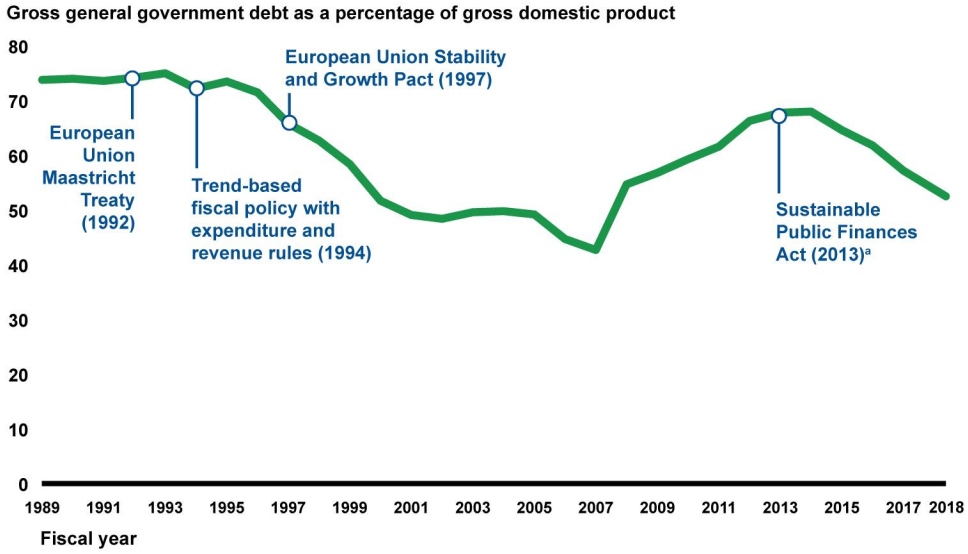
- **Bureau for Economic Policy Analysis**. As the independent fiscal institution for the Dutch government, this bureau produces fiscal and economic forecasts that are used to set the Netherlands' expenditure and revenue targets and to evaluate compliance with the Netherlands' and EU fiscal rules. It produces several budget and economic forecasts, including a medium-term forecast at the beginning of the government's term, short-term economic forecasts published four times per year, and long-term fiscal sustainability studies published every 4 or 5 years.

- **Council of State.** This independent governmental advisory body to the Ministries and Parliament is responsible for assessing the Netherlands' compliance with national and EU fiscal rules. Twice a year it publishes fiscal monitoring reports, which assess the Netherlands' compliance with EU and national fiscal rules.
- **Court of Audit.** As the Netherlands' independent supreme audit institution, the Court of Audit reviews the government's receipts and expenditures to ensure that they are consistent with applicable requirements.
- **Ministry of Finance.** This ministry coordinates the development of the Netherlands' annual budget. It is responsible for implementing the government's budget policy—including the fiscal rules—and keeping to the terms of the coalition agreement. It also develops the Netherlands' Stability Programme, an annual report to the EU that includes an assessment of the Netherlands' compliance with EU fiscal rules.
- **Study Group on Fiscal Space**. The government may convene this independent group in the year before a general election. It is comprised of high-ranking civil servants. It issues a report providing advice to the new government on fiscal policy, including fiscal rules and targets.

## Fiscal Outcomes

As shown in figure 5, the Netherlands has generally seen a decline in debt since the 1990s, coinciding with its adoption of national and EU fiscal rules. Debt increased during the global financial crisis of 2007-2009 and the European sovereign debt crisis of 2010-2012, but subsequently declined beginning in 2015. Officials said that fiscal rules helped improve the government's fiscal position in the wake of these events.

**Figure 5: The Netherlands' Debt-to-Gross Domestic Product Ratio, 1989-2018**




Source: GAO analysis of information from the Netherlands Bureau for Economic Policy Analysis and Ministry of Finance and applicable law. | GAO-20-561

Note: Data represent gross general government debt.

[a]According to Dutch government officials, the reduction in the debt-to-GDP ratio beginning in 2014 was caused by economic conditions. Although the Sustainable Public Finances Act was enacted in 2013, this law codified existing practices.

**Accessible Data for Figure 5: The Netherlands' Debt-to-Gross Domestic Product Ratio, 1989-2018**

| Fiscal Year | Debt to Gross Domestic Product Ratio | Major event |
|---|---|---|
| 1989 | 73.8 | |
| 1990 | 74.0 | |
| 1991 | 73.6 | |
| 1992 | 74.2 | European Union Maastricht Treaty |
| 1993 | 75.0 | |
| 1994 | 72.2 | Trend-based fiscal policy with expenditure and revenue rules |
| 1995 | 73.5 | |
| 1996 | 71.5 | |
| 1997 | 65.8 | European Union Stability and Growth Pact |
| 1998 | 62.7 | |
| 1999 | 58.4 | |
| 2000 | 51.7 | |
| 2001 | 49.1 | |
| 2002 | 48.4 | |
| 2003 | 49.6 | |
| 2004 | 49.8 | |
| 2005 | 49.2 | |
| 2006 | 44.7 | |
| 2007 | 42.7 | |
| 2008 | 54.7 | |
| 2009 | 56.8 | |
| 2010 | 59.3 | |
| 2011 | 61.6 | |
| 2012 | 66.3 | |
| 2013 | 67.8 | Sustainable Public Finances Act |
| 2014 | 68.0 | |
| 2015 | 64.6 | |
| 2016 | 61.8 | |
| 2017 | 57.2 | |
| 2018 | 53.7 | |