
Commitment

“We agree that all of our governments need to take actions to boost confidence and nurture recovery including reforms to raise productivity, growth and demand within a sustainable, credible and non-inflationary macroeconomic framework. We commit to fiscal responsibility and, in this context, we support sound and sustainable fiscal consolidation policies that take into account countries’ evolving economic conditions and underpin confidence and economic recovery.”

Camp David Declaration

Assessment

<table>
<thead>
<tr>
<th>Country</th>
<th>Lack of Compliance</th>
<th>Work in Progress</th>
<th>Full Compliance</th>
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<tbody>
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Background

The economic crisis of 2008 caused government deficits to grow rapidly, as pre-existing imbalances and increasing spending on health and pensions were exacerbated by the economic downturn. Since the initial crisis, approaches to continuing recovery and global economic uncertainty have entered different stages.

In the 2009 L’Aquila Summit declaration “Responsible Leadership for a Sustainable Future,” member countries pledged to deliver macroeconomic stimulus, and support to financial institutions. This was intended to stabilize economies and put them on the path to sustainable growth. Great emphasis was placed on accompanying stimulus with regulatory reform. It was also noted that exit strategies from stimulus would become the prerogative of individual members. Temporary stimulus projects, regardless of their effects on stabilizing economies, pushed governments further into debt.

The 2010 Muskoka Summit declaration acknowledged the fragile state of recovery from the crisis, yet the summit did not include major new commitments to financial recovery or economic stability.


The 2011 Deauville Summit declaration acknowledged the growing strength of the global economy, while emphasizing the need for continued structural reforms and efforts to maintain stability and jobs. It mentioned that the United States and the European Union would focus on fiscal consolidation.4

By the time of the 2012 Camp David Summit, fiscal consolidation has become a priority for all G8 members. All members pledged to undertake fiscal consolidation policies, scaling back spending to reduce deficits rather than enacting extensive further stimulus. The emphasis again is placed on initiating structural reforms, while not damaging growth.5

Related commitments have also been made at G20 Summits. For example, at the 2012 G20 Los Cabos Summit member states committed to “ensure the pace of fiscal consolidation in advanced economies is appropriate to support the recovery, taking country-specific circumstances into account.”6 This was similar to the 2011 G20 Cannes Summit in which advanced economies agreed to adopt a suite of country-specific growth-driven measures in the Cannes Action Plan for Jobs and Growth.7

Among the G8 members, Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and the European Union have therefore adopted a rigid set of country-specific goals in the G20 forum. In that commitment, Canada, and Germany were assessed as having successfully complied, France, Italy, and Japan lacked compliance, and the United States’ compliance was assessed as a “work in progress.” Russia was not considered an advanced economy and thus was not assessed.8

**Commitment Features**

G8 members pledged to undertake fiscal consolidation policies, scaling back spending to reduce deficits rather than enacting further stimulus. Such fiscally prudent measures can include restructuring social spending programs to maximize their efficiency, or reforming transfer programs, by reining in spending on poorly-targeted social programs. Reducing deficits to prudent levels may also require avoiding costly tax expenditures in the form of tax exclusions, deductions, and credits.

This commitment is twofold: firstly, it requires that states take into account “countries’ evolving economic conditions.” Secondly, it states that fiscal consolidation measures must “underpin confidence and economic recovery.”9

To achieve full compliance, a member must restructure one or more government spending programs to increase efficiency and avoiding or reducing tax expenditures. For example, the OECD suggests “reforms, such as those to disability, sickness and unemployment benefit schemes, along with old age pension systems and de facto early retirement schemes, may directly

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5 Camp David Declaration (Camp David, Maryland) 19 May 2012. Date of Access: 15 December 2012. [http://www.g8.utoronto.ca/summit/2012campdavid/g8-declaration.html](http://www.g8.utoronto.ca/summit/2012campdavid/g8-declaration.html)

6 The Los Cabos Growth and Jobs Action Plan (Los Cabos, Mexico) 19 June 2012. Date of Access: 20 December 2012. [http://www.g20.utoronto.ca/2012/2012-0619-loscabos-actionplan.html](http://www.g20.utoronto.ca/2012/2012-0619-loscabos-actionplan.html)


9 Camp David Declaration (Camp David, Maryland) 19 May 2012. Date of Access: 20 December 2012. [http://www.g8.utoronto.ca/summit/2012campdavid/g8-declaration.html](http://www.g8.utoronto.ca/summit/2012campdavid/g8-declaration.html)
contribute to improve fiscal balances, while also boosting employment and thereby raising tax revenues.\textsuperscript{10} Reduction in unemployment benefits, increases in minimum retirement ages, and higher thresholds to qualify for disability benefits are specifically named by the OECD as potentially contributing to fiscal consolidation.\textsuperscript{11} These initiatives may, \textit{inter alia}, demonstrate compliance. Efforts to achieve fiscal consolidation must not inhibit economic growth or recovery.

### Scoring

<table>
<thead>
<tr>
<th>Score</th>
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<tbody>
<tr>
<td>-1</td>
<td>Member has not made an effort to restructure at least one spending program to maximize its quality and fiscal efficiency, AND has not avoided or reduced significant tax expenditures.</td>
</tr>
<tr>
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<td>Member has restructured at least one spending program to maximize its quality and fiscal efficiency, OR has avoided or reduced significant tax expenditures.</td>
</tr>
<tr>
<td>+1</td>
<td>Member has restructured at least one spending program to maximize its quality and fiscal efficiency, AND has avoided or reduced significant tax expenditures.</td>
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**Canada: 0**

Canada has partially complied with its commitment to fiscal responsibility by supporting sound and sustainable fiscal consolidation policies.

On 1 January 2013, the Family Caregiver Tax Credit came into effect.

On 2 January 2013, the Minister of National Revenue Gail Shea announced that the Canadian government would implement the Family Caregiver Tax Credit for 2012 income tax returns.\textsuperscript{12} This and other tax credits implemented by the Canadian government have meant “the average family of four now receives more than CAD3100 in extra tax savings.”\textsuperscript{13}

On 13 November 2012, Finance Minister Jim Flaherty said that the implementation of the CAD5.2 billion cut to government spending announced in the 2012 budget would contribute to the steady decline of program expenses as a share of GDP.\textsuperscript{14} For example, the expected consolidation of services between Health Canada and the Public Health Agency of Canada will “eliminate duplication and find cost savings for more than CAD200 million per year by 2014.”\textsuperscript{15}

At a meeting of the Canadian Finance Ministers on 16 and 17 December 2012, ministers discussed proposals for the expansion of the Canada Pension Plan (CPP) but reached “no consensus.”\textsuperscript{16} Federal Finance Minister Jim Flaherty stated that the economy was still too weak to


\textsuperscript{12} Harper Government provides continued tax relief in 2013 (Ottawa) 2 January 2013. Date of Access: 10 January 2013 [http://www.cra-arc.gc.ca/nwsrm/lrss/2013/m01/nr130102-eng.html](http://www.cra-arc.gc.ca/nwsrm/lrss/2013/m01/nr130102-eng.html)

\textsuperscript{13} Harper Government provides continued tax relief in 2013 (Ottawa) 2 January 2013. Date of Access: 10 January 2013 [http://www.cra-arc.gc.ca/nwsrm/lrss/2013/m01/nr130102-eng.html](http://www.cra-arc.gc.ca/nwsrm/lrss/2013/m01/nr130102-eng.html)


support enhanced CPP benefits, and that employers would suffer from the increase in premiums.\textsuperscript{17} In June 2012, Canada’s parliament passed a bill formally enacting Pooled Registered Pension Plans (PRPP) aimed at self-employed Canadians or those whose workplace is too small to provide a pension plan.\textsuperscript{18} PRPPs are voluntary, and supervised by registered financial institutions.

Critics like the Canadian Labour Congress have noted that PRPPs do not provide a viable alternative to the coverage of the CPP.\textsuperscript{19} PRPPs were an attempt at compromise between the federal and provincial governments on pension reform, but since their implementation in 2012, Jim Flaherty has stated that changes to the CPP will still be necessary.

Jim Flaherty said in January 2013 that he and his fellow finance ministers will discuss changes to the CPP at their next meeting in June 2013.\textsuperscript{20} The Canadian government has the opportunity to make substantive and sustainable reforms to the existing pension plan which may contribute to fiscal consolidation.

The 2013 Federal Budget introduced by Jim Flaherty on 21 March 2013 included several new measures, such as the proposed Canada Job Grant— whose “goal is to match unemployed Canadians with more than 220,000 current job vacancies across Canada.”\textsuperscript{21} While this program “will shift money from existing labour market agreements,”\textsuperscript{22} the budget commits to a CAD900 million increase in spending.\textsuperscript{23} The government intends to offset some of this spending by finding”CAD100 million through further spending restraint and an additional CAD400 million by closing tax loopholes.”\textsuperscript{24}

In order to target tax evasion the budget proposes changes such as, “requiring banks to report international transfers of more than CAD10 000,”\textsuperscript{25} as well as “enhancing corporate anti-loss
trading rules.” These changes account for CAD500 million, while the “remaining CAD400 million will add to the deficit.”

The 2013 Federal Budget also includes the amalgamation of the Department of Foreign Affairs and the Canadian International Development Agency to “improve efficiency.”

Canada has been awarded a score of 0 for having partially complied with its fiscal consolidation commitment.

**Analyst: Nerin Ali**

**France: +1**

France has fully complied with its commitment to fiscal consolidation. It has made efforts to reduce the national debt in ways suitable to the particulars of the French economy.

In a move to reduce military expenditures, French President François Hollande announced on 9 June 2012 that the French military would begin troop withdrawal from Afghanistan in July and complete it by the end of 2013.

On 28 September 2012, France announced a freeze in government spending projected to save approximately EUR10 billion.

On 2 November 2012, the French government announced it would reduce the deficit by EUR30 billion for the 2013 budget, chiefly through tax increases for “big businesses and the wealthy.” French Finance Minister Pierre Moscovici said that spending would be increased for “education, justice, security and the unemployment office,” while other areas would see reduced spending.

On 6 November 2012, the French government announced the creation of annual tax credits to lower costs of labour for employers. The government will finance the tax credits through reductions in government spending and increases in sales tax. The tax credits will begin with

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EUR10 billion in 2013, eventually increasing to EUR20 billion annually in 2015. By December 2012, France’s unemployment rate had reached 10.3 per cent, its highest level in 13 years.

On 21 December 2012, the IMF recognised France’s measures to reduce tax expenditures through re-evaluations of spending by government. In the case of pension reform, it focused on increasing the retirement age, rather than increasing contributions. The reforms have “increased participation of seniors in the labour market, with a positive impact on potential growth.”

However, due to a low economic growth rate, the unemployment rate among “new entrants and seniors” will remain high and could increase.

France agreed to the EU’s Excessive Deficit Procedure to set the objective to reduce the annual budget deficit to three per cent of GDP, down from 4.5 per cent. The objective will be met by freezing, but not cutting, financial transfers from the state to the local governments in 2012 and 2013, and by reducing “the growth rate of social security spending.” The IMF predicted that France would not be able to meet the goal to reduce the deficit of three per cent by the end of 2013. They noted the possibility of permitting an extension to reach the goal without penalty. President François Hollande said that meeting the goal was still possible, but it would be difficult given the fact that France had almost no growth for the first half of 2012.

On February 12, 2013, French Prime Minister Jean-Marc Ayrault said that the country was unlikely to meet the goal to reduce the deficit to three per cent of gross domestic product, due to weak economic growth. The deficit will likely be around 3.7 per cent of GDP for 2013. France eas

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is predicted to achieve only 0.1 per cent growth, down from the goal of 0.8 per cent growth for 2013.\textsuperscript{45}

On 21 March 2013, Hollande announced that France will reduce the value-added tax for housing construction to five per cent starting January 2014.\textsuperscript{46} However, the plan will cost around EUR660 million per year.\textsuperscript{47} As France is expected to miss the deficit reduction target, tax increases are expected, but the focus will be placed increasingly on reducing spending.\textsuperscript{48} France will collect EUR6 billion more in taxes, and will cut spending by EUR14 billion in 2014, with the hopes France will achieve a budget surplus by 2016.\textsuperscript{49}

In April 2013, in an effort to increase confidence in the economy, French President Francois Hollande announced plans to reduce capital gains taxes for business owners.\textsuperscript{50} This tax expenditure is intended to encourage risk and investment.\textsuperscript{51}

On 3 May 2013, the European Commission chose to allow France two additional years to meet its budget deficit targets. Finance Minister Pierre Moscovici stated that France would still aim to adhere to the 3 per cent of economic output target by 2014, but the two years may be necessary if growth is slower than expected.\textsuperscript{52}

France has been awarded a score of 0 for taking into account the evolving economic conditions and the fiscal consolidation measures have underpinned confidence and economic recovery, but France has not implemented sustainable fiscal consolidation measures.

France has attempted with minimal success to enact fiscal consolidation measures while accounting for evolving economic conditions and attempts at recovery.

\textit{Analyst: Raymond Gao}

\textbf{Germany: 0}

Germany has partially complied with its commitment to fiscal consolidation by restructuring social spending programs to maximize efficiency and avoiding or reducing significant tax

\textsuperscript{45} EU says Eurozone economy to shrink again in 2013, Associated Press (Brussels) 22 February 2013. Date of Access: 21 March 2013. \url{http://bigstory.ap.org/article/eu-hopeful-eurozone-will-start-growing-2013}

\textsuperscript{46} UPDATE 2-France plans tax break to ease social housing shortage, Thomson Reuters UK Edition (Alfortville) 21 March 2013. Date of Access: 21 March 2013. \url{http://uk.reuters.com/article/2013/03/21/france-housing-idUKL6N0CD7BM20130321}

\textsuperscript{47} UPDATE 2-France plans tax break to ease social housing shortage, Thomson Reuters UK Edition (Alfortville) 21 March 2013. Date of Access: 21 March 2013. \url{http://uk.reuters.com/article/2013/03/21/france-housing-idUKL6N0CD7BM20130321}


\textsuperscript{49} UPDATE 3-France plans spending cuts as fiscal targets slip, Thomson Reuters US Edition (Paris) 17 April 2013. Date of Access: 21 March 2013. \url{http://www.reuters.com/article/2013/04/17/france-finances-idUSL5N0D413W20130417}


\textsuperscript{52} France’s finance minister says Europe’s deficit move marks end of ‘austerity dogma’, Thomson Reuters UK Edition (Paris) 5 May 2013. Date of Access: 22 May 2013. \url{http://uk.reuters.com/article/2013/05/05/uk-france-eu-dogma-idUKBRE94405G20130505}
expenditures. However, Germany made plans to undertake spending cuts to achieve a balanced budget in the near future.

On 5 November 2012, Germany’s ruling centre-right coalition decided to increase childcare benefits, increase spending on transportation projects and end an unpopular medical charge less than a year before a general election.53 While growth in Germany is expected to fall to around one percent this and next year, the government has reported record tax revenues, enabling the country to reduce new borrowing without pushing through any major budget cuts.54 Beginning in August 2013, the new benefits will cost taxpayers an estimated EUR300 million in 2013 and EUR1.1 billion in 2014.55

On 11 December 2012, the Federal Government adopted the goal of allocating an addition EUR12 billion to education and research.56 The 2013 budget allocates EUR214 million for these tasks, a 16 per cent increase over last year to support disadvantaged children and young people and strengthen vocation education. The funding has increased by 26.5 per cent to strengthen Lifelong Learning as well.57

On 21 December 2012, the Federal Ministry of Finance of Germany reported that federal expenditure from January to November 2012 inclusive amounted to EUR281.6 billion, an increase of EUR8.1 billion (+3.0%) compared with the same period last year.58 The main factor driving this year-on-year increase was a EUR8.7 billion contribution to the capital stock of the European Stability Mechanism.59 In contrast, spending on labor market measures and interest payment was lower on the year.60

On 4 January 2013, Germany planned to undertake additional spending cuts at between EUR5 billion and EUR6 billion in a bid to achieve a structurally balanced budget in 2014.\(^\text{61}\) Deputy Chief of the Conservative CDU party Michael Meister told the Rheinische Post that Germany must close a gap of around EUR5.0 billion to reach the so-called structural zero in 2014.\(^\text{62}\)

On 13 March 2013 the Chancellor’s cabinet reached an agreement on a spending plan that will allow the federal government to reach a structurally balanced budget in 2014.\(^\text{63}\) Under the budget plan, federal spending will be reduced by EUR5.1 billion from 2013 to 2014, while government income from taxes and other sources will increase EUR5.6 billion during the same period.

German Finance Minister Wolfgang Schäuble said that his budget for 2014, involving spending cuts of more than EUR5 million to trim the total below EUR300 billion, was “a strong signal for Europe.”\(^\text{64}\) The plan means Germany will reach budget balance in 2015, a year earlier than required under the “debt brake” written into its constitution.\(^\text{65}\)

Germany has launched several new spending initiatives, without plans to significantly restructure spending programs to increase efficiency. It has not reduced significant tax expenditures. These measures do not address the reduction of Germany’s deficit, and therefore do not appropriately respond to national economic conditions. However, plans to undertake spending cuts to achieve a balanced budget qualify as fiscal consolidation measures, thus adding to Germany’s score regarding this commitment.

To this end, Germany has been awarded a score of 0 for partial compliance.

**Analyst: Ji Won Chun**

**Italy: +1**

Italy has fully complied with its commitment to undertake fiscal consolidation policies in an effort to reinforce economic recovery and reduce the national debt.

On 5 July 2012, the Italian government approved EUR4.5 billion (USD5.58 billion) in spending cuts for 2012. Spending cuts were mainly targeted at shrinking the public sector, including healthcare cuts and a 10 per cent reduction in the number of civil servants.\(^\text{66}\) The Italian


government stated that a spending cut of this size would allow them to postpone the anticipated October 2012 value-added tax increase to July of 2013.  

On 10 October 2012, the Italian government announced a one-percentage point tax cut for the two lowest income tax brackets. The tax break will cost the government EUR5 billion. However a simultaneous implementation of a new financial transaction tax on banks and insurance companies is said to compensate for the tax break. Prime Minister Mario Monti also announced that the postponed two per cent increase in value-added taxes would be reduced to only a one per cent increase.  

On 30 October 2012 Italy passed a new anti-corruption law. The Italian Court of Accounts has estimated that corruption siphons approximately EUR60 billion from the economy annually. Among other measures, the new law guarantees anonymity for whistle-blowers, and requires local administrations to post their budgets on their websites. The new legislation creates an anti-corruption commissioner to address systemic high-profile corruption.  

On 21 December 2012 the Italian parliament approved Prime Minister Mario Monti’s austerity budget for 2013. Following the budget’s passage, Monti resigned from the premiership as previously indicated. On 21 January 2013, Italy’s finance minister Vittorio Grillo told the EU’s Economic and Monetary Affairs Committee that he expects Italy to produce a balanced budget in 2013.  

The parliamentary election held in February 2013, following Prime Minister Monti’s resignation in December 2012, resulted in a political stalemate, with no party winning the majority. Nonetheless, strong anti-austerity sentiments were evident following the results of the election, with 57% of voters supporting parties that opposed austerity measures.  

On 28 April 2013, the new Prime Minister Enrico Letta’s government was sworn in, vowing to take measures that would revive economic growth and address soaring unemployment. He also vowed to cut the pay of cabinet ministers who receive a second salary as members of parliament.  

On 17 May 2013, Letta placed a freeze on an unpopular residential property tax, pending broader property tax reform. The tax was originally introduced by former Prime Minister Mario Monti to

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67 Italy hopes to avoid future VAT increase (Brussels) 3 May 2012. Date of Access: 19 January 2012.  
help reduce the national deficit.\textsuperscript{74} Deputy Prime Minister Angelino Alfano has said that the estimated EUR2 billion expense of freezing the tax will be made up by “spending cuts.”\textsuperscript{75} The Letta government has not announced in detail how it will make up for the lost revenue from the tax, which would have been due in June.\textsuperscript{76} Letta has resisted the partners in his coalition government who urge the abolition of the tax entirely, a move which would cost an estimated EUR8 billion.\textsuperscript{77}

Italy’s major spending cuts have been accompanied by tax expenditures under both the Monti and Letta governments. These measures in combination have been aimed at attending to particular national conditions, while reducing the deficit. Italy is given a score of +1 for full compliance.

\textit{Analyst: Hiwot Telaye}

\textbf{Japan: 0}

Japan has partially complied with its commitment to support sound and sustainable fiscal consolidation policies.

On 3 August 2012, Japan promulgated the Asian Business Location Law as part of an economic stimulus plan.\textsuperscript{78} The law provides tax incentives such as reduced corporate tax burdens, or lower patent fees to companies in order to attract them to Japan.\textsuperscript{79}

By 10 August 2012 both houses of Japan’s parliament approved a bill to double the sales tax—known as the consumption tax—from five per cent to ten per cent by 2015.\textsuperscript{80} The tax is intended to rein in Japan’s public debt.

On 1 October 2012, the Japanese government introduced a new tax on carbon emissions. The tax is thought to generate approximately JPY260 billion annually in additional revenue from April


\textsuperscript{76} Italy freezes hated property tax, doesn’t say how it will make up shortfall, Euronews Business (Lyon). 17 May 2013. Date of Access: 20 May 2013. http://www.euronews.com/2013/05/17/italy-freezes-hated-property-tax-doesn-t-say-how-will-make-up-shortfall/


2016. The tax will be introduced in three separate phases, and will be used to support green initiatives.

As of 18 January 2013, the Japanese government has been finalizing plans to extend mortgage tax relief for an additional four years. The current program of mortgage tax breaks is due to expire at the end of 2013. Japan will extend the current tax relief in an effort to cushion the impact of a predicted fall in home purchases following the raising of the sales tax.

On 11 January 2013, the Japanese government announced a major new stimulus package of JPY10.3 trillion. The new package entailed an increase in government debt without improving economic performance. It is aimed at spurring economic growth by spending on public infrastructure, financial aid for small firms, and incentives for company investment.

On 29 January 2013, the Japanese government proposed spending cuts of a total of JPY92.6 trillion, beginning on 01 April 2013 for the next fiscal year. The plan includes cuts in tax subsidies to local governments and in the salaries of central government officials. These spending cuts are the first proposed in seven years.

On 4 April 2013, Bank of Japan (BoJ) Governor Haruhiko Kuroda announced a stimulus measure of unprecedented size. The BoJ will pour will double the economy’s monetary base in two years, through purchasing government bonds and exchange-traded funds. The monetary base — whose amount outstanding was JPY138 trillion at end 2012 — is expected to reach JPY270 trillion at

end-2014. The yen has fallen since December 2012, reaching a four year low. Though the country charted a 0.9 per cent GDP growth in the first quarter of 2013, and some restored confidence due to the stock market rise, critics continue to have reservations. Rises in exports have not met expectations, and recovery is expected to continue at a moderate pace.

Japan has not refrained from extensive new spending. The country launched a new stimulus package, as well as the recent, well-received stimulus program of buying government bonds. Though efforts at fiscal consolidation have been limited, Japan’s government has focused on ensuring revenue growth and addressing Japan’s specific economic conditions. Japan is thus awarded a score of 0 for partial compliance.

Analysts: Rija Rasul, Emily Johnson

Russia: +1

Russia has fully complied with its commitment on fiscal consolidation.

Russia has restructured its government spending programs.

On 30 November 2011, Russian President Dmitry Medvedev signed Federal Law On the Federal Budget for 2012 and the 2013-2014 Budget Plan. The law approved the level of the budget deficit at 1.5 per cent of GDP. On 5 June 2012, this figure was amended for 0.11 per cent of GDP and on 3 December 2012 — for 0.07 per cent of GDP. According to the Accounts Chamber of the Russian Federation, the federal budget in 2012 was executed with a deficit equal to 0.04 per cent of GDP.

On 3 December 2012, Russian President Vladimir Putin made amendments to the federal budget for 2012. According to these amendments, expenditures in the framework of some federal targeted programmes were cut. For instance, expenses in the framework of the Federal Targeted Programme “Development of the Transport System for 2010-2015” were reduced by more than RUB10 billion (about USD0.33 billion), Federal Targeted Programme “Development of Pharmaceutical and Medical Industry by 2020 and beyond” — by RUB1 billion (USD33 million),

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Federal Targeted Programme “Accessible Environment”— by RUB636 million (approximately USD21 million).\(^{98}\)

On 5 December 2012, Russian President Vladimir Putin signed Federal Law On the Federal Budget for 2013 and the 2014-2015 Budget Plan. Along with this law, Putin signed a law suspending the provisions of federal laws, regulating social guarantees and payments to servicemen and employees of the Ministry of the Interior, till 1 January 2014. Thus, adjustment of the specified payments for inflation will not be carried out in 2013.\(^ {99}\)

On 30 April 2013, President Putin instructed the government to work on the introduction of the luxury tax in Russia.\(^{100}\)

Russia has restructured some of its budget spending programs and no facts of Russia making significant tax expenditures during the compliance period have been registered. Thus, Russia receives a score of +1.

**Analyst: Mark Raghmangulov**

**United Kingdom: 0**

The United Kingdom has partially complied with its commitment to reduce the national deficit by enacting sustainable fiscal policies and consolidating spending.

As of 6 July 2012, the UK was on track to reduce its deficit twice as fast as projected in the March 2012 budget. This was owing to various government departments spending GBP6.7 billion less than anticipated.\(^ {101}\)

On November 2012, the Institute for Fiscal Studies warned that the government may have to find GBP11 billion in spending cuts or tax increases if the economy remained weak.\(^ {102}\)

On 5 December 2012, Britain announced a GBP3 billion cut in the corporate tax rate to begin in 2014. The tax rate will be the lowest and most competitive of any major western economy, a measure aimed at creating jobs and growth.\(^ {103}\)

The Autumn Statement of 5 December 2012 included broad changes to Britain’s budget. This included a cap of one per cent on increases in most working-age benefits for the next three years,

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beginning in April 2013. This will save the government an estimated GBP3.7 billion by 2015/2016.

In March 2013, the Office for Budget Responsibility published its economic and fiscal outlook for 2013. The budget outlined increasing capital spending plans by EUR3 billion a year from 2015 to 2016 and a reduction of departmental spending of EUR1.1 billion in 2013 to 2014. The budget implemented the December 2012 promise to reduce the corporation tax to 20 per cent. It also outlines giving employers GDP2 thousand per year to reduce cost of hiring staff.

In March 2013, the Office for Budget Responsibility published its economic and fiscal outlook for 2013. It projected a further fall in the deficit from 6.5 of the GDP in 2014-2015 to 2.3 per cent in 2017-2018, and recognized government action to reduce expenditure in 2013-2014.

In April 2013, the International Monetary Fund suggested that the UK rethink the pace of their deficit reduction plan after the institution cut is forecast for UK growth for both 2013 and 2014.

In May 2013, the IMF recognized that the government has demonstrated flexibility in its fiscal plan, and has accounted for a slowdown in the pace of consolidation. However, the IMF noted that spending reductions amounting to GBP10 billion for this fiscal year will pose a drag on growth in a time of weak outlook.

The British government has implemented various successful fiscal consolidation policies, however the extent of discretionary measures are posed to undermine growth and economic recovery. The UK is thus far awarded a score of 0 for partial compliance.

Analyst: Rehaan Khan

United States: 0

The US has partially complied with its commitment to fiscal responsibility and support of sustainable fiscal consolidation to reduce GDP-to-debt ratio and improve economic recovery.

Fiscal stimulus measures taken over the past few years were to conclude by the end of 2012 or early 2013 alongside the expiration of the “Bush tax cuts.” The expiration of the tax cuts and fiscal stimulus measures would have led to an automatic budget deficit reduction by USD503 billion between 2012 and 2013.

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The US approached the so-called “fiscal cliff,” which would mark the expiration of the Social Security payroll tax holiday, raising the rate from 4.2 to 6.2 per cent. Spending cuts legislated by the Budget Control Act of 2011 would take effect, with cuts of USD109 billion per year from 2013-2022.112

On 1 January 2013, in response to the “fiscal cliff,” the United States Congress passed the American Taxpayer Relief Act of 2012. The Act extended the Bush-era tax cuts for households with taxable income under USD400 thousand113 while increasing income tax to 39.5 per cent for households with taxable incomes above USD1 million.114 The bill also extended federal unemployment benefits for one year for USD30 billion, without offsetting the cost. This extension therefore adds to the existing national deficit.115 Moreover, the Act extended a pay freeze for members of Congress, but eliminated the two-year pay freeze for government employees.116

Under the new Act, the Congressional Budget Office’s projection over the next ten years is that the total deficit estimate is raised by USD3971 billion and the ratio of debt held by the public increases from 61.3 per cent in 2013 to 77.4 per cent in 2022.117 Furthermore, the CBO’s analysis of the American Taxpayer Relief Act indicated an increase of revenue projection of 8.13 per cent from 2012 to 2013 and an increase of 1.15 per cent of spending in 2013 from the previous year.118

The budget sequestration that began 1 March 2013 overturned the American Taxpayer Relief Act of 2012. The sequestration has resulted in reductions of almost USD85.4 billion during the 2013 fiscal year. The sequestration resulted in the IMF to reevaluate US growth forecasts, expecting a negative impact of at least 0.5 per cent in economic growth.119 The US was also criticized for not having a short-term stimulus plan for fiscal consolidation because of political gridlock. On 10 April 2013, President Barack Obama sent a USD3.8 trillion budget proposal to Congress that

called for increased tax revenue, a method rejected by the Congressional Republicans who seek to cut USD4.6 trillion from federal expenditures.\textsuperscript{120}

In April 2013 at the International Monetary Fund’s spring meetings, finance ministers and world bankers called on the US to address their longer-range debt situation by developing a credible plan to deal with its spending and debts over the next few years.\textsuperscript{121} The IMF is projecting a growth of 1.9 per cent for the US economy; less than its average annual growth and puts the US in the middle of the IMF’s globe three-speed growth. The IMF stressed the need for “credible medium-term fiscal consolidation plans” for the United States.\textsuperscript{122}

On 13 May 2013, the Congressional Budget Office released an updated budget projection for the fiscal years 2013 to 2023. The CBO noted that under the current federal tax and spending legislation, the budget deficit is estimated to shrink to USD642 billion in 2013. The deficit relative to the size of the American economy is estimated to be around 4 per cent, less than half than the deficit in 2009, which was 10.1 per cent of GDP and 7 per cent in 2012.\textsuperscript{123} The CBO predicts that the deficit will continue to fall and will drop to 2.1% of GDP in 2015. In 2014, public debt as a share of the economy is forecast to begin dropping.\textsuperscript{124}

While the American Taxpayer Relief Act provides an increase in revenue, it also increases the deficit over the next ten years. Congress’ response to the ‘fiscal cliff’ and the Relief Act were necessary to strengthen confidence and underpin future growth. However, the US has not yet introduced fiscal consolidation measures beyond a slight restructuring of programs under the Relief Act. While the US expects a large reduction of the deficit in the coming years, it has faced criticism from the IMF on its fiscal consolidation plan and gridlock in Washington. Therefore the United States has been awarded a score of 0 for partial compliance.

\textit{Analyst: Rehaan Khan}

**European Union: 0**

The European Union has not yet complied with its commitment to enact sustainable fiscal policies and consolidate spending.

On 22 November 2012, EU leaders met in a summit to negotiate the proposed draft budget for the next seven years, officially known as the Multi-Annual Financial Framework (MFF) 2014-2020.\textsuperscript{125}

The European Commission had proposed a 4.8 per cent budget increase over the 2007-2013 Multi-Annual Financial Framework.\textsuperscript{126} Cyprus, which holds the rotating presidency of the EU


ministerial meetings, proposed EUR50 billion be trimmed\textsuperscript{127} from the current EUR1.034 trillion budget.\textsuperscript{128}

European Council President Herman van Rompuy proposed that an additional EUR24.5 billion be cut from the budget during the 22 November negotiations.\textsuperscript{129} Britain, Germany, Sweden and the Netherlands demanded additional cuts of at least EUR30 billion.\textsuperscript{130} UK Prime Minister David Cameron recommended a series of trimming measures to van Rompuy, including a pension cap and raising the retirement age for officials.\textsuperscript{131}

By 23 November 2012, the EU leaders had failed to reach agreement on the MFF.\textsuperscript{132}

EU leaders met again on 7-8 February 2013 to reconvene negotiations. On 8 February 2013, the final MFF agreement was reached.\textsuperscript{133} The result was the first net reduction in the EU’s long-term budget in history. An additional EUR12 billion was cut from the proposal tabled in November.\textsuperscript{134}

On 13 March 2013, the European Parliament voted to reject the EU’s budget unless significant changes were arranged.\textsuperscript{135} They proposed that unspent funds be reallocated to other priorities in the budget, rather than returning to national coffers. Other demands included more funding for growth-oriented areas like research and education.\textsuperscript{136}

On 27 March 2013, the European Commission tabled an amendment to the budget requiring EUR11.2 billion to cover the EU’s unpaid bills. On 6 May 2013, the Commission, Parliament and Council of Ministers agreed to pay out the EUR11.2 billion in two installments. They agreed on 14 May 2013 that EUR7.3 billion was to be added to EU spending, with the second installment scheduled for after the EU summer break. EU ministers aim to conclude budget talks by June 2013.

European Council President van Rompuy and most of the European Union have acknowledged the need for restraint and fiscal consolidation. Leaders had successfully reduced the starting figure for budget negotiations, only to be confronted by European Commission’s demand to increase spending. Leaders have demonstrated a willingness to respond to national economic conditions, aiming to strengthen confidence and growth. However, no measures have generated the consensus necessary to approve the budget, and EU nations remain divided by questions of consolidation and austerity. Therefore the EU is awarded a score of 0 for partial compliance pending the completion of MFF negotiations.

Analyst: Emily Johnson

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