2. Macroeconomy: Fiscal Consolidation

Commitment [#48]:

"Advanced economies will formulate and implement clear, credible, ambitious and growth-friendly medium-term fiscal consolidation plans in line with the Toronto commitment, differentiated according to national circumstances."

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina		n/a	
Australia			+1
Brazil		n/a	
Canada			+1
China		n/a	
France			+1
Germany			+1
Indonesia		n/a	
India		n/a	
Italy			+1
Japan			+1
Korea			+1
Mexico		n/a	
Russia		n/a	
Saudi Arabia		n/a	
South Africa		n/a	
Turkey		n/a	
United Kingdom			+1
United States		0	
European Union		n/a	
Average Score		+0.89	

Background:

The G20 leaders, finance ministers, and central bank governors have underscored the importance of sustainable public finances since the G20 Finance Ministers and Central Bank Governors' Meeting in Washington in April 2010. Under the G20 Framework for Strong, Sustainable, and Balanced Growth, it was agreed that sustainable growth should be based on sustainable public finances.[166] During the G20 Finance Ministers and Central Bank Governors' Meeting in Busan, Korea in June 2010, the leaders solidified their commitment to and the need for fiscal consolidation, and stated that recent economic events highlighted the need for sustainable public finances and the need to "deliver fiscal sustainability, sustainability, differentiate for and tailored to national circumstances.[167]

[166] G20 Finance Ministers and Central Bank Governors' Communiqué, G20 Finance Ministers and Central Bank Governors' Meeting (Washington) 23 April 2010. Date of Access: 14 October 2010. http://www.g20.utoronto.ca/2010/g20finance100605.html

[167] G20 Finance Ministers and Central Bank Governors' Communiqué, G20 Finance Ministers and Central Bank Governors' Meeting (Busan) 5 June 2010. Date of Access: 14 October 2010. http://www.g20.utoronto.ca/2010/g20finance100605.html

In the Toronto Communiqué, the leaders affirmed that "Sound fiscal finances are essential to sustain recovery, provide flexibility to respond to new shocks, ensure the capacity to meet the challenges of aging populations, and avoid leaving future generations with a legacy of deficits and debt."[168] The leaders established that fiscal plans have to be "credible, clearly communicated, differentiated to national circumstances, and focused on measures to foster economic growth." In addition, the leaders also warned that "failure to implement consolidation where necessary would undermine confidence and hamper growth."[169]

During the G20 Seoul Summit the leaders formulated specific medium-term fiscal consolidation strategies and policy actions tailored to their individual national circumstances under the *Policy Commitments by G20 Members* document.[170] The commitment calls on advanced economies to formulate and implement clear, credible, ambitious, and growth-friendly medium-term fiscal consolidation plans in line with the Toronto commitment. According to *The G20 Toronto Summit Declaration*, the leaders agreed that fiscal consolidation plans by advanced economies will "need to begin in 2011, and earlier for countries experiencing significant fiscal challenges at present"[171]

Commitment Features:
The commitment is composed of two distinguished features. First, advanced economies are called on to formulate clear, credible, ambitious, and growth friendly medium-term consolidation plans. Second, advanced economies are called on to implement the stated consolidation plans. Given that the first feature has been fulfilled through the *Policy Commitments by G20 Members* document, members are required to implement policy goals as outlined under their national medium-term fiscal consolidation plan, in order to register full compliance.

Given that the G20 first emphasized the importance of fiscal prudence in April 2010 during the G20 Finance Ministers and Central Bank Governors' Meeting in Washington members could have announced fiscal consolidation strategies as early as April 2010 to register full compliance.

The advanced economies whose compliance is to be assessed and scored are: Australia, Canada, France, Germany, Italy, Japan, Korea, United Kingdom and the United States.[172]

Scoring Guidelines:

-1	Member does not implement any policy plans, in line with its G20 differentiated approach to fiscal consolidation.
0	Member partially implements its G20 differentiated approach to fiscal consolidation.
+1	Member fully implements its G20 differentiated approach to fiscal consolidation.

Australia: +1
Australia has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

[168] The G20 Toronto Summit Declaration, G20 Toronto Summit (Toronto) 27 June 2010. Date of Access: 17 October 2010. http://g20.org/Documents/g20_declaration_en.pdf
[169] The G20 Toronto Summit Declaration, G20 Toronto Summit (Toronto) 27 June 2010. Date of Access: 17 October 2010. http://g20.org/Documents/g20_declaration_en.pdf
[170] Policy Commitments by G20 Members, G20 Information Centre (Toronto) 12 November 2010. Date of Access: 13 March 2011. http://www.g20.utoronto.ca/2010/g20seoul-commitments.pdf
[171] The G20 Toronto Summit Declaration, G20 Information Centre (Toronto) 27 June 2010. Date of Access: 13 March 2011. http://www.g20.utoronto.ca/2010/to-communique.html
[172] The G20 Toronto Summit Declaration, G20 Toronto Summit (Toronto) 27 June 2010. Date of Access: 17 October 2010. http://www.g20.utoronto.ca/2010/g20seoul-commitments.pdf

Australia entered the Toronto Summit with almost no net government debt and in strong fiscal shape overall. Following its economic recovery from the recent global financial crisis and according to research by BMO Capital Markets; Australia is expected to return the budget to surplus by 2012/13.[173]

The Australian Budget overview for 2011–2012, published by the Australian government on 10 May 2011, contends that the country remains on track for a surplus in 2012–2013. This represents the fastest fiscal consolidation in 40 years. The 2010–2011 deficit stood at 3.3 per cent of GDP while the 2011–2012 deficit is projected to stand at 1.4 per cent of GDP followed by a surplus of 0.3 per cent of GDP in 2012 – 2013.[174]

The Major Savings section of the 2011-2012 National Budget indicates that the government, due to its fiscally disciplined approach, reaped savings of AUD468 million in 2010–2011, and is expected to reap savings of AUD3.8 billion in 2011–2012. Over a five-year time frame, these savings are expected to total AUD22 billion dollars. The Australian saving programs put forth the implementation of expenditure cuts in areas such as defence and family transfers as well as the reform and integrity of the tax system.[175]

Australia is already in a strong fiscal position and is well on track to returning to surplus by 2012–2013. It definitely meets the goal to ensure medium-term consolidation. Thus Australia has been awarded a score of +1 for full compliance with this commitment.

Analyst: Faiyyad Hosein

Canada: +1

Canada has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

Canada entered the Toronto Summit with a federal deficit of about 3 per cent of GDP and a combined provincial deficit of around 2 per cent of GDP.[176]

On 4 October 2011, the Ministry of Finance introduced the draft bill "Keeping Canada's Economy and Jobs Growing Act"[177], which puts forth the following measures: (1) the phase-out of direct subsidy of political parties; (2) the elimination of various tax loopholes that allowed both individuals and businesses to not pay their fair share of taxes. Those newly introduced measures aim to both reduce expenditures and generate income in order to reduce Canada's budget deficit.

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[173] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[174] Budget Overview 2011 – 2012, Australian Government (Sydney) 10 May 2011. Date of Access: 8 October 2011. http://cache.treasury.gov.au/budget/2011-12/content/download/Overview.pdf

[175] Appendix F, Major Savings in the 2011 – 2012 Budget, Australian Government (Sydney) 10 May 2011. Date of Access: 8 October 2011. http://www.budget.gov.au/2011-12/content/overview/html/overview_45.htm

[176] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[177] Keeping Canada's Economy and Jobs Growing Act, Department of Finance (Ottawa) 4 October 2011. Date of Access: 8 October 2011. http://parl.gc.ca/HousePublications/Publication.aspx?Docid=5155334&file=4

On 6 June 2011, Canadian Minister of Finance James Flaherty released the 2011 National Budget, also known as the next phase of Canada's Economic Action Plan - the usual release date for the National budget is in March and this year's delay can be attributed to the dissolution of the Canadian parliament in March 2011.[178] In the 2011 National Budget, the projected deficit was revised down by CAD4.3 billion for 2010–2011, but revised upwards for 2011–2012 by CAD2.7 billion for an overall deficit reduction of CAD1.6 billion during this time frame. The projected budgetary balance shows the government is on track to eliminating the federal deficit as the government should be in surplus by 2015–2016.[179]

The Canadian Department of Finance publishes a monthly Fiscal Monitor whose aim is to track national revenues and expenses, the national deficit and the financing requirement of the government. The July 2011 Fiscal Monitor shows that the Canadian government is successfully tracking the deficit reduction; a budgetary deficit of only CAD7.1 billion was registered in the first four months of Canada's 2011 fiscal year (April – July) whereas a budgetary deficit of CAD7.7 billion was registered for the same first four months of the 2010 fiscal year.

The Government of Canada further adopts a policy of strategic reviewing in order to facilitate responsible spending. It has now completed the first four-year cycle of the strategic review exercise. The first cycle of strategic reviewing combined with reductions is expected to lead to savings of over CAD11 billion over a seven-year period that extends until 2014-2015. The savings identified will be implemented by a number of different government programs and institutions including Fisheries and Oceans Canada, Industry Canada and Public Prosecution Service of Canada.[180] These ongoing strategic reviews show that the Canadian government is committed to cutting costs, thus ensuring fiscal consolidation.

Given both the successful policy formulation through its Economic Action plan and the successful implementation of budget reduction measures, which lead to a decrease in borrowing year after year, Canada has fully complied with its commitment. It has thus been awarded a score of +1.

Analyst: Faiyyad Hosein

France: +1

France has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

France entered the Toronto Summit with a budget deficit of 8 per cent of GDP.[181]

France's initial consolidation plan included cuts in expenditure coming from the following areas; (1) the retirement age being pushed to 62 from 60 (2) the replacement of only 50 per cent of existing bureaucrats; (3) the withdrawal of tax breaks worth EUR10 billion.[182] France

[178] Budget in Brief, Department of Finance Canada (Ottawa) 6 June 2011. Date of Access: 8 October 2011. http://www.budget.gc.ca/2011/glance-apercu/brief-bref-eng.pdf

[179] Budget in Brief, Department of Finance Canada (Ottawa) 6 June 2011. Date of Access: 8 October 2011. http://www.budget.gc.ca/2011/glance-apercu/brief-bref-eng.pdf

[180] Annex 1: Responsible Spending, Department of Finance (Ottawa) 22 March 2011. Date of Access: 8 October 2011.

[181] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[182] French Budget Aims to Cut Deficit, BBC News (London) 29 September 2010. Date of Access: 29 October 2010. www.bbc.co.uk/news/business-11434531

subsequently passed the law increasing the retirement age from 60 to 62 in line with its fiscal consolidation plan.[183]

On 28 September 2011, due to mounting pressure in light of its mounting public debt and the threat of losing its AAA rating, France targeted the deficit with a new 2012 austerity budget also known as the Project Finance Act.[184] This new austerity budget seeks to reduce the deficit from 5.7 per cent of GDP in 2011 to 4.5 per cent of GDP in 2012, to 3 per cent of GDP in 2013, to 2 per cent of GDP in 2014, and to 1 per cent of GDP in 2015.[185] This austerity plan focuses on raising the tax burden, closing tax loopholes and implementing a one-off tax on the turnover of large companies that are subject to carbon dioxide quotas. The proposed budget is now slated to go to the National Assembly and the Senate for debate.[186]

According to the September 2011 IMF Fiscal Monitor Report, France has potentially important reforms underway that will be successful in improving budget processes. The IMF projects that France's budget deficit will fall from 5.9 per cent of GDP in 2011 to 4.6 per cent of GDP in 2012, implying that the implementation of these austerity measures will have a true baseline effect on France's fiscal consolidation efforts. The IMF projections were also made prior to France's latest austerity budget in September 2011, which, if passed, will further enhance fiscal consolidation.[187]

The French initial consolidation plan works towards reducing the national budget deficit and France is building momentum to further consolidation with its latest September 2011 fiscal plan. Thus France is awarded a score of +1 for compliance with this commitment.

Analyst: Faiyyad Hosein

Germany: +1

Germany has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans. The German budget deficit for 2010 was 3.5 per cent of GDP. Despite being one of the lowest budget deficits in the EU, it still exceeds the reference value of 3 per cent of GDP set by the European Stability and Growth Pact.[188]

On 2 July 2010, the German government implemented the Austerity Program to control the budget deficit with tax hikes, new taxes and radical savings in areas such as defence as well as to rein in the budget deficit from 2011.[189] The spending cuts and tax hikes are part of Chancellor

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[183] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[184] French budget plan calls for €1 billion in spending cuts, The New York Times (Paris) 28 September 2011. Date of Access: 8 October 2011. http://www.nytimes.com/2011/09/29/business/global/france-announces-sharply-reduced-budget-for-2012.html

[185] Project Finance Act 2012, Ministry of Finance and Industry (Paris) 28 September 2011. Date of Access: 8 October 2011. http://www.gouvernement.fr/gouvernement/projet-de-loi-de-finances-pour-2012

[186] France targets deficit with 2012 austerity budget, France 24 International news (Paris) 28 September 2011. Date of Access: 8 October 2011. http://www.france24.com/en/20110928-france-valerie-pecresse-budget-austerity-debt-paris-sarkozy-economy-euro-zone

[187] IMF Fiscal Monitor, International Monetary Fund (Washington) September 2011. Date of Access: 8 October 2011.http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[188] German Federal Ministry of Finance (Berlin) 13 January 2011. Date of Access: 24 March 2011. http://www.bundesfinanzministerium.de/nn_103442/EN/Topics/Fiscal-policy/Articles/13012011-NKA.html?__nnn=true

[189] Berlin Budget Deficit Much Lower than Expects, Spiegel Online (Berlin) 22 June 2010. Date of Access: 17 October 2010. www.spiegel.de/international/business/0,1518,702114,00.html

Angela Merkel's pledge to foster a new culture of stability in Europe by helping to reduce the burden of public debt.[190]

According to the September 2011 IMF Fiscal Monitor, Germany's fiscal headline balance has declined faster than expected due to a revival of the economic activity. Germany's fiscal deficit is projected to fall from 1.7 per cent of GDP to 1.1 per cent of GDP from 2011-2011 in line with its plan of fiscal consolidation. It also stated that Germany has heavily focused on social transfer cuts and has considered a reduction in defence spending in order to reduce its deficit.[191]

According to the November 2010 IMF Fiscal Monitor, Germany also adopted new green taxes as a revenue measure to reduce the deficit. Germany's reform proposals on healthcare include a three-year freeze on prices of pharmaceutical covered by statutory health insurance and an increase of the rebate drug manufacturers are expected to pay.[192]

The German debt brake law limits the amount of the debt the country can have and forces the federal and state governments to eliminate their structural budget deficits over the next five to ten years. The German debt brake law is a model that the rest of Europe has become interested in following.[193] From 2011 onwards, structural borrowing will be gradually reduced and then from 2016 onwards, the Federation's net borrowing will not be permitted to exceed 0.35 per cent of Germany's GDP.[194]

The German Federal Ministry of Finance publishes a monthly report, which provides key statistics and trends on the federal budget as well as the fiscal policy and consolidation. The latest report, published in September 2011[195], states that Federal expenditures fell by 1.6 per cent or EUR3.5 billion from 2010 and revenues increased by 5.8 per cent or EUR9.3 billion from 2010. The deficit for the period of January to August 2011 was EUR36.4 billion, which fell significantly from the registered EUR49.2 billion during the period of January to August 2010. It is overall anticipated that new borrowing will decrease to around EUR30 billion.

Given Germany's firm policy formulation including the Austerity Program and the new debt brake law as well as the positive results it has achieved in reducing debt and borrowings, Germany has been awarded a score of +1.

Analyst: Faiyyad Hosein

Italy: +1

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190 Germany Austerity Program offers chance for new beginning, Spiegel Online (Berlin) 2 June 2010. Date of Access: 17 October 2010. www.spiegel.de/international/germany/0,1518,698378,00.html

191 IMF Fiscal Monitor, International Monetary Fund (Washington) September 2011. Date of Access: 8 October 2011.http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

192 IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

193 Analysis: Debt Brake may be one German export too many, Reuters (Berlin) 7 February 2011. Date of Access: 8 October 2011. http://www.reuters.com/article/2011/02/07/us-eurozone-germany-debt-idUSTRE71637820110207

194 The Debt Brake, Federal Ministry of Finance (Berlin) Date of Access: 8 October 2011. http://www.bundesfinanzministerium.de/nn_103466/EN/Press-and-publications/Media-Center/Audio-and-video-content/Audios/the-debt-brake-article.html?__nnn=true

195 Abstract of the Federal Ministry of Finance's Monthly Report, Federal Ministry of Finance (Berlin) September 2011. Date of Access: 8 October 2011. http://www.bundesfinanzministerium.de/nn_139656/DE/BMF__Startseite/Publikationen/Monatsbericht__des__BMF/2011/09/english/translated-abstracts/110922agmb001,templateId=raw,property=publicationFile.pdf

Italy has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

Italy entered the 2010 Toronto Summit with a budget deficit of around 5 per cent of GDP and a debt-to-GDP ratio that stood at over 100 per cent of GDP.[196]

The initial fiscal consolidation plan set out by Prime Minister Silvio Berlusconi on 26 May 2010 announced Italy's planned EUR24.9 billion of budget cuts. Italy's cuts include: (1) a three-year wage freeze for civil servants; (2) a 10 per cent budget cut for ministries; (3) EUR4.5 billion in reduced transfers to regional governments; (4) a partial amnesty on illegal construction; (5) a crackdown on tax evasion.[197] This EUR25 billion austerity budget, also known as the stability plan, was subsequently approved by the Italian government, showing a firm and comprehensive plan to reduce their budget deficit.[198]

Since 2010, Italy has maintained its sector wage freeze for public servants and is also planning to enhance its tax revenue administrations to decrease tax evasion going forward. It has also announced plans to centralize pharmaceutical procurement, reduce prices of generics, introduce a tendering system for generics and introduce a permanent tax on bonuses and stock options paid to managers and independent professionals in the financial sector. [199]

According to the September 2011 IMF Fiscal Monitor Report, the Italian budget deficit is projected to fall from 4 per cent of GDP in 2011 to 2.4 per cent of GDP in 2012, thus indicating that Italy would be successful in its fiscal consolidation efforts. According to the report, the measures taken to increase the retirement age and streamline the pension system will reap savings of 0.5 to 1.5 per cent of GDP by 2030. The report also outlines that the draft of a balanced budget amendment to the constitution was approved by the Italian government and is to be further discussed.[200]

On 14 September 2011, a new EUR54 billion austerity package was approved by the Italian parliament that seeks to balance the budget by 2013.[201] The approved package of measures includes a special 3 per cent levy on incomes over EUR300, 000, a 1 per cent increase in value-added tax, further adjustment to pension rules, and cuts to government spending.[202]

According to the Italian Ministry of Economy and Finance's update of the 2011 Financial and Economic document, published on 22 September 2011, the government will address the deficit by

[196] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[197] Berlusconi says $30 billion of budget cuts needed to save Euro, Bloomberg Businessweek (New York) 26 May 2010. Date of Access: 17 October 2010. www.businessweek.com/news/2010-05-26/berlusconisays-30-billion-of-budget-cuts-needed-to-save-euro.html

[198] Italy OKs 2011 Austerity Budget, Pledges growth push, Wall Street Journal (New York) 14 October 2010. Date of Access: 17 October 2010. online.wsj.com/article/BT-CO-20101014-706639.html

[199] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[200] IMF Fiscal Monitor, International Monetary Fund (Washington) September 2011. Date of Access: 8 October 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[201] Berlusconi's austerity package wins final approval in Italian parliament, Bloomberg (Rome) 14 September 2011. Date of Access: 8 October 2011. http://www.bloomberg.com/news/2011-09-14/berlusconi-s-austerity-package-wins-final-approval-in-italian-parliament.html

[202] Crucial Italy Austerity Package enters home stretch, Reuters (Rome) 11 September 2011. Date of Access: 8 September 2011. http://ca.reuters.com/article/businessNews/idCATRE78A3TG20110911

controlling government ministry expenditure, transfers to local governments and provisions to public sector employees as well as implementing pension reform for women in the private sector who will see their retirement age raise from 60 to 65 starting in 2014.[203] The Italian Ministry of Finance and Economy is also committed to bringing forth a tax and welfare reform in 2012, if the EUR20 billion-reduction of tax expenditure and welfare benefits fails to materialize.[204] New measures including the rise in value-added tax, the rise in taxes on financial operators and energy companies, the reorganization of tax on financial income and the collection of new revenues from excise and gaming duties will further help to bolster revenues. The Italian government projects deficits to fall from 3.9 per cent of GDP in 2011 to a surplus of 0.2 per cent of GDP in 2014.[205]

Given the Italian government's implementation of its initial fiscal consolidation plan, the current downward trend in deficit ratios and the approval of a new austerity plan in September 2011, Italy has been awarded a score of +1 for its compliance to fiscal consolidation.

Analyst: Faiyyad Hosein

Japan: +1

Japan has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

On 22 June 2010, the Japanese government unveiled its fiscal plan that will tackle public debt and reduce budget deficit.[206] The fiscal plan calls for bringing the primary budget balance into surplus by 2020/21 and lowering the debt-to-GDP ratio from 2021/22.[207]

The September 2011 IMF Fiscal Monitor Report for Japan states that both reconstruction and disaster relief are the key short-term priorities. The report also puts forth that Japanese authorities are introducing new measures to bring the Japanese debt-to-GDP ratio downward by 2020. However, fiscal deficits remain at near level records and continue to rise. The natural and nuclear disasters have had an impact on public finances on both the revenue and expenditure sides, and the Japanese budget deficit is expected to be the highest amongst those of the G20 countries. Japan's budget deficit for 2011 stands at 10.3 per cent of GDP, but it is forecasted to decrease to 7.8 per cent of GDP in 2013.[208]

According to the highlights of the Japanese budget for FY2011, there has been a clear implementation of policies that work towards the goal of fiscal consolidation. Such policies include the maintenance of fiscal discipline the government had previously committed to and the imposition of a JPY44 trillion limit on government bond issuance. Other implementation

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[203] Update of the 2011 Economic and Financial Document, Italian Ministry of Economy and Finance (Italy) 22 September 2011. Date of Access: 8 September 2011. http://www.mef.gov.it/en/doc-finanza-pubblica/dfp.def.asp

[204] Update of the 2011 Economic and Financial Document, Italian Ministry of Economy and Finance (Italy) 22 September 2011. Date of Access: 8 September 2011. http://www.mef.gov.it/en/doc-finanza-pubblica/dfp.def.asp

[205] Update of the 2011 Economic and Financial Document, Italian Ministry of Economy and Finance (Italy) 22 September 2011. Date of Access: 8 September 2011. http://www.mef.gov.it/en/doc-finanza-pubblica/dfp.def.asp

[206] FACTBOX-Budget deficits of richer G20 nations, Reuters (Washington) 27 June 2010. Date of Access: 27 October 2010. www.reuters.com/article/idUSN2412302520100627

[207] FACTBOX-Budget deficits of richer G20 nations, Reuters (Washington) 27 June 2010. Date of Access: 27 October 2010. www.reuters.com/article/idUSN2412302520100627

[208] IMF Fiscal Monitor, International Monetary Fund (Washington) September 2011. Date of Access: 8 October 2011.http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

measures included the reduction of 10-20 per cent of road improvement and flood control projects, as well as a reduction of subsidies by about 20 per cent to support the introduction of photovoltaic power generation devices in private houses.[209]

In the medium term, the policies outlined above including the imposition of a limit on government bond issuance and the implementation of expenditure cuts should return once Japan recovers from the March calamities. As stated above, Japan formulated a fiscal plan that aims to reduce budget deficits and while implementation is halted due to extenuating circumstances, the IMF expects that the new measures will induce a fall in both the fiscal deficit and debt-to-GDP ratio by 2020. Thus Japan has been awarded a score of +1.

Analyst: Faiyyad Hosein

Korea: +1

Korea has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

Korea entered the Toronto Summit with a balanced budget, and therefore needed little fiscal consolidation both in terms of policy formulation and implementation due to its satisfactory economic state.[210]

A press release from the Korean Ministry of Strategy and Finance, issued on 29 September 2011, shows that Korea's strong fiscal position remains intact and that the country is well on its way of achieving a balanced budget. The press release states that the "2012 budget focuses on job creation while pursuing fiscal balance in 2013."[211] It states that Korean government will keep its spending increases to the lowest possible level until the country achieves a balanced budget in 2013.[212] In 2011, the spending increase was 2.6 per cent lower than the revenue increase, and it is projected to be 4 per cent lower than the revenue increase in 2012, clearly indicating a surplus of new revenues.[213] The fiscal deficit stood at 2 per cent of GDP in 2011, is projected to stand at 1 per cent of GDP in 2012 and 0 per cent of GDP by 2013.[214]

According to the November 2010 IMF Fiscal Monitor Report, Korea is considered a low deficit country.[215] The report also puts forth that Korea announced the adoption or extension of green taxes in line with its policy formulation.[216] The Korean government also plans to enhance its revenue administration to reduce tax evasion. The medium-term projections by the IMF assume

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[209] Highlights of the budget for FY2011, Ministry of Finance, Japan (Tokyo) December 2010. Date of Access: 24 March 2011. http://www.mof.go.jp/english/budget/e20101224a.pdf

[210] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[211] 2012 Budget Centers on Job Creation while Pursuing Fiscal Balance in 2013, Korean Ministry of Strategy & Finance (Seoul) 27 September 2011. Date of Access: 7 October 2011. http://english.mosf.go.kr/

[212] 2012 Budget Centers on Job Creation while Pursuing Fiscal Balance in 2013, Korean Ministry of Strategy & Finance (Seoul) 27 September 2011. Date of Access: 7 October 2011. http://english.mosf.go.kr/

[213] 2012 Budget Centers on Job Creation while Pursuing Fiscal Balance in 2013, Korean Ministry of Strategy & Finance (Seoul) 27 September 2011. Date of Access: 7 October 2011. http://english.mosf.go.kr/

[214] 2012 Budget Centers on Job Creation while Pursuing Fiscal Balance in 2013, Korean Ministry of Strategy & Finance (Seoul) 27 September 2011. Date of Access: 7 October 2011. http://english.mosf.go.kr/

[215] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[216] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

that the government will resume its consolidation plans and balance the budget (excluding social security funds) in 2014.[217]

Korea is already in an excellent fiscal position and needed little policy planning in terms of reaching a balanced budget and reducing deficits. As stated above, Korea's spending is inferior to its revenues, and the country will have a balanced budget by the short-term target of 2013. Thus Korea has been awarded a score of +1.

Analyst: Faiyyad Hosein

United Kingdom: +1

The United Kingdom has fully complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

On 20 October 2010, the UK Treasury released the 2010 Comprehensive Spending Review. The Spending Review seeks to reduce the budget deficit by raising tax revenue by an estimated GBP7 billion by 2014-2015 by combating tax fraud, evasion and avoidance. The government will also look at the potential sale of public sector assets to raise revenue and cut administration budgets across all of Whitehall to save GBP5.9 billion per annum until 2014-2015. The Comprehensive Spending Review further outlines a plan to decrease the public sector net debt as a percentage of GDP by 2015-2016.[218]

According to the September 2011 IMF Fiscal Monitor Report, the UK's deficit is projected at 8.5 per cent of GDP in 2011 and then down to 7 per cent of GDP in 2012, showing that the UK's plan of fiscal consolidation is bearing fruit.[219]

In order to work towards fiscal consolidation, the United Kingdom has complemented its revenue measures with VAT increases. The United Kingdom also announced a sector wage freeze to decrease its wage bill and plans to reduce tax evasion by enhancing its revenue administration. In order to reduce its healthcare bill, the United Kingdom announced plans to introduce value-based pricing for pharmaceuticals. It also put forth a proposal to reduce future defence spending by 8 per cent from 2011-2012 and 2014-2015.[220]

The UK Government's 2011 budget proposes a total consolidation of GBP126 billion per annum to be achieved by 2015-2016. The consolidation proposal introduces the following measures: (1) a net increase in taxation of GBP30 billion; (2) spending reductions of GBP95 billion. The implementation of those measures is now underway.[221] The commitment of the UK government to fiscal tightening is made evident by the planned GBP14 billion in spending cuts in 2011-2012. This is further buttressed by the fact that its actual 2011-2012 spending cuts were higher than those originally planned; they amounted to GBP16 billion.[222]

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[217] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[218] Spending Review 2010, HM Treasury (London) 20 October 2010: Date of Access: October 21 2010. cdn.hm-treasury.gov.uk/sr2010_completereport.pdf

[219] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[220] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[221] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

[222] IMF Fiscal Monitor, International Monetary Fund (Washington) 10 November 2010. Date of Access: 24 March 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf

The UK's Office of Budget Responsibility forecasts that net public sector borrowing will decline from its peak of 11.1 per cent of GDP in 2009-2010 to 1.5 per cent of GDP in 2015-2016. Seventy-three per cent of the entire planned fiscal consolidation comes from spending cuts that will extend until 2014-15. These cuts will then rise to 76 per cent in 2015-16. The projections of the UK government are consistent with those of the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), thus bolstering their soundness.[223]

Through its comprehensive spending review, the United Kingdom has outlined a firm plan for mid-term fiscal consolidation. Furthermore, internal as well as OECD and IMF projections clearly show that the reduction of the deficit will be successful. Thus the United Kingdom has been awarded a score of +1 for its compliance with this commitment.

Analyst: Faiyyad Hosein

United States: 0

Italy has partially complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans.

The United States entered the Toronto Summit with a budget deficit of USD1.3 trillion, which is equivalent to about 9 per cent of its GDP.[224]

According to the Office of Management and Budget of the White House, the USYF2012 Budget plans for a deficit reduction of USD1 trillion; two-third of which would be achieved by reduced spending. The plan accounts for a five-year non-security discretionary spending freeze that would reduce the deficit by USD400 billion. The plan proposes to achieve a 10-year deficit reduction of USD1.1 trillion by excluding war savings and not extending the 2001 and 2003 tax cuts for high-income earners. The deficit is projected to move from USD1.645 trillion in 2011 at 10.9 per cent of GDP to USD627 billion and 3 per cent of GDP in 2017 thanks to this comprehensive fiscal plan.[225]

The USFY2012 budget includes more than USD1 trillion in deficit reduction; it has identified 120 terminations, reductions and savings that will save approximately USD20 billion per annum. Some of these terminations include the termination of the Adolescent Family Life Program, the C-17 Air Transport Reduction Program, and the Deep Underground and Engineering Laboratory Program amongst many others.[226]

The September 2011 IMF Fiscal Monitor projected that the U.S. budget deficit will fall over the medium term as it is projected at 9.6 per cent in 2011, 7.9 per cent in 2012, and 6.2 per cent in

[223] Budget 2011, HM Treasury (London) 23 March 2011. Date of Access: 24 March 2011. http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf

[224] A G20 Summit Primer, BMO Capital Markets (Toronto) 23 June 2010. Date of Access: 17 October 2010 www.bmonesbittburns.com/economics/reports/20100623/sr100623.pdf

[225] http://www.whitehouse.gov/omb/overview

[226] Fiscal Year 2012 Terminations, Reductions & Savings: Budget of the US Government, The White House Office of Management and Budget (Washington) 14 February 2011. Date of Access: 27 March 2011. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/trs.pdf

2013. The U.S. is thus moving towards balancing its books over the medium-term time frame.[227] The IMF states that the United States credibility could weaken if comprehensive and motivated plans to reduce debt are not produced.

The United States government also implemented the "Pay As You Go Act," signed into law in 2010, upholding that all new, non-emergency entitlement spending and revenue losses must be offset by savings or revenue increases, with no exception for new tax cuts. This means that government cannot pass any new laws that will actually increase the budget deficit.[228]

On 2 August 2011, the United States raised its debt ceiling when the U.S. Congress approved the Budget Control Act Amendment; a legislation that increases the debt limit of USD400 billion and introduces measures that would allow to further raise the limit in two additional steps for a cumulative increase of between USD 2.1 trillion and USD 2.4 trillion by end-2011. In exchange, President Obama and Congressional Leaders concur to cut USD917 billion over 10 years on discretionary spending as well as to establish a bi-partisan, bicameral Congressional committee tasked with identifying an additional USD1.5 trillion in deficit reduction by end-2011. In the event the Congressional committee cannot agree, USD1.2 trillion in spending cuts to entitlements, payments and military spending will then automatically be put into place. This legislation accounts for spending caps for the next decade.[229]

Members of the bi-partisan Congressional committee have very differing ideas on how to reach the USD1.2 trillion in spending cuts. Congressman Jeb Hensarling, the Republican Chair on the committee has said that it is a challenge to find these cuts on a collective basis. The International Monetary Fund (IMF) has revised its growth forecast for the United States downwards given the committee's apparent inability to design a realistic plan to reduce government deficit in the medium term.[230]

The U.S. has made real efforts in reducing its fiscal deficit when taking into account the measures outlined in the Budget Control Act Amendment and the US FY2012 budget. That being said, the IMF downgraded the U.S. growth forecast because the country's current efforts to reduce the deficit are not growth-friendly; if no deficit reduction agreement is reached by end-2011, a range of spending cuts will come into play, therefore further hindering growth and fiscal consolidation. Thus the United States has only partially complied with its commitment to both formulate and implement clear, credible, ambitious, and growth-friendly medium-term consolidation plans. It has been awarded a score of 0.

Analyst: Faiyyad Hosein

[227] IMF Fiscal Monitor, International Monetary Fund (Washington) September 2011. Date of Access: 8 October 2011. http://www.imf.org/external/pubs/ft/fm/2010/fm1002.pdf
[228] Statutory Pay As You Go Act of 2010: The White House Office of Management and Budget (Washington) 12 February 2010. Date of Access: 27 March 2011.
[229] Leaders agree on debt deal, Reuters (Washington) 1 August 2011. Date of Access: 12 October 2011. http://online.wsj.com/article/SB10001424053111903520204576480123949521268.html
[230] Update 1-US budget panel hears competing ideas, Reuters (Washington) 20 September 2011. Date of Access: 12 October 2011. http://www.reuters.com/article/2011/09/20/usa-debt-idUSS1E78J23H20110920