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
Australia			+1
Canada			+1
France			+1
Germany			+1
Italy			+1
Japan			+1
Korea			+1
United Kingdom			+1
United States			+1
European Union			+1
Average Score	+1		

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 G20 Framework for Strong, Sustainable, and Balanced Growth, it was agreed that sustainable growth should be based on sustainable public finances.[90] 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.[91]

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."[92] 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

[90] 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
[91] 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
[92] 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

addition, the leaders have also warned that "failure to implement consolidation where necessary would undermine confidence and hamper growth."[93]

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.94 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."95

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 has 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.

Advanced economies as identified by the G20 are: Australia, Canada, France, Germany, Italy, Japan, Korea, United Kingdom, United States, and the European Union.[96]

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, and ambitious and growth-friendly medium-term consolidation plans.

Australia entered the Toronto Summit with almost no net government debt and in strong fiscal standing. According to market outlook, Australia is expected to return the budget to surplus by 2012-13.[97]

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93 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
94 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
95 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
96 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
97 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

Based on comprehensive actions outlined in the 2010/11 National Budget, Australia expects to reap savings of more than AUD30 billion by 2014, starting immediately in 2010.[98]

According to the 2010-2011 Australian National Budget, the government has maintained its commitment to consolidate spending to improve its fiscal outlook by keeping a 2% cap on spending.[99]

According to the IMF Fiscal Monitor, as at November 2010, Australia is considered a low deficit country and Australia's budget deficit is expected to shrink from 4.6% to 2.5% between 2010 and 2011 in line with its commitment to fiscal consolidation.[100]

Due to both successful policy formulation and implementation, Australia has been awarded a score of +1.

Analyst: Faiyyad Hosein

Canada: +1

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

Canada entered the Toronto Summit with a federal deficit of about 3% of GDP and the combined provincial deficit of around 2% of GDP.[101] On the 4 March 2010 Finance Minister James Flaherty released the 2010 National Budget also known as Year 2 of its Economic Action Plan.[102] The 2010 Budget charts a course to bring Canada's finances back to balance over the medium term.[103] The budget aimed to wind down previous stimulus measures, restrain spending through targeted measures, create CAD17.6 billion in savings over five years, and the government plans to take a comprehensive review of government administrative functions and overhead costs to improve savings.[104]

On 22 March 2011, Finance Minister Honourable James Flaherty delivered Budget 2011 to the House of Commons.[105] The main focus of the budget is on job creation, growth, and low tax planning. Under the budget, fiscal deficit in 2011 and 2012 is expected to decline by more than 0.5% and is expected to decline to CAD0.3 billion by 2015.[106] Fiscal year 2015-16 is projected to

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[98] Appendix F: Major Savings in the 2010 – 2011 budget, Australian Government (Canberra) July 2010. Date of Access: 17 October 2010. www.budget.gov.au/2010-11/content/overview/html/overview_36.htm

[99] Statement 3: Fiscal Strategy & Outlook in the 2010 – 2011 budget, Australian Government (Canberra) July 2010. Date of Access: 24 February 2011http://www.budget.gov.au/2010-11/content/bp1/html/bp1_bst3-03.htm

[100] 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

[101] 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

[102] Budget in Brief, Department of Finance Canada (Ottawa) 4 March 2010. Date of Access: 17 October 2010. www.budget.gc.ca/2010/glance-apercu/brief-bref-eng.html

[103] Budget in Brief, Department of Finance Canada (Ottawa) 4 March 2010. Date of Access: 17 October 2010. www.budget.gc.ca/2010/glance-apercu/brief-bref-eng.html

[104] Budget in Brief, Department of Finance Canada (Ottawa) 4 March 2010. Date of Access: 17 October 2010. www.budget.gc.ca/2010/glance-apercu/brief-bref-eng.html

[105] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

[106] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

see a surplus of CAD4.2 billion.[107] As part of the Government's plan to return to balanced budgets over the medium term and in order to restrain the growth in spending, the Government will undertake a one-time Strategic and Operating Review to be conducted across all of government in 2011–12. The Government's careful approach to spending will remain a key feature of its fiscal management strategy.[108]

The Government of Canada has engaged in Strategic reviews in order to accumulate savings as mandated by the 2010 national budget.[109] The round of strategic reviews combined with targeted restraint in the growth of National Defense spending will yield savings of close to CAD1.6 billion in 2013–14, amounting to 4.9% of the review base on an ongoing basis. Together with measures to restrain the growth in National Defense spending, the first cycle of strategic reviews has resulted in CAD11 billion of savings over seven years and more than CAD2.8 billion in ongoing savings.[110]

Hence Canada has 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, and ambitious and growth friendly medium-term consolidation plans.

France entered the Toronto Summit with a budget deficit of 8% of GDP.[111] Under the its recent budget consolidation measures, France's government forecasts a deficit of 7.7% of GDP in 2010, 6% in 2011, and hopes to hit 3% by 2013.[112] Cuts in expenditure will come from the following areas, Frances retirement age will be pushed to 62 from 60, allowing more than 30,000 civil service staff retire without replacing them, replace of only 50% of existing bureaucrats and tax breaks worth 10 billion Euros will be withdrawn, but no new taxes will be implemented.[113]

According to the IMF Fiscal Monitor Nov. 2010 France's deficit is now projected to decline by 2 percentage points in 2011 due to these new revenue measures. In terms of containing healthcare spending, France slashed reimbursement rates for a large number of drugs and imposed price caps on generics. There has also been substantial pension reform by France which will improve the

[107] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

[108] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

[109] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

[110] Annex 1, Responsible Spending, Department of Finance Canada (Ottawa) 22 March 2011. Date of Access: 24 March 2011 http://www.budget.gc.ca/2011/plan/anx1-eng.html

[111] 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

[112] 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

[113] 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

long term fiscal baseline of this country.[114] France has passed the law increasing the retirement age from 60 – 62 years in line with their fiscal consolidation plan.[115]

Due to both successful policy formulation and implementation by France, France has been awarded a score of +1.

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 stood at 3.5%. While it was one of the lowest in the euro zone it exceeded the reference value of 3% set by the European Stability and Growth pact.[116]

On 2 July 2010 the German government implemented the Austerity Program to control the budget deficit with imposing new tax measures and radical savings in areas including defense to take effect starting 2011.[117] The spending cuts and tax hikes are part of Chancellor Merkel's pledge to foster a new culture of stability in Europe by helping to reduce the burden of public debt.[118]

The above plan was announced in July 2010; however successful policy implementation has led to a deficit reduction. The Ministry had anticipated a shortfall of EUR117.5 billion, by the end of November 2010 and this gap has decreased to a current EUR94.5 billion. The finance ministry expects the deficit to fall further to EUR92 billion showing a clear implementation of the German Austerity Program.[119]

According to the IMF Fiscal Monitor, as at November 2010, Germany is considered a low deficit country and Germany's fiscal deficit is projected to fall from 4.5% to 3.7% from 2010 to 2011 in line with its plan of fiscal consolidation. Germany has had a high focus on social transfer cuts and a reduction in defense spending is being considered. Germany has also adopted new green taxes as a revenue measure in reducing the deficit.[120] Germany's reform proposals on healthcare include a three-year freeze on prices of pharmaceutical covered by statutory health insurance and increased the rebate that drug manufacturers are expected to pay.[121]

[114] 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

[115] 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

[116] Germany closes 2010 budget accounts, Federal Ministry of Finance, Germany (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

[117] 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

[118] 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

[119] Federal Ministry of Finance, Germany – 13 January 2011. Date of Access: 24 March 2011. http://www.bundesfinanzministerium.de/nn_103442/EN/Topics/Fiscal-policy/Araticles/20101210-Successful-policy-leads-to-deficit reduction.html?__nnn=true

[120] 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

[121] 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

Germany is constitutionally expected to consolidate via its new debt brake law which limits the amount of the debt the country can have, the starting value for the structural deficit has to be reduced in equal steps from 2011 to 2016, after which it may not exceed 0.35% of GDP.[122]

Due to both successful policy formulation and implementation, Germany has been awarded a score of +1.

Analyst: Faiyyad Hosein

Italy: +1

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

Italy entered the Toronto Summit with a budget deficit of around 5% and with debt-to-GDP ratio at over 100% of GDP.[123]

On 26 May 2010 Prime Minister Silvio Berlusconi announced EUR24.9 billion of budget cuts. Italy's cuts include a three-year wage freeze for civil servants, a 10% budget cut for ministries, EUR4.5 billion in reduced transfers to regional governments, a partial amnesty on illegal construction and a crackdown on tax evasion.[124] 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.[125]

According to the IMF Fiscal Monitor Report Nov. 2010, the budget deficit is projected to fall from 5.1% to 4.3% from 2010 to 2011 in line with its goal of fiscal consolidation. Italy has maintained its sector wage freeze for public servants and they are also planning to enhance their tax revenue administrations to decrease tax evasion going forward.[126] Italy has also introduced a permanent tax on bonuses and stock options paid to managers and independent professionals in the financial sector.[127]

Due to both successful policy formulation and implementation, Italy has been awarded a score of +1.

Analyst: Faiyyad Hosein

[122] Federal Ministry of Finance, Germany – 6 July 2010. Date of Access: 24 March 2011. http://www.bundesfinanzministerium.de/nn_103388/sid_46DC2F2230E26443E7FC3B38F78F7A43/EN/Topics/Fiscal-policy/Articles/20100816-Debt-rule-compels-consolidate.html?__nnn=true

[123] 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

[124] 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

[125] 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

[126] 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

[127] 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

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

On 22 June 2010, the Japanese government established the Fiscal Management Strategy and unveiled its fiscal plan that aims to reduce budget deficit.[128] 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.[129]

According to the highlights of the Japanese budget for financial year 2011, there has been a clear implementation of fiscal consolidation policies.[130] Japanese authorities ensured fiscal discipline and government bond issuance was limited to 44 trillion. Other implementation measures include the reduction of 10-20% of road improvement and flood control projects, as well as a reduction of subsidies by about 20% to support the introduction of photovoltaic power generation devices in private houses.[131]

According to IMF Fiscal Monitor, as at November 2010, Japan is considered a high deficit country and Japan's deficit is project to decrease from 2010 to 2011 from 9.6% of GDP to 8.9% of GDP. The deficit is declining due to lower fiscal stimulus and an enhanced recovery in Japan.[132]

Due to both successful policy formulation and implementation by Japan, 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, and ambitious and growth friendly medium-term consolidation plans.

Korea entered the Toronto Summit with a balanced budget and maintained stable balances at the Seoul Summit.[133] On 27 September 2010, the Ministry of Strategy and finance proposed 2011 Budget to the parliament that aims to raise spending to ensure recovery yet will lower fiscal deficit by targeting higher revenues.[134] Deficit reduction will partly come from a cut in spending

[128] FACTBOX-Budget deficits of richer G20 nations, Reuters (Washington) 27 June 2010. Date of Access: 27 October 2010. www.reuters.com/article/idUSN2412302520100627
[129] FACTBOX-Budget deficits of richer G20 nations, Reuters (Washington) 27 June 2010. Date of Access: 27 October 2010. www.reuters.com/article/idUSN2412302520100627
[130] 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
[131] 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
[132] 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
[133] 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
[134] South Korea proposes higher 2011 budget vs 2010, Reuters Online (New York) 28 September 2010. Date of Access 1 April 2011. http://www.reuters.com/article/2010/09/28/korea-economy-budget-idUSBJL00207020100928

on infrastructure by 3.2% that was increased earlier to boost economic recovery.[135] Fiscal deficit is expected to decrease by 0.7 percentage points to 2% of the annual GDP in 2011.[136]

According to the IMF Fiscal Monitor Report as at November 2010, Korea is considered a low deficit country and the government has announced the adoption or extension of Green Taxes in line with their policy formulation.[137] Korean government also plans to enhance revenue administration processes to reduce tax evasion.[138] The medium-term projections by the IMF assume that the government will resume its consolidation plans and balance the budget, excluding social security funds, in 2014.[139]

Due to both successful policy formulation and implementation by government authorities, 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, and ambitious and growth friendly medium-term consolidation plans.

On 20 October 2010, the UK Treasury released the Comprehensive Spending review 2010. The spending review plans to reduce the budget deficit by raising tax revenue by an estimated GBP7 billion by 2014-2015 by combating tax fraud, evasion and avoidance.[140] 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 a year until 2014 — 2015. The spending review also outlines a plan for public sector net debt as a percentage of GDP to fall at fixed date of 2015-2016.[141]

According to the IMF Fiscal Monitor Report as at November 2010, the UK's deficit was projected to decrease by 2 percentage points which is 1¼ percentage points lower than was expected in May 2010.[142] The United Kingdom has complemented its revenue measures with VAT increases to work towards fiscal consolidation. The United Kingdom has also announced a

[135] South Korea proposes higher 2011 budget vs 2010, Reuters Online (New York) 28 September 2010. Date of Access 1 April 2011. http://www.reuters.com/article/2010/09/28/korea-economy-budget-idUSBJL00207020100928
[136] South Korea proposes higher 2011 budget vs 2010, Reuters Online (New York) 28 September 2010. Date of Access 1 April 2011. http://www.reuters.com/article/2010/09/28/korea-economy-budget-idUSBJL00207020100928
[137] 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
[138] 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
[139] 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
[140] Spending Review 2010, HM Treasury (London) 20 October 2010: Date of Access: October 21 2010. cdn.hm-treasury.gov.uk/sr2010_completereport.pdf
[141] Spending Review 2010, HM Treasury (London) 20 October 2010: Date of Access: October 21 2010. cdn.hm-treasury.gov.uk/sr2010_completereport.pdf
[142] 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

sector wage freeze to decrease its wage bill. It has also set out proposal to reduce future defence spending by 8 percent from 2011-2012 and 2014-2015.[143]

The 2011 United Kingdom Budget was delivered on 23 March 2011.[144] Key measures in the budget include increases in the personal tax allowance, cuts in corporation tax, a cut in fuel duty.[145] Under the plan, national debt is forecasted to be 60% of national income and to rise to 71% in 2012 before falling to 69% by 2015. There is a planned total consolidation by the government of GBP126 billion a year by 2015-16. This is composed of a net increase in taxation of GBP30 billion and spending reductions of GBP95 billion.[146] According to the Treasury, the Public Sector Net Borrowing is forecasted to decline steadily as a share of national income due to lower spending on social services and social security showing successful policy implementation by the UK government.[147] As opposed to the 2010 Budget the 2011 Budget did not focus solely on deficit reduction but on economic reform, job creation, and growth.[148]

The budget falls within the guidelines of clear, credible, ambitious and growth-friendly medium-term fiscal consolidation plans that is differentiated according to national circumstances.

Hence the United Kingdom has been awarded a score of +1.

Analyst: Faiyyad Hosein

United States: +1

The United States has fully complied with its commitment to both formulate and implement clear, credible, ambitious and growth-friendly medium-term fiscal consolidation plans. The United States entered the Toronto Summit with a budget deficit of USD1.3 trillion, about 9% of GDP.[149]

On 14 February 2011, the US President Barack Obama submitted a federal budget to the Congress for fiscal year 2012.[150] One of the main focuses of the budget is deficit reduction. The budget plans for USD1 trillion in deficit reduction of which two thirds will come from reduction in spending and mainly from changes to taxation, entitlement programs, defense spending, and research funding.[151] The deficit is projected to move from USD1.645 trillion in 2011 at 10.9% of GDP to USD627 billion and 3.0% of GDP in 2017 due to the comprehensive fiscal plan.[152]

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143 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

144 2011 Budget Documents, HM Treasury (London) 23 March 2011. Date of Access: 27 March 2011. http://www.hm-treasury.gov.uk/2011budget_documents.htm

145 Osborne's Budget 'to fuel growth', BBC UK (London) 23 March 2011. Date of Access: 27 March 2011. http://www.bbc.co.uk/news/uk-politics-12824055

146 2011 Budget Documents, HM Treasury (London) 23 March 2011. Date of Access: 27 March 2011. http://www.hm-treasury.gov.uk/2011budget_documents.htm

147 Economic and Fiscal Outlook, Office for Budgetary Responsibility HM Treasury (London) 11 March 2011. Date of Access: 24 March 2011. http://cdn.budgetresponsibility.independent.gov.uk/economic_and_fiscal_outlook_23032011.pdf

148 Osborne's Budget 'to fuel growth', BBC UK (London) 23 March 2011. Date of Access: 27 March 2011. http://www.bbc.co.uk/news/uk-politics-12824055

149 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

150 Federal Budget 2012 Overview, the White House Office of Management and Budget (Washington) 14 February 2011. Date of Access: 27 March 2011. http://www.whitehouse.gov/omb/overview

151 Federal Budget 2012 Overview, the White House Office of Management and Budget (Washington) 14 February 2011. Date of Access: 27 March 2011. http://www.whitehouse.gov/omb/overview

152 Federal Budget 2012 Overview, the White House Office of Management and Budget (Washington) 14 February 2011. Date of Access: 27 March 2011. http://www.whitehouse.gov/omb/overview

The FY2012 budget has identified 120 terminations, reductions and savings that will save approximately $20 billion a year. Some of the terminations include the termination of the Adolescent family life program, C-17 Air Transport Reduction Program & Deep Underground and Engineering Laboratory Program among many others.[153] Total of USD400 billion in savings will come from a five-year non-security discretionary spending freeze over the next ten years. The budget also sets out for exclusion of war savings. Tax measures include the end of 2001 and 2003 tax cuts for high-income earners.

According to the IMF Fiscal Monitor Report as at November 2010, the US fiscal deficit is projected to fall from 11.1% to 9.7% from 2010 to 2011 in line with its goal of fiscal consolidation.

On 12 February 2010, the US Government also enacted the *Pay-As-You-Go Act.* The Act requires any future bills that earmark for revenue reductions must be fully offset by cuts in mandatory programs or by revenue increases and that any planned increases in expenditures must be offset by revenue increases or cuts in mandatory programs.[154] The Act will require that all new legislation changing taxes, fees, or mandatory expenditures, taken together, will not increase projected deficits.[155]

Due to both successful policy formulation and implementation of clear, credible, ambitious and growth-friendly medium-term fiscal consolidation plans, the United States has been awarded a score of +1.

Analyst: Faiyyad Hosein

[153] 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

[154] 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. http://www.whitehouse.gov/omb/paygo_description

[155] 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. http://www.whitehouse.gov/omb/paygo_description