2. Macroeconomic: Fiscal Consolidation and Stimulation of Growth

Commitment [#78]

"Advanced economies will ensure that the pace of fiscal consolidation is appropriate to support the recovery, taking country-specific circumstances into account and, in line with the Toronto commitments, address concerns about medium term fiscal sustainability."

Los Cabos Action Plan for Growth and Jobs

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
India		n/a	
Indonesia		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			+1
Average Score		+0.50	

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.[104] During the G20 Finance Ministers and Central Bank Governors' Meeting in Busan, Korea in June 2010, the leaders solidified their commitment to fiscal consolidation, stating that recent economic events highlighted the need for sustainable public

[104] G20 Finance Ministers and Central Bank Governors' Communiqué, G20 Finance Ministers and Central Bank Governors' Meeting (Washington) 23 April 2010. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2010/g20finance100605.html

finances and the need to "deliver fiscal sustainability, differentiated for and tailored to national circumstances."[105]

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."[106] 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."[107]

At 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.[108] The commitment called on advanced economies to formulate and implement clear, credible, ambitious, and growth-friendly medium-term fiscal consolidation plans in line with the Toronto commitment. The average compliance score of the fiscal consolidation commitment during the Seoul compliance cycle was 0.89. The commitment had the second highest rate of compliance of all commitments profiled by the G20 Research Group during the Seoul compliance cycle.[109]

In the Cannes communiqué, the leaders of advanced economies committed "to adopt policies to build confidence and support growth and implement clear, credible and specific measures to achieve fiscal consolidation."[110] The *Cannes Action Plan for Growth and Jobs* set out country specific policy commitments.[111] The average compliance score among G20 members during the Cannes compliance cycle was +0.11. This low level of compliance among advanced G20 members reflects the difficulty of combating poor global economic conditions while maintaining sustainable public finances.

The *Los Cabos Growth and Jobs Action Plan* reiterates the G20 members' fiscal consolidation commitment and states that fiscal policies in all G20 members' economies "will focus on strengthening and sustaining the recovery in a manner which promotes fiscal sustainability and enhances policy credibility."[112] At Los Cabos the G20 leaders agreed to include a new

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[105] G20 Finance Ministers and Central Bank Governors' Communiqué, G20 Finance Ministers and Central Bank Governors' Meeting (Busan) 5 June 2010. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2010/g20finance100605.html.
[106] The G20 Toronto Summit Declaration, G20 Toronto Summit (Toronto) 27 June 2010. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2010/to-communique.html.
[107] The G20 Toronto Summit Declaration, G20 Information Centre (Toronto) 27 June 2010. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2010/to-communique.html.
[108] Policy Commitments by G20 Members, G20 Information Centre (Toronto) 12 November 2010. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2010/g20seoul-commitments.pdf.
[109] 2010 Seoul G20 Summit Final Compliance Report, G20 Information Centre (Toronto) 6 November 2011. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/compliance/2010seoul-final/index.html.
[110] Communiqué: G20 Leaders Summit, G20 Research Centre (Toronto) 4 November 2011. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2011/2011-cannes-communique-111104-en.html
[111] Cannes Action Plan for Jobs and Growth, G20 Research Centre (Toronto) 4 November 2011. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/2011/2011-cannes-action-111104-en.html.
[112] Los Cabos Action Plan for Jobs and Growth, G20 Research Centre (Toronto) 19 June 2012.

requirement into the commitment to address the pace of fiscal consolidation.[113] In response to concerns that rigid austerity measures were aggravating recessions in some G20 members' economies, the Los Cabos Declaration gave each member the responsibility to ensure that the pace of their fiscal consolidation efforts supports the recovery.

Each country's specific commitment is assessed allowing for its national circumstances as outlined in the member specific annex of the *Los Cabos Policy Commitments* (see Table 2-1).

Table 2-1: Member-Specific Fiscal Consolidation Commitments[114]

AUSTRALIA		
Commitment/Timeframe	Objectives	Update on Progress
Reduce federal net debt and return budget to surplus by FY2012-13.	Through fiscal consolidation, contribute to sustainability of public finances, and support Australia's capacity to respond to unanticipated events.	The 2012-13 Budget announced an estimated surplus of AUSD1.5 billion in underlying cash terms in FY2012-13. Australian Federal Government net debt is expected to peak at 9.6 per cent of GDP in 2011-12 and fall to zero by 2020-21.
CANADA		
Commitment/Timeframe	Objectives	Update on Progress
1. The Government will implement the comprehensive review of departmental spending, which will support a return to balanced budgets over the medium term. The Plan will engage with about 70 federal organizations to identify annual savings by 2014-2015 equal to roughly 5 per cent of total federal direct program spending. *Timeframe:* Medium Term	Return to balanced budgets over the medium term.	As of FY2011-12, the deficit has been cut in half in just two years. The 2011 departmental spending review has resulted in the identification of annual savings amounting to USD5.2 billion by 2014-15, or 6.9 per cent of the review base, exceeding the 5 per cent target. As a result of this and other spending restraint actions implemented since 2010, the Government is on track to eliminate the deficit over the medium term. Measure of Progress: Return to balanced budgets over the medium term.

Date of Access: 4 December 2012. http://www.g20.utoronto.ca/summits/2012loscabos.html.
[113] The G20 Los Cabos Summit Declaration, G20 Research Centre (Toronto) 19 June 2012. Date of Access: 4 December 2012 http://www.g20.utoronto.ca/2012/2012-0619-loscabos.html.
[114] Policy Commitments by G20 Members, G20 Information Centre (Toronto) 19 June 2012. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/summits/2012loscabos.html.

2. Adjusting the Public Service Pension Plan so that public service employee contributions equal, over time, those of the employer. Comparable changes to the contribution rates will be made to the pension plans for the Canadian Forces, the Royal Canadian Mounted Police and Parliamentarians. For employees who join the federal Public Service starting in 2013, the normal age of retirement will be raised from 60 to 65.	Ensure pension plans for Public Servants and Parliamentarians are sustainable, financially responsible, and broadly consistent with pension products offered by other jurisdictions as well as fair and relative to those offered in the private sector.	Adjustments to employee pension contributions will commence following consultations with key stakeholders. Retirement age changes will take effect for new employees who enter the Public Service in 2013. Adjustments to the pension plan of Parliamentarians will take effect in the next Parliament. Measure of Progress: Public service employees' contributions will increase, over time, to eventually match those of the employer.
3. Set the future growth path of transfers to provinces and territories to provide sustainable and predictable funding in support of the provision of health care, education and other programs and services for all Canadians.	To ensure the sustainability of our social programs and fiscal position over the longer term.	The Government will introduce legislation to continue the current 6-per-cent annual escalator for the Canada Health Transfer (CHT) will continue for five more years. Measure of Progress: Starting in 2017–18, the CHT will grow in line with a three-year moving average of nominal GDP growth, with funding guaranteed to increase by at least 3 per cent per year. Legislation will also continue the 3-per-cent escalator for the Canada Social Transfer (CST) for 2014–15 and subsequent years.

EUROPEAN UNION		
Commitment/Timeframe	Objectives	Update on Progress
Implement the common budgetary framework to ensure a continuous reduction of Member States' budget deficits.	-Pursue a differentiated fiscal consolidation, taking into account country-specific fiscal and macro-financial risks. -Putting emphasis on growth-friendly composition of consolidation: Pursue an expenditure-based consolidation while prioritizing public spending towards investments in human capital, research and innovation.	-Conditional on the current macroeconomic forecast, the current fiscal consolidation strategy would allow achieving a budget deficit of 3 per cent of GDP for the euro area aggregate and 3½ per cent of GDP for the EU in 2012. The deficits would then decline to below 1 per cent of GDP in the EU and to ¾ per cent of GDP in the euro area in 2015. This consolidation path would contribute to stabilising the increase in government debt-to-GDP ratio in 2013 and to putting it on a declining path afterwards. In case of economic shocks, the flexibility embedded in the Stability and Growth Pact allows modulating the consolidation. -Ongoing.
FRANCE		
Commitment/Timeframe	Objectives	Update on Progress
France commits to reduce its deficit to 4.5 per cent in 2012 and to 3 per cent in 2013, balance its budget by 2017.	Increase fiscal sustainability through mid-term fiscal consolidation	Corrective measures will be taken in the event of deviations, as identified by a report of the independent Court of Auditors available by the end of June.
Adopt a tax reform in a supplementary budget law this summer and reduce the least efficient tax expenditures and social security exemptions.	Ensure short term public finances objective are met by increasing public revenues as needed while reducing inequalities and avoiding adverse effects on growth.	
Complement the budget law for 2013 with a multi-year budget law this autumn.	Secure mid-term public finances objectives by defining governance rules over the five years of the parliamentary term.	

Launch a global consultation with the social partners on the pension system this summer in a sustainable and balanced financial framework.	Ensure the sustainability and fairness of the pension system in the middle run.	The on-going reform to allow workers who started their professional life early and have reached the required contributory period to retire at the age of 60 will be integrally financed. Both legal age of entitlement (62) and age of entitlement to a full pension (67) remain unchanged for other workers. The COR (Pension advisory Council) is reviewing the financial situation of the pension system till 2018 and beyond.
GERMANY		
Commitment/Timeframe	Objectives	Update on Progress
Increase fiscal sustainability in accordance with the G-20 Toronto commitment. From 2014 onwards, general government budget will be balanced. General gross government debt-to-GDP ratio will decrease from 83.2 per cent (2010) to 76 per cent (2015). Reduce the structural general government deficit to a maximum of 0.5 per cent of GDP by 2012 and in the medium-term (German medium-term objective according to the EU Stability and Growth Pact).	At least halve the fiscal deficit. Stabilize or reduce public debt ratio. Achieve a structurally balanced general government budget.	Consolidation progress fully on track: in 2011 general government deficit decreased from 4.3 per cent in 2010 to 1.0 per cent of GDP and general government debt ratio (Maastricht) decreased to 81.2

ITALY		
Commitment/Timeframe	Objectives	Update on Progress
Full implementation of the fiscal consolidation strategy and strengthening of the fiscal framework, in order to ensure sound public finances and reinforce the credibility of the fiscal framework.	a) Achievement of a structural balanced budget and a rapidly declining debt-to-GDP ratio. b) Introduction and implementation of the balanced budget rule in the Constitution.	a) In December 2011, a supplementary fiscal package worth 1.3 per cent of GDP was approved, bringing the total fiscal consolidation approved in second semester to about 5 per cent of GDP. The supplementary package also introduced measures that are structural (a landmark reform of the pension system), growth-friendly (shift of taxation from production to unearned income, reduction of the tax wedge on labour) and equitable (fight against tax evasion). Therefore, the net borrowing is expected to be significantly below 3 per cent of GDP in 2012 and the medium-term objective, a balanced budget in structural terms, is expected to be achieved in 2013. The debt-to- GDP ratio is set to decline accordingly, starting in 2013. b) Approved through Constitutional Law n.1/2012 (dated April 2012). By February 2013, adoption of the implementing legislation.

JAPAN		
Commitment/Timeframe	Objectives	Update on Progress
For the national and local governments' primary balance, the deficit ratio to GDP shall be halved from the ratio in FY 2010 by FY 2015 at the latest, and the surplus shall be achieved by FY 2020 at the latest. From FY 2021, a stable reduction in the ratio of public debt to GDP for both national and local governments shall be maintained. Flesh out the "Definite Plan for the Comprehensive Reform of Social Security and Tax" which sets out policies including gradual increase in the consumption tax to 10 per cent by the middle of 2010's and submit the bills by the end of FY2011 to realize these policies.	Fiscal consolidation	Aiming at simultaneous achievement of securing stable resources for social security and consolidating public finances, the Cabinet decided on "the Outline of the Comprehensive Reform of Social Security and Tax" that includes the staged increase of the consumption tax (from 5 per cent to 8 per cent in April 2014, and to 10 per cent in October 2015) on 17 February, and submitted the requisite bill on tax reform to the Diet on 30 March of FY 2011.
The Medium-term Fiscal Framework is to be formulated every year to provide fiscal framework for the subsequent three years, thereby taking measures both on revenue and expenditure sides as well as restraining the amount of new government bonds issue. (The Framework decided in August 2011 covers the three-year period between FY 2012 and FY 2014.)		The FY 2012 budget complied with the Medium-term Fiscal Framework decided in August 2011.

While implementing substantial fiscal measures for reconstruction from the earthquake, necessary fiscal resources shall be secured partly through efforts to economize on expenditures and to secure non-tax revenues. The remaining gap shall be filled by temporary taxation measures, thereby achieving fiscal sustainability. (note) The volume of these fiscal measures are estimated at least 19 trillion yen (equivalent to about 4 per cent of GDP), including fiscal measures already taken, in five years.		Approximately 18 trillion yen of fiscal measures for reconstruction from the earthquake has been appropriated by the first, second and third FY 2011 supplementary budgets and by the FY 2012 budget. The necessary fiscal resources were secured, not through issuances of deficit-financing bonds, but through raising individual and corporate income taxations temporarily as well as cutting expenditures and securing non-tax revenues.
KOREA		
Commitment/Timeframe	Objectives	Update on Progress
Achieve balanced budget and reduce public debt to GDP ratio(2011-2015)	Reach balanced budget by 2013, excluding social security fund. Reduce public debt-to- GDP ratio to pre-crisis level by 2015.	Consolidation progress on track. In 2011, fiscal deficit and public debt to GDP ratio dropped to 1.1 per cent and 34.0 per cent, respectively.
	Increase revenue by streamlining exemptions & reductions under national tax exemption rate (13.4 per cent for 2012), and by expanding taxation on omitted tax bases. Expenditure cut (10 per cent) applies to projects lagging behind in performance.	Expanded tax revenue in line with government's taxation policy direction of 'broad base and low rates'. i) Reached national tax exemption rate of 13.7 per cent by reducing non-taxable and tax-exempt sources worth 1.3 trillion KRW in 2011. ii) Strengthening transparency of tax base. iii) Ongoing efforts to create new tax bases with outcomes such as imposing tax on new financial products (Jan 2012). Promoting expenditure efficiency including by cutting 10 per cent of budget for 145 under-performing projects after assessment of all fiscal projects of 2010.
	Along with these measures, the standard for fiscal statistics will be upgraded from 1986 GFS to 2001 GFS.	To enhance credibility of statistics, implemented 2001GFS Manual and will publish fiscal statistics under the new standard from end-2012.

Prepare against risk factors of public finance (medium-term)	Prepare a long-term fiscal outlook toward 2060 by 2013, in which areas that heavily affect long-term finance (such as pension, health insurance) will be incorporated. Manage fiscal sustainability of local governments including by implementing the Local Finance Early Warning System.	Established a Long-term Fiscal Outlook Council (December 2011) Set up Local Finance Early Warning System (September 2011)
Anchor short-term recovery	Strengthen automatic fiscal stabilizers while maintaining medium-term fiscal soundness	Temporarily increase level of employment maintenance subsidies when labor market deteriorates with incidence of massive job losses (temporary shutdown, leave of absence allowance 2/3 → 3/4). Front load 60 per cent of budget in the first half of 2012 as a means for fine-tuning.
UNITED KINGDOM		
Commitment/Timeframe	Objectives	Update on Progress
The United Kingdom will continue to implement its planned reductions in public spending as set out in Spending Review 2010. At Autumn Statement 2011, the United Kingdom set plans for the spending restraint under the 2010 Spending Review to continue for a further two years in 2015-16 and 2016-17. To deliver fiscal consolidation that targets achieving cyclically adjusted current balance by the end of the rolling five-year forecast period and sets public sector net debt as a percentage of GDP on a falling path by 2015-16.	To return the public finances to a sustainable position, support confidence, mitigate risks to the recovery and bring down debt and debt interest payments.	By the end of 2011–12, almost 40 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period will have been achieved. The Independent Office for Budget Responsibility forecasts that departments will exceed savings targets and deliver under-spends of c. GBP6bn in 2011–12. By the end of April 2012, the United Kingdom will have implemented measures to deliver almost three-quarters of the total savings expected from reforms to the welfare system.

The United Kingdom will continue to take action on long-term fiscal challenges, including through accelerating the rise in the State Pension Age (SPA) from 65 to 66 and through reforms to public sector pensions.	To underpin sustainable public finances and help restore private-sector confidence and underpin sustainable economic growth.	Pension contributions increased for most public servants from April 2012, with protection for the lower paid. The United Kingdom has committed to bring forward the rise in SPA to 2020 from 2026. This will save GBP30bn between 2016-17 and 2025-26.
UNITED STATES		
Commitment/Timeframe	Objectives	Update on Progress
Identify between USD1.2 and USD1.5 trillion in additional federal deficit reduction over the period FY2013-22 to go along with the USD900 billion in agreed spending reductions included in the Budget Control Act of August 2, 2011. Work to prevent a disruptive fiscal deficit reduction in 2013 that could harm the economic recovery.	To help put the federal budget on a more sustainable path, increase national saving, and contribute to a more balanced pattern of U.S. economic growth. To prevent a sharp drop or even contraction in the pace of economic growth.	In November 2011, an additional USD1.2 trillion in federal deficit reduction over the period FY2013-22 was required as part of the Budget Control Act, to be applied through an automatic spending sequester scheduled to take effect in January 2013. The President's FY2013 Budget proposes further deficit reduction measures (including a more balanced mix of spending cuts than would occur under sequester) that would bring total deficit reduction over the next 10 years to more than USD4 trillion. These cuts would stabilize the debt-to-GDP ratio by 2015 and reduce the deficit to less than 3 per cent of GDP by FY2017. Progress concerning deficit reduction is to be assessed with respect to the U.S. federal budget, measured against a baseline that continues current tax and budget policies over the period FY2013-22. The debt-to-GDP ratio is to be measured using as the numerator federal debt held by the public. Measured against estimates that if current law prevails, the budget deficit could contract by 4 percentage points of GDP or more in 2013.

Commitment Features

The commitment is composed of two distinguishable features. First, advanced economies, taking into account different national circumstances, are called on to ensure that the pace of fiscal consolidation is appropriate to support the recovery. Second, advanced economies, in line with the Toronto commitments, will address concerns about medium term fiscal sustainability. To register full compliance, advanced countries must comply with both the pace component of this commitment and the fiscal sustainability component of this commitment. These components are referred to as sub-commitment one and sub-commitment two respectively.

To comply with sub-commitment one a G20 member must consider specific timelines for fiscal consolidation policies and discuss whether or not these timelines are appropriate to support the recovery. To comply with sub-commitment two each member country must adopt nationally differentiated fiscal policies in the medium term. These polices are outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth (see Table 1).

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

Scoring Guidelines

-1	G20 member does not discuss how the pace of fiscal consolidation affects the recovery or implement nationally differentiated fiscal policies.
0	G20 member either discusses how the pace of fiscal consolidation affects the recovery or implements nationally differentiated fiscal policies.
+1	G20 member both discusses how the pace of fiscal consolidation affects the recovery and implements nationally differentiated fiscal policies.

Co-director of Compliance: Krystel Montpetit
Lead Analyst: Elizabeth Stratton

Australia: +1

Australia received a score of +1 for fully complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and with sub-commitment two to adopt medium term fiscal consolidation measures.

(1) Australia earned a score of +1 for complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

Australia has committed itself to fiscal constraint and is expected to return the budget to balance in 2015-2016. The Government recalibrated the pace of fiscal consolidation to ensure that it does not weaken economic growth in the near term. The Government is committed to its fiscal strategy and has delivered sensible consolidations to ensure strong public finances and low unemployment levels.[115]

Australia originally planned to return to a budget surplus in fiscal year 2013.[116] The Australian Treasurer Wayne Swan revised his projections in autumn 2012 due to a decrease in government revenue induced by lower commodity prices. The government intends to find additional savings in spending to meet its targets instead of the lost taxation revenue.[117] Lower levels of government spending will further slow economic growth. However Australia's growth mainly depends on commodity exports and is inexorably linked to commodity price fluctuations.[118]

Australia earned a score of +1 for complying with sub-commitment one by adjusting its fiscal consolidation plan according to growth prospects.

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[115] Budget 2013-2014, Government of Australia. (Sydney). Date of Access: 27 June 2013. http://www.budget.gov.au/2013-14/content/bp1/html/bp1_bst3-01.htm
[116] Australia says deficit reduction plan at risk, Taipei Times (Taipei) 25 September 2012. Date of Access: 15 January 2013. http://www.taipeitimes.com/News/biz/archives/2012/09/25/2003543583.
[117] Australia says deficit reduction plan at risk, Taipei Times (Taipei) 25 September 2012. Date of Access: 15 January 2013. http://www.taipeitimes.com/News/biz/archives/2012/09/25/2003543583.
[118] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf.

(2) Australia achieved a score of +1 for full compliance with sub-commitment two. Australia reduced the federal net debt and returned the budget to a surplus.

Australia is on track to decrease the federal net debt. The Government's medium-term fiscal strategy is to achieve budget surpluses. To ensure the recovery, the Government is committed to allow the level of tax receipts to recover naturally as the economy improves and to build growing surpluses by holding real growth in spending to 2 per cent a year. The budget is expected to balance in 2015-2016 and surpluses will increase from 2016-2017.[119]

Projections of the federal net debt show that debt levels reached their peak in fiscal year 2011-2012 at 9.6 per cent of GDP and that net debt will decrease to 7.3 per cent of GDP by 2015-2016.[120] The underlying cash surplus is projected to equal AUD1.1 billion or 0.1 per cent of GDP in 2012-2013. The surplus is estimated to increase to AUD2.2 billion by 2013-2014.[121]

Australia received a score of +1 for full compliance with sub-commitment two. The Australian budget for fiscal year 2012-2013 shows that Australia will achieve its medium- term nationally differentiated fiscal goals outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Australia received a cumulative score of +1 for fully complying with both sub-commitments of the fiscal consolidation commitment.

Analysts: Yining Ji and Elizabeth Stratton

Canada: +1

Canada received a score of +1 for fully complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and with sub-commitment two to adopt medium term fiscal consolidation measures.

(1) Canada earned a score of +1 for complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

Canada revised its fiscal consolidation timelines to reflect a decrease in income induced by lower commodity prices.[122] The Canadian Budget 2010 announced original targets for decreasing government spending and Budget 2011 outlined cuts to achieve CAD4 billion in savings until fiscal year 2014-2015.[123] Canadian Finance Minister Jim Flaherty announced that the government

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[119] Budget 2013-2014, Government of Australia (Sydney). Date of Access: 27 June 2013. http://www.budget.gov.au/2013-14/content/bp1/html/bp1_bst3-01.htm

[120] Budget 2012-2013, Government of Australia (Sydney) 22 October 2012. Date of Access: 29 December 2012. http://www.budget.gov.au/2012-13/content/myefo/html/index.htm

[121] Budget 2012-2013, Government of Australia (Sydney) 22 October 2012. Date of Access: 29 December 2012. http://www.budget.gov.au/2012-13/content/myefo/html/index.htm

[122] Falling revenues slowing deficit reduction plan, Flaherty says, CTVnews (Toronto) 13 November 2012. Date of Access: 15 January 2013. http://www.ctvnews.ca/canada/falling-revenues-slowing-deficit-reduction-plan-flaherty-says-1.1035918#ixzz2KaG1XkhU.

[123] Update on Progress, Deficit Reduction Plan Office of the Information Commissioner of Canada (Ottawa) 29 January 2013. Date of Access: 31 January 2013. http://www.oic-ci.gc.ca/eng/abu-ans_cor-inf-inf-cor_drap-pard.aspx.

will delay its return to a balanced budget by one year until 2015-2016 due to lower taxation revenues.[124]

The new Canadian Budget 2013 attempts to close tax loopholes and enforce tax compliance in an effort to raise CAD6.7 billion in additional revenue over the course of the next 6 six years.[125] As it stands now however Canada is projected to miss its annual deficit targets in each of the next four years.[126] The current federal deficit is CAD25.9 billion. The Canadian government hopes to have a CAD800 million surplus by 2015, just in time for the next election.[127]

Canada received a score of +1 for full compliance with sub-commitment one by adjusting the pace of fiscal consolidation according to growth considerations.

(2) Canada achieved a score of +1 for full compliance with sub-commitment two. Canada identified sources of annual savings from governmental departments, adjusted the Public Service Pension Plan and altered the future growth path of transfers to provinces and territories.

Canada committed to three policy actions to address medium-term fiscal sustainability. The first commitment was to identify annual savings from a departmental review to facilitate a return to a balanced budget. Canada exceeded the target of 5 per cent annual savings in fiscal year 2011-2012.[128]

On 13 November 2012, the Government of Canada released a fiscal update that projected a deficit of CAD26 billion or 1.4 per cent of GDP in the fiscal year 2012-2013.129 The new projected deficit is larger than in the previous forecast by CAD5 billion. Consequently the return to a balanced budget may be delayed until fiscal year 2015-2016; one additional year than previously expected. The adjustment to the deficit forecast was caused by lower commodity prices.130

Concerns over the current method the Conservative government is using to reduce the current deficit have been expressed by Canadian government opposition leaders. Opposition leaders criticised the 2013 Budget as a "minimalist" budget that is too focused on reducing the federal deficit versus addressing the challenges Canadians face, for example the low levels of youth

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[124]Update on Progress, Deficit Reduction Plan Office of the Information Commissioner of Canada (Ottawa) 29 January 2013. Date of Access: 31 January 2013. http://www.oic-ci.gc.ca/eng/abu-ans_cor-inf-inf-cor_drap-pard.aspx.

[125]Budget 2013: Focus on jobs training infrastructure (Ottawa) 22 March 2013. Date of Access: 20 June 2013. http://www.ctvnews.ca/politics/budget-2013/budget-2013-focus-on-jobs-training-infrastructure-1.1205592#ixzz2XEyCkXXs.

[126]Falling revenues slowing deficit reduction plan, Flaherty says, CTVnews (Toronto) 13 November 2012. Date of Access: 15 January 2013. http://www.ctvnews.ca/canada/falling-revenues-slowing-deficit-reduction-plan-flaherty-says-1.1035918#ixzz2KaG1XkhU.

[127]Budget 2013: Focus on jobs training infrastructure (Ottawa) 22 March 2013. Date of Access: 20 June 2013. http://www.ctvnews.ca/politics/budget-2013/budget-2013-focus-on-jobs-training-infrastructure-1.1205592#ixzz2XEyCkXXs

[128] Policy Commitments by G20 Members, G20 Information Centre (Toronto) 19 June 2012. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/summits/2012loscabos.html.

129 2012 Federal Fiscal Update, TD Economics (Toronto) 13 November 2012. Date of Access: 1 January 2013. http://www.td.com/document/PDF/economics/budgets/fed2012_fiscal_update.pdf.

130 Fiscal update showing larger deficit puts federal government promises in doubt, Global News (Toronto) 13 November 2012. Date Access: 1 January 2013. http://www.globalnews.ca/fiscal+update+showing+larger+deficit+puts+federal+government+promises+in+doubt/6442752860/story.html.

employment. Efforts to address these challenges are made through programs such as the new Canada Job Grant. The Canada Job Grant aims to match “unemployed Canadians with more than 220,000 current job vacancies across Canada.”[131] Finance Minister Jim Flaherty describes this challenge as the biggest impediment challenging Canada’s economic growth. While the Canada Job Grant is considered one of the cornerstones of the 2013 Budget by the Conservative leaders, Canadian opposition leaders state that the current budget efforts that are “too little, too late.”[132]

The International Monetary Fund equally adds concern to the current Canadian budget plan stating that “the government should be prepared to provide additional spending to promote growth and social programs when needed [to promote better economic growth].”[133] Additionally, both the Organization for Economic Co-operation and Development and the multinational forecasting group have reduced their expectations on Canada’s economic growth in 2014.[134]

The second policy commitment made by the Canadian government was to adjust the Public Service Pension Plan. Reforms to the pension system, outlined in The Jobs and Growth Act 2012, came into effect on 1 January 2013. The measures will bring “federal employee pension contributions more in line with the private sector by introducing a 50-50 cost sharing model for pension plan members.” The new contributions model will fully come into effect in 2017. The Act also increases the retirement age from 60 to 65 years.135Furthermore, the Pension Reform Act increases the age of retirement for Members of Parliament from 55 to 65 as of 1 January 2016. Members of Parliament will also pay 50 per cent of the pensions plan’s cost. Over the next five years, these reforms are expected to generate an estimated CAD2.6 billion.[136]

The third policy commitment was to increase the sustainability of future transfers to provinces and territories. The government adopted a plan to replace the Canada Health Transfer’s (CHT) current annual growth rate of 6 per cent with a new funding formula tied to a “three-year moving average of nominal GDP growth” in fiscal year 2017-2018.In addition, by fiscal year 2014-2015 provincial and territorial CHT funds “will be allocated on an equal per capita cash basis only.”

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[131]Budget 2013: Focus on jobs training infrastructure (Ottawa) 22 March 2013. Date of Access: 20 June 2013. http://www.ctvnews.ca/politics/budget-2013/budget-2013-focus-on-jobs-training-infrastructure-1.1205592#ixzz2XEyCkXXs
[132]Budget 2013: Focus on jobs training infrastructure (Ottawa) 22 March 2013. Date of Access: 20 June 2013. http://www.ctvnews.ca/politics/budget-2013/budget-2013-focus-on-jobs-training-infrastructure-1.1205592#ixzz2XEyCkXXs
[133]OECD reduces estimates for Canadian economy: says growth will lag US, (Ottawa) 29 May 2013. Date of Access: 20 June 2013.http://www.ctvnews.ca/canada/oecd-reduces-estimates-for-canadian-economy-says-growth-will-lag-u-s-1.1301752#ixzz2XExMfhhy
[134]OECD reduces estimates for Canadian economy: says growth will lag US, (Ottawa) 29 May 2013. Date of Access: 20 June 2013.http://www.ctvnews.ca/canada/oecd-reduces-estimates-for-canadian-economy-says-growth-will-lag-u-s-1.1301752#ixzz2XExMfhhy
[135]Harper Government Marks New Year with Historic Pension Reforms, Canada’s Economic Action Plan (Ottawa) 1 January 2013. Date of Access: 2 January 2013. http://www.actionplan.gc.ca/en/news/harper-government-marks-new-year-historic-pension.
[136]Pensions of Public Servants and Parliamentarians, Canada’s Economic Action Plan. (Ottawa) Date of Access: 20 June 2013.http://actionplan.gc.ca/en/initiative/pensions-public-servants-and-parliamentarians.

This measure will reduce transfer funds to provinces and territories that previously received more funds on the basis of greater need for federal support.137

In addition to the CHT funds, "the federal government provides transfers to the provinces and territories in support of education, child care and social services through the Canada Social Transfer (CST)."[138]The government has passed legislation "to continue the 3 [per cent] escalator for the CST for 2014-15 and subsequent years" with a review over fund allocations in 2024.[139]In an effort to ensure that Canadians across Canada have access to comparable programs and services, relative to the levels of taxation, the Economic Action Plan 2013 "commits to introduced legislation to implement the Government's commitments related to transfer renewal and growth in the Equalization" and Territorial Formula Financing programs.[140]

Canada received a score of +1 for full compliance with sub-commitment two. Canada successfully adopted the three medium term nationally differentiated fiscal policies outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Canada earned a cumulative score of +1 for fully complying with both sub-commitments of the fiscal consolidation commitment.

Analyst: Atena Sadegh

France: -1

France received a score of -1 for not complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and for partially complying with sub-commitment two to adopt medium term fiscal consolidation measures.

(1) France earned a score of -1 for noncompliance with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

France has not adjusted the deficit reduction plan despite stagnant growth for three quarters in a row.[141] France remains committed to a plan to decrease the deficit by 3 per cent of GDP in 2013,

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[137]A "Less Is More" Approach to Canadian Health Care: Reformulating the Canada Health Transfer, Ottawa Life (Ottawa) 21 November 2012. Date of Access: 28 December 2012. http://www.ottawalife.com/2012/11/a-less-is-more-approach-to-canadian-health-care-reformulating-the-canada-health-transfer/.

[138]Federal Support for Health Care et to Grow from Record Levels in 2013-14, Health Canada, 1 April 2013.Date of Access: 20 June 2013. http://www.hc-sc.gc.ca/ahc-asc/media/nr-cp/_2013/2013-40-eng.php

[139]Putting Transfers on a Long-term, Sustainable Growth Track. Canada's Economic Action Plan, (Ottawa) Date of Access: 20 June 2013. http://actionplan.gc.ca/en/initiative/putting-transfers-long-term-sustainable-growth

[140]Putting Transfers on a Long-term, Sustainable Growth Track. Canada's Economic Action Plan, (Ottawa) Date of Access: 20 June 2013. http://actionplan.gc.ca/en/initiative/putting-transfers-long-term-sustainable-growth

[141]France to stick to deficit plan, Financial Times (Washington) 19 August 2012. Date of Access: 15 January 2013. http://www.ft.com/cms/s/0/5535b3e8-ea0b-11e1-ad39-00144feab49a.html#axzz2KaPREho7.

which is based on targets made under Former President Nicolas Sarkozy.[142] In order to meet this deficit reduction target, France requires an additional EUR33 billion in savings.[143]

President François Hollande remains wedded to this target despite his electoral campaign that hinged on fighting the implementation of severe austerity measures in Europe at the expense of growth. The government's emphasis on increasing taxation revenue may further compromise economic growth.[144]

Recently, however, the French government has changed courses and is more committed to increasing spending cuts versus increasing taxation.[145]

France earned a score of -1 for noncompliance with sub-commitment one.

(2) France received a score of 0 for partially complying with sub-commitment two.

France reduced the deficit in 2012 and launched a global consultation on the pension system. However the French Government failed to adopt a multi-year budget law and failed to pass any tax reforms.

France committed to four policy actions to address medium-term fiscal sustainability. The first policy commitment was to reduce the deficit. France reduced the gross public debt by EUR14.5 billion in the third quarter of 2012, which is equal to 89.9 per cent of GDP or EUR1 818.1 billion.[146] The deficit decreased to 4.5 per cent of GDP in 2012.147 French Minister of Finance Pierre Moscovici maintains that France is on track to achieve a deficit of 3 per cent of GDP in 2013.148

By April 2013 however it is widely acknowledged that France will break its promise "to bring its deficit down to 3 [per cent] of output in 2013." France is requesting one extra year to accomplish

[142]France to stick to deficit plan, Financial Times (Washington) 19 August 2012. Date of Access: 15 January 2013. http://www.ft.com/cms/s/0/5535b3e8-ea0b-11e1-ad39-00144feab49a.html#axzz2KaPREho7.
[143]France to stick to deficit plan, Financial Times (Washington) 19 August 2012. Date of Access: 15 January 2013. http://www.ft.com/cms/s/0/5535b3e8-ea0b-11e1-ad39-00144feab49a.html#axzz2KaPREho7.
[144] France budget: Taxes favoured over spending cuts, BBC news (London) 28 September 2012. Date of Access: 15 January 2013. http://www.bbc.co.uk/news/world-europe-19754016.
[145]France relaxes budget targets, Financial Times (Paris), 17 April 2013. Date of Access: 20 June 2013. http://www.ft.com/intl/cms/s/0/633a31ce-a740-11e2-9fbe-00144feabdc0.html#axzz2XFdGLEtl
[146] At the end of Q3 2012, the public debt reaches 1 818.1 billion euros, National Institute of Statistics and Economic Studies (Paris) 27 December 2012. Date of Access: 30 December 2012. http://www.insee.fr/en/themes/info-rapide.asp?id=40&date=20121227.
[147]New French Budget Focuses on Slicing Deficit, New York Times (New York) 28 September 2012. Date of Access: 30 December 2012. http://www.nytimes.com/2012/09/29/world/europe/hollandes-new-budget-focuses-on-cutting-frances-deficit.html?_r=0&pagewanted=print.
[148]La dette publique de la France diminue, Gouvernement de France (Paris) 27 December 2012. Date of Access: 30 December 2012. http://www.gouvernement.fr/gouvernement/la-dette-publique-de-la-france-diminue.

this target. Nonetheless, taking into account its weak economy, "France set its headline 2017 public deficit target at 0.7 [per cent] of output, up from an earlier goal of 0.3 [per cent]."[149]

The second policy commitment was to eliminate the least efficient tax expenditures and social security exemptions through tax reform in a supplementary budget law during the summer. On 28 December 2012, the French Senate rejected the 2013 budget law introduced by President François Hollande.150 The 2013 budget law proposed several tax reforms including imposing a 75 per cent marginal tax rate on incomes above EUR1 million and a 45 per cent marginal tax rate on incomes above EUR150 000 per unit, as well as removing tax loopholes for citizens earning more than EUR10 000 per year.151 The budget would have increased tax revenues by EUR24 billion.152

The IMF further noted that "the slow growth rates mean that France must make more of an adjustment in terms of increased taxes and/or social charges along with spending cuts to get the deficit down, which in turn could slow growth further."153 To that end, the multi-year budget plan addresses these issues.

The third policy commitment was to legislate a multi-year budget law to supplement the 2013 budget. On 18 October 2012, the French Senate also rejected the 2012-2017 multi-year budget law primarily due to the budget's focus on tax increases instead of on government spending cuts.154 According to the October 2012 IMF Fiscal Monitor, France "committed to lowering the headline deficit by more than 2 percentage points of GDP over two years," however France did not specify measures to achieve this reduction.155 By April 2013, the IMF's forecast for France was that it will fall into recession within the year "with the economy contracting by 0.1 per cent."156

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[149]Update 2-France eyes bigger-than-planned 2017 headline budget deficit, (Paris) 17 April 2013. Date of Access: 20 June 2013. http://uk.reuters.com/article/2013/04/17/uk-france-finances-idUKBRE93G0EA20130417.

[150]Le Sénat rejette le projet de loi de finances 2013, Le Figaro (Paris) 28 December 2012. Date of Access: 2 January 2013. http://www.lefigaro.fr/flash-eco/2012/11/28/97002-20121128FILWWW00694-le-senat-rejette-le-projet-de-loi-de-finances-2013.php.

[151] Les principales mesures fiscal du budget 2013, Le Figaro (Paris) 27 December 2012. Date of Access: 2 January 2013. http://www.lefigaro.fr/impots/2012/09/27/05003-20120927ARTFIG00788-les-principales-mesures-fiscales-du-budget-2013.php.

[152] Le Sénat rejette le projet de loi de finances 2013, Le Figaro (Paris) 28 December 2012. Date of Access: 2 January 2013. http://www.lefigaro.fr/flash-eco/2012/11/28/97002-20121128FILWWW00694-le-senat-rejette-le-projet-de-loi-de-finances-2013.php.

[153]IMF sees France falling into recession, (Paris) 17 April 2013. Date of Access 23 June 2013. http://economictimes.indiatimes.com/news/international-business/imf-sees-france-falling-into-recession/articleshow/19586659.cms

[154] Le Sénat retoque le budget pluriannuel 2012-2017, Le Figaro (Paris) 11 August 2012. Date of Access: 15 January 2013. http://www.lefigaro.fr/conjoncture/2012/11/08/20002-20121108ARTFIG00363-le-senat-retoque-le-budget-pluriannuel-2012-2017.php.

[155]IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.

[156]IMF sees France falling into recession, (Paris) 17 April 2013. Date of Access 23 June 2013. http://economictimes.indiatimes.com/news/international-business/imf-sees-france-falling-into-recession/articleshow/19586659.cms

On 17 April 2013, Finance Minister Pierre Moscovici announced the French government's "stability program of 2014-2017" which primarily aims at reducing spending to return to a structural balance of public accounts by 2017. Furthermore, for 2013, the law of public finance program had made an unprecedented effort of about EUR30 billion divided equally EUR10 billion expenditure savings for the first time in ten years, EUR10 billion taken from large enterprises and EUR10 billion financed by the wealthiest households. For 2014, the government has identified EUR14 billion in savings through spending cuts to which the burden will be shared by all stakeholders. The French government also claims to have identified 6 billion new recipes to close tax loopholes and crack down on tax evasion.157

This plan is "a reversal of the heavy reliance on tax increases in 2012 and 2013." Mr. Holland retains that his government is "committed to budgetary responsibility to reduce France's debt burden over the medium term." In a statement made to the OECD, Mr. Holland says that "The solution to the crisis is not austerity; it is credibility, sustainability and stability."158

The fourth policy commitment that France made was to initiate a global consultation on the pension system. On 20 December 2012, the Executive Board of the IMF concluded an Article IV Consultation with France on the pension system. The Executive Board commended the French government for committing to reduce the "employer's social security contribution (to reduce labor costs)" and "to make the labour market more adaptable based on the result of ongoing negotiations between the social partners."159 The IMF also reported that the pension reforms "appear to have increased the participation of seniors in the labour market, with a positive impact on potential growth."160

One of the main pillars in France's new stability plan is to fight against unemployment, insecurity and inequality by implementing emergency support measures of purchasing power, job security (including the transposition of the inter-professional National Accord), support for the employment of youth and elderly, etc.161

France received a score of 0 for partial compliance with sub-commitment two. France successfully adopted two out of four of its medium-term nationally differentiated fiscal policies as outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

France earned a cumulative score of -1 for noncompliance with sub-commitment one and partial compliance with sub-commitment two.

Analyst: Atena Sadegh

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[157] Programme de stabilité : "La spirale de la detteeststoppée", (Paris) 17 April 2013. Date of Access: 22 June 2013.http://www.gouvernement.fr/gouvernement/programme-de-stabilite-la-spirale-de-la-dette-est-stoppee

[158] France relaxes budget targets, Financial Times (Paris), 17 April 2013. Date of Access: 20 June 2013. http://www.ft.com/intl/cms/s/0/633a31ce-a740-11e2-9fbe-00144feabdc0.html#axzz2XFdGLEtl

[159] IMF Executive Board Concludes 2012 Article IV Consultation with France, International Monetary Fund (Washington) 21 December 2012. Date of Access: 30 December 2012. http://www.imf.org/external/np/sec/pn/2012/pn12146.htm.

[160] France: 2012 Article IV Consultation- Concluding Statement, International Monetary Fund (Washington) 29 October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/np/ms/2012/102912.htm.

[161] Programme de stabilité : "La spirale de la detteeststoppée", (Paris) 17 April 2013. Date of Access: 22 June 2013.http://www.gouvernement.fr/gouvernement/programme-de-stabilite-la-spirale-de-la-dette-est-stoppee

Germany: +1

Germany received a score of +1 for fully complying with sub-commitment one to ensure that the pace of fiscal consolidation supports the recovery and with sub-commitment two to adopt nationally differentiated medium term fiscal consolidation measures.

(1) Germany earned a score of +1 for fully complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

Germany is ahead of schedule for meeting its fiscal consolidation targets. Though the government has not altered its fiscal consolidation timelines, Germany is "adjusting at an appropriately much slower pace."[162] There is some concern regarding lower than expected growth in 2012 due to diminished exports during the euro crisis.[163] Fiscal adjustment is expected to slow to a more modest pace over the next few years since Germany has already achieved or made significant progress towards its targets.[164]

Germany achieved a score of +1 for fully complying with sub-commitment one.

(2) Germany committed to achieve a balanced budget from 2014 onward, to reduce the debt-to-GDP ratio to 76 per cent in 2015 and to limit the structural deficit to a maximum of 0.5 per cent of GDP by 2012.

Germany is on track to meet its fiscal consolidation targets. According to the IMF Fiscal Monitor, Germany is expected to meet the constitutionally mandated structural deficit ceiling this year.[165] Germany will also achieve a structurally balanced budget and stabilize its debt-to-GDP ratio at 2011 levels in 2013.[166]

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[162] IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.

[163] 2012 GDP Figures Released: German Budget Back in Surplus Despite Slowdown, Spiegel Online International (Berlin) 15 January 2013. Date of Access: 15 January 2013. http://www.spiegel.de/international/business/german-shows-budget-surplus-in-2012-despite-slow-growth-a-877563.html.

[164] IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.

[165] IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.

[166] IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013. http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.

Despite slower growth in the last quarter of 2012, Germany achieved a budget surplus for the first time since before the financial crisis in 2007.[167] The surplus is equal to 0.1 per cent of GDP and is tied to rising levels of employment and wages.[168]

The debt-to-GDP ratio is expected to stand at 81.5 per cent for 2012, which is two percentage points lower than originally projected.[169] The German Finance Ministry expects to achieve its debt-to-GDP ratio by 2015 and to reach a level of 73 per cent by 2016.[170]

Germany received a score of +1 for full compliance with sub-commitment two. Germany successfully adopted all of its medium term nationally differentiated fiscal policies as outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Germany is awarded a cumulative score of +1 for fully complying with sub-commitment one and sub-commitment two of the fiscal consolidation commitment.

Analyst: Elizabeth Stratton

Italy: -1

Italy received a score of -1 for not complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and for partially complying with sub-commitment two to adopt medium term fiscal consolidation measures.

(1) Italy earned a score of -1 for noncompliance with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

Italy missed its fiscal consolidation targets due to deteriorating economic outlooks. Italy has raised its 2013 general government budget deficit target to 2.9 per cent of GDP, revised up from 1.8 percent. The target for 2014 has been lifted from 1.5 per cent of GDP to 1.7 per cent.[171]

Italy has not considered alternate timelines for fiscal consolidation to support the recovery. Under the Government of Prime Minister Mario Monti, Italy has committed to a deficit reduction plan and targets have not been significantly altered. Italian elections in late February may cause the pace of fiscal consolidation to be re-evaluated.

Italy received a score of -1 for noncompliance with sub-commitment one.

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[167] 2012 GDP Figures Released: German Budget Back in Surplus Despite Slowdown, Spiegel Online International (Berlin) 15 January 2013. Date of Access: 15 January 2013. http://www.spiegel.de/international/business/german-shows-budget-surplus-in-2012-despite-slow-growth-a-877563.html.
[168] 2012 GDP Figures Released: German Budget Back in Surplus Despite Slowdown, Spiegel Online International (Berlin) 15 January 2013. Date of Access: 15 January 2013. http://www.spiegel.de/international/business/german-shows-budget-surplus-in-2012-despite-slow-growth-a-877563.html.
[169] Update: Germany's Budget to be Balanced in 2012, The Wall Street Journal (New York) 3 December 2012. Date of Access: 15 January 2013. http://online.wsj.com/article/BT-CO-20121203-709259.html.
[170] Update: Germany's Budget to be Balanced in 2012, The Wall Street Journal (New York) 3 December 2012. Date of Access: 15 January 2013. http://online.wsj.com/article/BT-CO-20121203-709259.html.
[171] With calls for both fiscal consolidation and growth, new Italian PM avoids divisive detail, HIS. 1 May 2013. Date of Access: 27 June 2013. http://www.ihs.com/products/global-insight/industry-economic-report.aspx?id=1065978656)

(2) Italy received a score of 0 for partial compliance with sub-commitment two to adopt nationally differentiated fiscal consolidation measures.

Italy pledged to respect its budget deficit objectives despite abolishing a property tax and dedicating more resources to an unemployment fund.[172] Premier Enrico Letta promised that Italy would abide by fiscal commitments made to Europe yet he cancelled the planned tax rises worth up to EUR 6.0 billion.[173] Premier Letta also pledged a series of tax cuts to boost growth and create jobs which will lead to more than EUR 10 billion in lost revenue this year.[174]

Italy committed to fully implementing a fiscal consolidation strategy and to strengthening the fiscal framework by achieving a structurally balanced budget, rapidly reducing the debt-to-GDP ratio and implementing a balanced budget rule in the Italian Constitution.

Medium-term structural reforms are taking place. Pension system reforms will increase the statutory retirement age of men and women working in the public sector from 65 to 66.[175] From 2013 onwards, all age requirements are indexed to changes in life expectancy at 65.[176] It is estimated that pension savings will reach EUR7.3 billion in 2014.[177] Ongoing expenditure reviews will take place to cut inefficient expenditures and generate savings that will allow taxes to be lowered. Italy has also taken measures to reduce tax evasion.[178]

Despite said structural reforms, Italy has not achieved a structurally balanced budget. In addition to the supplementary fiscal budget that was approved in December 2011, the Italian government approved new measures in July 2012.[179] These budget measures intended to strengthen fiscal consolidation by making government spending more efficient.[180] Despite these measures, Italy did not achieve its projected deficit reductions. Italy aimed to effectively balance the budget by 2013 with a projected deficit of 0.1 per cent but this projection has been delayed by a year until

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[172] Italy Fin Min: Italian Budget to Respect EU Limits for 2013, 2014, Wall Street Journal (Aylesbury) 11 May 2013. Date of Access: 27 June 2013. http://online.wsj.com/article/BT-CO-20130511-700832.html

[173] Italy premier Enrico Letta tears up EUR6bn in tax rises, Financial Times (Rome) 29 April 2013. Date of Access: 27 June 2013. http://www.ft.com/cms/s/0/246347ba-b0e6-11e2-80f9-00144feabdc0.html

[174] Italy won't seek EU Extension of Budget Deficit Goal, Letta Says, Bloomberg (Rome) 1 May 2013. Date of Access: 27 June 2013. http://www.bloomberg.com/news/2013-05-01/italy-won-t-seek-eu-extension-of-budget-deficit-goal-letta-says.html

[175] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[176] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[177] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[178] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[179] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[180] Italy's Major Structural Reforms, Italian Ministry of Economy and Finance (Rome) 26 November 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

2014.[181] However, in the Economic and Financial Document 2013 relased in April 2013, the Italian government maintains that budget balancing will be achieved in 2013.[182]

The Italian government failed to meet its commitment to rapidly decrease the debt-to-GDP ratio. The Government of Italy's debt as a percentage of GDP is expected to rise from 127 per cent in 2012 to 131.4 per cent in 2014.[183]

Italy approved a Constitutional amendment in April 2012 to establish an independent body within Parliament responsible for monitoring public finances and assessing compliance with fiscal rules.[184] Amendments to Section V of the Constitution are yet to be made to bring local finances under the control of the national government.[185]

Italy received a score of 0 for partial compliance with sub-commitment two. Italy adopted one out of three of its medium term nationally differentiated fiscal policies as outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Italy earned a cumulative score of -1 for partially complying with sub-commitment one and for failing to comply with sub-commitment two

Analyst: Yining Ji

Japan: +1

Japan received a score of +1 for complying with both sub-commitments of the fiscal consolidation commitment.

Japan earned a score of +1 for complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to recovery.

Japan will stick to its fiscal consolidation targets to curb public debt.[186] Prime Minister Shinzo Abe announced he will carry on with the targets set by the previous Democratic Party- led government of halving its primary deficit by March 2016.[187]

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[181] Italy Pushes Back Balanced Budget by 2 Years, The New York Times (New York) 18 April 2012. Date of Access: 30 December 2012. http://www.nytimes.com/2012/04/19/business/global/19iht-italybudget19.html?_r=0.

[182] Economic and Financial Document 2013, Italian Ministry of Economy and Finance (Rome) 10 April 2013. Date of Access: 5 June 2013. http://ec.europa.eu/europe2020/pdf/nd/nrp2013_italy_en.pdf

[183] Government debt: General government gross financial liabilities as a percentage of GDP, OECD (Geneva) 27 November 2012. Date of Access: 30 December 2012.http://www.oecd-ilibrary.org/economics/government-debt_gov-debt-table-en.

[184] Italy's Strategy for Growth and Fiscal Consolidation, Italian Ministry of Economy and Finance (Rome) December 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[185] Italy's Strategy for Growth and Fiscal Consolidation, Italian Ministry of Economy and Finance (Rome) December 2012. Date of Access: 4 January 2013. http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/.

[186] Update 1- Japan top policy panel sticks to fiscal reform targets, Reuters. 6 June 2013. Date of Access: 28 June 2013. http://www.reuters.com/article/2013/06/06/japan-economy-fiscal-idUSL3N0EI1VS20130606

[187] Abe growth wish list gets Cabinet's nod, Japan Times (Tokyo) 14 June 2013. Date of Access: 28 June 2013. http://www.japantimes.co.jp/news/2013/06/14/national/cabinet-adopts-abes-vague-growth-budget-guidelines/#.Uc1y8x35EqE)

On 10 January 2013, the Government of Japan announced a stimulus package worth approximately USD117 billion.[188] Prime Minister Shinzo Abe stated in a press conference that the package is intended to aid "reconstruction and disaster prevention, and the creation of wealth through growth…and securing safety of people's livelihood and regional revitalization" to create conditions for sustainable public finances.[189]

Though the stimulus measures will add to government spending, Japan is currently in recession. According to the International Monetary Fund, the stimulus package in combination with further monetary easing will boost growth for at least the near term.[190] If the stimulus fails to create long-lasting growth, however, the package may worsen government debt levels.[191]

Japan scored +1 for complying with sub-commitment one to consider different fiscal consolidation timelines.

(2) Japan received a score of +1 for full compliance with sub-commitment two. Japan is on track to meet its primary balance goals, reformulated its medium-term Fiscal Framework and took measures to ensure fiscal sustainability while rebuilding since the earthquake.

Japan's first policy commitment required a substantial cut in the deficit ratio to GDP and the ratio of public debt to GDP by expanding measures contained in the Definite Plan for the Comprehensive Reform of Social Security and Tax.

Japan imposed a spending cap for fiscal years 2013 to 2015 by declaring that primary balance expenses would not exceed the level established in the initial budget for the previous fiscal year.[192] Japan is expected to reach its primary balance targets. Current projections show that Japan will halve the budget deficit by FY 2015 and achieve a budget surplus by 2012 due to the spending cap and increased government revenue from taxation.[193] Projected government debt will increase from 236.6 per cent of GDP in 2012 to 245 per cent of GDP in 2013, however, Japan's commitment to stable reductions in the debt-to-GDP ratio will only come into effect in 2021.[194]

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[188] Japan unveils USD117 billion stimulus package, CNN (Washington) 10 January 2013. Date of Access: 15 January 2013. http://money.cnn.com/2013/01/10/news/economy/japan-stimulus/index.html.

[189] Press Conference by Prime Minister Shinzo Abe, Office of the Prime Minister and His Cabinet (Tokyo) 11 January 2013. Date of Access: 15 January 2013. http://www.kantei.go.jp/foreign/96_abe/statement/201301/11kaiken_e.html.

[190] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf.

[191] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf.

[192] Medium-term Fiscal Framework (FY2013-FY2015), National Policy Unit (Tokyo) 31 August 2012. Date of Access: 3 January 2013. http://www.npu.go.jp/policy/policy01/pdf/20110812/20110812_siryou01_en.pdf.

[193] Medium-term Fiscal Framework (FY2013-FY2015), National Policy Unit (Tokyo) 31 August 2012. Date of Access: 3 January 2013. http://www.npu.go.jp/policy/policy01/pdf/20110812/20110812_siryou01_en.pdf.

[194] Japan to meet fiscal 2015 deficit targets, longer-term goals in doubt, Reuters (Tokyo) 30 August 2012. Date of Access: 3 January 2013. http://www.reuters.com/article/2012/08/30/us-japan-economy-deficit-idUSBRE87T1NL20120830.

The Government of Japan successfully introduced a phased increase in the consumption tax rate to 10 per cent in August 2012.[195]

Furthermore, on 14 June 2013, the Cabinet of Prime Minister Shinzo Abe adopted two sets of economic and fiscal policy papers. Targets include a 2 per cent annual real GDP increase and maintaining it for the next 10 years while halving the primary balance deficit by 2015.[196]

The second policy commitment was to formulate a medium-term Fiscal Framework on a yearly basis to outline fiscal projections for three years, including revenue and expenditure measures as well as restraints on issuing new government bonds.

On 31 August 2012, Japan revised the medium-term Fiscal Framework for 2013 to 2015 in line with its commitment to reformulate the framework on a yearly basis. The Framework specified a limit on the amount of newly issued government bonds in 2013 at JPY 44 trillion.[197]

The third policy commitment made by Japan was to achieve fiscal sustainability while facilitating reconstruction from the earthquake. Japan was able to meet its budget target for fiscal year 2012 despite substantial government expenditure on reconstruction.[198] Earthquake-related expenditure will decrease further in 2013, which will decrease the budget deficit by 1 percentage point of GDP.[199]

Japan received a score of +1 for full compliance with sub-commitment two. Japan successfully adopted the three medium term nationally differentiated fiscal policies outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Japan received a cumulative score of +1 for complying with sub-commitment one to consider the effect of the pace of fiscal consolidation on the recovery and sub-commitment two to adopt nationally differentiated fiscal policies in the medium term.

Analysts: Yining Ji and Elizabeth Stratton

Korea: +1

Korea received a score of +1 for complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and for partially complying with sub-commitment two to adopt medium term fiscal consolidation measures.

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195 Medium-term Fiscal Framework (FY2013-FY2015), National Policy Unit (Tokyo) 31 August 2012. Date of Access: 3 January 2013. http://www.npu.go.jp/policy/policy01/pdf/20110812/20110812_siryou01_en.pdf.

196 Abe growth wish list gets Cabinet's nod, Japan Times (Tokyo) 14 June 2013. Date of Access: 28 June 2013. http://www.japantimes.co.jp/news/2013/06/14/national/cabinet-adopts-abes-vague-growth-budget-guidelines/#.Uc1y8x35EqE

197 Medium-term Fiscal Framework (FY2013-FY2015), National Policy Unit (Tokyo) 31 August 2012. Date of Access: 3 January 2013. http://www.npu.go.jp/policy/policy01/pdf/20110812/20110812_siryou01_en.pdf

198 Japan's 2012/2013 budget meets target with sleight of hand, Reuters (Tokyo) 23 December 2012. Date of Access: 2 January 2012. http://www.reuters.com/article/2011/12/24/japan-economy-budget-idUSL3E7NL37B20111224

199 The Fiscal Monitor, International Monetary Fund (Washington) 9 October 2012. Date of Access: 2 January 2013. www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf

(1) Korea earned a score of +1 for complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

The rate of economic growth in Korea moderated in the last months of 2012 to 2 per cent. The Government of Korea delayed the fiscal consolidation timeline in order to support growth, which is expected to increase to 3 per cent in 2013.[200]

Government spending in 2013 is front-loaded into the first half of the year to support growth. This action will be complemented with a stimulus package equal to 0.3 per cent of GDP in the second half of the year.[201] The stimulus will mainly come from government-managed funds and Public-Private Partnerships (PPPs). Though the front-loaded spending and additional stimulus measures will increase government spending, fiscal consolidation is expected to resume after growth recovers in 2013.[202]

Korea earned a score of +1 for sub-commitment one.

(2) Korea received a score of 0 for partially complying with sub-commitment two. Korea did not meet its deficit reduction target and only budget balancing strategies have been fully implemented. Korea has not yet produced its long-term fiscal outlook, but Korea did strengthen automatic fiscal stabilizers.

The first policy commitment was to achieve a balanced budget and reduce the debt-to-GDP ratio by reducing tax exemptions and improving the standard for fiscal statistics. The 2013 Budget Proposal indicates that Korea will be unable to meet its commitment to balance the budget by 2013 and will have a budget deficit 0.3 per cent GDP. The debt-to-GDP ratio will decrease from 34 per cent of GDP in 2012 to 33.2 per cent of GDP in 2013.

The 2012 Tax Revision Bill projected that the government would collect net tax revenues of KRW1.66 trillion. The Government of Korea increased tax revenue by reducing tax credits for job creation investment, increasing taxes on financial incomes, introducing a tax on derivatives transactions, and removing the tax exemption for workers' tax-free assets savings and long-term funds, tax deductions for transportation fares and the earned income tax credit.[203] The Korean Ministry of Strategy and Finance also announced that local governments will not be allowed to pass new tax incentives.[204] The Korean Ministry of Strategy and Finance also announced that fiscal projects will be evaluated according to certain standards and that funding will be cut from projects that are underperforming.

Korea has not yet updated the standard for fiscal statistics from 1986 GFS to 2001 GFS.

The second policy commitment was to prepare a long-term fiscal outlook to 2060. Korea has not yet produced the long-term fiscal outlook however the deadline is not until the end of 2013.

[200] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf
[201] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf
[202] The Fiscal Monitor, International Monetary Fund (Washington) 9 October 2012. Date of Access: 2 January 2013. www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.
[203] Tax Revision Bill, 2012, Korean Ministry of Strategy & Finance (Seoul) 10 August 2012. Date of Access: 15 January 2013. http://english.mosf.go.kr/pre/press.do?bcd=N0001.
[204] Economic Policies, Second Half of 2012, Korean Ministry of Strategy & Finance (Seoul) 28 June 2012. Date of Access: 15 January 2013. http://english.mosf.go.kr/pre/press.do?bcd=N0001.

Korea began preparations for the long-term plan by organizing the fifth long-term fiscal plan meeting and formed committees to review spending projections.[205]

The third policy commitment was to cement the short-term recovery through sustainable efforts to strengthen automatic fiscal stabilizers. Korea increased the level of employment maintenance subsidies during periods of high unemployment.[206]

Korea received a score of 0 for partial compliance with sub-commitment two. Korea successfully fulfilled one policy commitment, initiated another commitment and took some action on the final commitment. Korea partially adopted its medium-term nationally differentiated fiscal policies as outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

Korea received a cumulative score of +1 for complying with sub-commitment one to consider the effect of the pace of fiscal consolidation on the recovery and for partially implementing nationally differentiated fiscal policies in the medium term.

Analysts: Lucy Lu and Elizabeth Stratton

United Kingdom: +1

The United Kingdom received a score of +1 for fully complying with sub-commitment one to consider the pace of consolidation in relation to growth prospects and with sub-commitment two to adopt nationally differentiated fiscal commitments in the medium term.

(1) The United Kingdom earned a score of +1 for complying with sub-commitment one.

The United Kingdom revised its projected budget deficit reductions due to lower than expected growth.[207] The British economy contracted by 0.1 per cent in 2012. Consequently Chancellor of the Exchequer George Osborne delayed debt reduction targets. Public debt as a percentage of GDP is now projected to begin falling in fiscal year 2015-2016.[208] According to The Office for Budgetary Responsibility, the United Kingdom will likely eliminate the structural current deficit in five years, effectively extending the previous deadline by one year to the fiscal year 2017-2018.[209] Some economists have expressed concern regarding the credibility of extended deficit reduction plans if growth does not significantly increase.[210]

The United Kingdom earned a score of +1 for ensuring that the pace of fiscal consolidation reflects growth concerns.

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[205] The 5th 2011-2060 Long-Term Fiscal Plan Meeting, Korean Ministry of Strategy & Finance (Seoul) 6 November 2012. Date of Access: 15 January 2013, http://english.mosf.go.kr/pre/press.do?bcd=N0001.
[206] Policy Commitments by G20 Members, G20 Information Centre (Toronto) 19 June 2012. Date of Access: 4 December 2012. http://www.g20.utoronto.ca/summits/2012loscabos.html.
[207] IMF Fiscal Monitor Update, International Monetary Fund (Washington) October 2012. Date of Access: 3 January 2013.
http://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdfhttp://www.imf.org/external/pubs/ft/fm/2012/02/pdf/fm1202.pdf.
[208] Autumn Statement: Benefit squeeze as economy slows, BBC (London) 5 December 2012. Date of Access: 15 January 2013. http://www.bbc.co.uk/news/uk-politics-20600442.
[209] Autumn Statement: Benefit squeeze as economy slows, BBC (London) 5 December 2012. Date of Access: 15 January 2013. http://www.bbc.co.uk/news/uk-politics-20600442.
[210] Weak economy undermines public finances again, Citi Research (London) 7 December 2012. Date of Access: 15 January 2013. https://ir.citi.com/KNMrIy2jWoL3Yh3dtmDLP6t4q per cent2BLHZuejWyy0Sv2DH3PA per cent2FFFYFVbGDg per cent3D per cent3D.

(2) The United Kingdom achieved a score of +1 for full compliance with sub-commitment two. The United Kingdom reduced spending, implemented pension reforms and appears on track to meet debt reduction targets.

The United Kingdom made two policy commitments at the Los Cabos Summit. The United Kingdom committed to increasing government spending cuts to meet debt targets and further reform to the pension system.

The first commitment was to decrease government spending and public sector debt. The United Kingdom continued to implement reductions in government spending as outlined in the 2010 Spending Review.[211] Public sector net borrowing was GBP5 billion lower than forecast in the Budget 2012 for 2011-12. The United Kingdom is projected to meet its debt reduction goals as public sector net debt as a percentage of GDP is expected to decrease in 2015-2016.

The second commitment was to further reform the pension system. On 14 January 2013 British Minister of Pensions Steve Webb published a white paper to replace the current pensions system with a flat-rate pension equal to approximately GBP144 per week.[212] Spending on pensions under the new system will still increase from the current 6.9 per cent of GDP to 8.1 per cent of GDP in 2060. However under the previous system spending would have reached 8.5 per cent of GDP in 2060.[213]

The previous Labour Government outlined plans to gradually raise the state pension age however the current Coalition Government accelerated the pace of said increases. The state pension age for women will rise to 65 by 2018. The government accelerated the increase in the state pension age for men and women to 66 years old starting in 2020 in May 2010.[214] Plans to increase the state pension age to 67 for men and women in 2026 were confirmed in the Queen's Speech in May 2012.[215] The 2012 Budget confirmed that the British Government will index the state pension age to life expectancy, likely causing the state pension age to exceed 70.[216]

The United Kingdom received a score of +1 for full compliance with sub-commitment two. The United Kingdom is on track to achieve its medium term nationally differentiated fiscal goals outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

The United Kingdom received a cumulative score of +1 for fully complying with both sub-commitments of the fiscal consolidation commitment.

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[211] Economic and Fiscal Outlook, Office for Budget Responsibility (London) December 2012. Date of Access: 15 January 2013. http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-december-2012/.

[212] Pensions overhaul could hit public sector workers hardest, The Guardian (London) 14 January 2013. Date of Access: 15 January 2013. http://www.guardian.co.uk/money/2013/jan/14/pensions-public-sector-workers?intcmp=239.

[213] Single-tier pension, Department of Work and Pensions (London) 14 January 2013. Date of Access: 15 January 2013. http://www.dwp.gov.uk/policy/pensions-reform/state-pension/.

[214] New state pension age: when will you retire?, This is money (London) 14 January 2013. Date of Access: 15 January 2013. http://www.thisismoney.co.uk/money/pensions/article-1679780/New-state-pension-age-retire.html#axzz2KKWhmlMj.

[215] New state pension age: when will you retire?, This is money (London) 14 January 2013. Date of Access: 15 January 2013. http://www.thisismoney.co.uk/money/pensions/article-1679780/New-state-pension-age-retire.html#axzz2KKWhmlMj.

[216] 2012 Budget, Department of the Treasury (London) 21 March 2012. Date of Access: 15 January 2013. http://www.hm-treasury.gov.uk/budget2012.htm.

United States: 0

The United States received a score of 0 for partially complying with sub-commitment one to consider the pace of consolidation in relation to growth prospects as well as partially complying with sub-commitment two to adopt nationally differentiated fiscal commitments in the medium term.

(1) The United States earned a score of 0 for partial compliance with sub-commitment one.

The United States considered different timelines for fiscal consolidation; however the adjustments to the pace of consolidation can mainly be attributed to the failure of the Democrats and the Republicans to agree on deficit reduction plans and the ensuing imposition of automatic measures.

The automatic tax increases and spending cuts that were scheduled to come into effect on 1 January 2013 were put in place after Congress failed to agree on deficit reduction measures when the debt ceiling was raised.[217] The measures were intended as a last resort if Congress could not once more reach agreement on plans to achieve fiscal consolidation. The "fiscal cliff" expected to push the United States into recession was averted with a last-minute deal passed on the day the measures were supposed to come into effect.[218]

Though the avoidance of severe fiscal consolidation measures improved growth prospects in the United States, the "fiscal cliff" was designed as an ultimatum to policymakers. The final deal attempted to mitigate the worst impacts on economic growth rather than carefully weigh different timelines for consolidation against growth projections.[219] Furthermore American policymakers have yet to resolve the questions of the impending spending sequester and the expiration of appropriation bills. The United States government will reach the debt ceiling again in March 2013 and questions regarding the timeline for longer-term deficit reduction are still unresolved.[220]

The United States is awarded a score of 0 because though different timelines for fiscal consolidation have been considered, changes to the pace of fiscal consolidation appear to have been first and foremost motivated by partisan politics instead of economic considerations.

(2) The United States received a score of 0 for partial compliance with sub-commitment two.

The United States committed to reducing the federal deficit, decreasing government spending and preventing the fiscal deficit reduction process from being disruptive to the economy.

The United States introduced a variety of fiscal consolidation measures to reduce the deficit. On 1 January 2013, President Barack Obama increased the tax rate for individuals with incomes greater than USD400,000 and for couples earning more than USD450,000. The new law also increases the top income tax rate to 39.5 per cent from a previous rate of 35 per cent, which is expected to

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[217] Obama signs bill warding off fiscal cliff, CNN (Washington) 3 January 2013. Date of Access: 3 January 2013. http://www.cnn.com/2013/01/02/politics/fiscal-cliff/index.html.
[218] World Economic Outlook Update, IMF (Washington) 23 January 2013. Date of Access: 31 January 2013. http://www.imf.org/external/pubs/ft/weo/2013/update/01/pdf/0113.pdf.
[219] Obama signs bill warding off fiscal cliff, CNN (Washington) 3 January 2013. Date of Access: 3 January 2013. http://www.cnn.com/2013/01/02/politics/fiscal-cliff/index.html.
[220] IMF Spokesman Comments on US "Fiscal Cliff" Measures, IMF (Washington) 2 January 2013. Date of Access: 15 January 2013. http://www.imf.org/external/np/sec/pr/2013/pr1301.htm.

generate USD600 billion in new government revenue over ten years.[221] The share of Social Security taxes paid by employees was also increased by two per cent from last year.[222]

The government also cut government expenditures. Automatic spending cuts across federal agencies equal to USD110 billion will come into effect in 2013 after Congress failed to agree on a ten-year fiscal consolidation plan on 1 January 2013.[223]

The budget deficit for the fiscal year 2013 will be USD1.089 trillion, which is significantly smaller than previous projections forecasted.224 The deficit was equal to 7 per cent of GDP in 2012, which was 1.7 per cent lower than the 2011 deficit as percentage of GDP.[225]

The American Government is also making efforts through the Budget Control Act. In the Cuts, Consolidations, and Savings volume, the United States "Administration details the 210 cuts, consolidations, and savings measures that are proposed in the 2013 Budget" totalling to more than USD22 billion and USD520 billion through 2020.[226] Granted that the current laws governing federal taxes and spending remain the same, "the budget deficit will shrink this year to [USD]642 billion" according to the Congressional Budget Office (CBO). This reduces the expected deficit at 4 per cent of GDP.[227] This is great progress and speedy fiscal consolidation considering that the deficit "figure for 2012 was 7" per cent.[228]

In a statement made to the IMF, Treasury Secretary Jaboc Lew notes that the United States economy "has now expanded for 14 consecutive quarters […and] private employers have added nearly six and a half million jobs over the past 37 months." Mr. Lew further notes that the federal deficit has fallen by an average of more than one per cent point of GDP per year and that "President Obama's Budget takes a balanced approach that build on these efforts while making targeted investments to strengthen the economic recovery, create jobs, and lay the foundation for long-term growth."[229]

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221 Obama signs bill warding off fiscal cliff, CNN (Washington) 3 January 2013. Date of Access: 3 January 2013. http://www.cnn.com/2013/01/02/politics/fiscal-cliff/index.html.
222 US Congress Avoids Fiscal Cliff, Postpones Budget Decisions. 7 January 2013. Date of Access: 7 January 2013. http://learningenglish.voanews.com/content/us-congress-avoids-fiscal-cliff-postpones-budget-decision/1578122.html.
223 Obama signs bill warding off fiscal cliff, CNN (Washington) 3 January 2013. Date of Access: 3 January 2013. http://www.cnn.com/2013/01/02/politics/fiscal-cliff/index.html.
[224]Joint Statement of Secretary Geithner and OMB Deputy Director for Management Jeffrey Zients on Budget Results for Fiscal Year 2012, Treasury Department (Washington) 10 December 2012. Date of Access: 6 January 2012. http://www.treasury.gov/press-center/press-releases/Pages/tg1734.aspx.
[225]Joint Statement of Secretary Geithner and OMB Deputy Director for Management Jeffrey Zients on Budget Results for Fiscal Year 2012, Treasury Department (Washington) 10 December 2012. Date of Access: 6 January 2012. http://www.treasury.gov/press-center/press-releases/Pages/tg1734.aspx.
[226]Fiscal Year 2013: Cuts, Consolidations, and Savings: Budget of the U.S. Government, White House (Washington), Date of Access 20 June 2013.
http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/ccs.pdf
[227]Update Budget Projections: Fiscal Year 2013 to 2023, Congress of United States Congressional Budget Office, (Washington) May 2013. Date of Access 20 June 2013.
http://www.cbo.gov/sites/default/files/cbofiles/attachments/44172-Baseline2.pdf
[228]Fiscal consolidation, American style, The Economist (Washington), 14 May 2013. Date of Access 23 June 2013. http://www.economist.com/blogs/freeexchange/2013/05/government-borrowing
[229]Statement by Secretary Jacob J. Lew at the International Monetary Financial Committee (IMFC) Meeting, 19 April 2013, Date of Access: 23 June 2013.

The second policy commitment made by the United States was to avoid disruptions to the economy during the process of agreeing on fiscal consolidation measures. The process has been dominated by fears that the United States would go over the "fiscal cliff," be unable to avoid a recession sparked by USD500 billion worth of automatic tax increases and spending cuts, and would default on debt payments. The high degree of uncertainty regarding whether a deal would be reached caused consumers, investors and markets to lose confidence in the American economy.[230] Though the fiscal cliff was averted with a last-minute deal on 1 January 2013, uncertainty remains regarding America's looming debt ceiling, which will be reached in March, the spending sequester and the expiration of appropriation bills, and longer term plans to reduce the deficit.[231]

On 1 March 2013, "automatic cuts, half affecting defense spending and the remainder spread over other federal agencies, went into effect" which means that "the federal government is reducing spending by $1.2 trillion over the next nine years, including $85 billion over the final seven months of this fiscal year."[232]

On 15 March 2013, Treasury Secretary Jack Lew announced that the federal debt ceiling will not need to be raised until September. Mr. Lew wrote in a letter to Congress that "was initiating "extraordinary measures" in order to restrict public debt issuance and keep the outstanding total under the legal limit for as long as possible."[233] Mr. Lew further states in his letter that "the effective duration of the extraordinary measures is subject to considerable uncertainty due to a variety of factors, including the unpredictability of tax receipts, changes in expenditure flows under the sequester, and the normal challenges of forecasting the payments and receipts of the U.S. government months into the future."[234]

The United States received a score of 0 for noncompliance with sub-commitment two. The United States has made substantial efforts to achieve its deficit reduction targets but has allowed the fiscal consolidation process to become a disruptive force in the economy. The United States thus partially complied with its medium-term nationally differentiated fiscal goals outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

The United States received a cumulative score of 0 for partially complying with sub-commitment one and for partially complying with sub-commitment two.

Analyst: Atena Sadegh

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http://www.treasury.gov/press-center/press-releases/Pages/jl1904.aspx.

[230] Demystifying the Fiscal Impasse That Is Vexing Washington, The New York Times (New York) 15 November 2012. Date of Access: 15 January 2013. http://www.nytimes.com/2012/11/16/us/politics/the-fiscal-cliff-explained.html?pagewanted=all&_r=0.

[231] IMF Spokesman Comments on US "Fiscal Cliff" Measures, IMF (Washington) 2 January 2013. Date of Access: 15 January 2013. http://www.imf.org/external/np/sec/pr/2013/pr1301.htm.

[232]Automatic Spending Cuts Start With Few Initial Effects, (New York) 04 March 2013, Date of Access: 22 June 2013. http://www.bloomberg.com/news/2013-03-04/automatic-spending-cuts-start-with-few-initial-effects.html

[233]US wins breathing space on debt ceiling. 17 March 2013. Date of Access: 25 June 2013. http://www.ft.com/cms/s/0/1e34229e-bf21-11e2-a9d4-00144feab7de.html#axzz2XpEhaWyI

[234]Secretary Lew Sends Debt Limit Letter to Congress, U.S. Department of the Treasury (Washington), 17 May 2013, Date of Access 20 June 2013. http://www.treasury.gov/connect/blog/Pages/Secretary-Lew-Sends-Debt-Limit-Letter-to-Congress.aspx

European Union: +1

The European Union received a score of +1 for fully complying with sub-commitment one to adjust the pace of fiscal consolidation appropriate to the recovery and for partially complying with sub-commitment two to adopt medium term fiscal consolidation measures.

(1) The European Union earned a score of +1 for complying with the first sub-commitment to ensure that the pace of fiscal consolidation is appropriate to the recovery.

The European Union shifted to an approach that emphasizes country-specific plans for fiscal consolidation.[235] Within this nationally differentiated framework some individual countries have considered different timelines based on growth.

The EU received a score of +1 for complying with sub-commitment one to adjust the pace of fiscal consolidation based on growth.

(2) The European Union achieved a score of 0 for partial compliance with sub-commitment two. The European Union has yet to implement a common budgetary framework however the European Union advocated differentiated and growth-friendly consolidation.

The European Union committed to implementing a common budgetary framework to achieve continuous reductions in the budget deficits of member states. The European Union also committed to differentiate consolidation among member countries and emphasize growth-friendly consolidation strategies.

The European Union has not yet implemented a common budgetary framework however the European Union has made progress by reaching an agreement on the Multiannual Financial Framework from 2014 to 2020. The Annual Growth Survey indicates that current fiscal consolidation measures are having an effect.[236] Public debt is projected to peak at 94.5 per cent in 2013 in the euro area after which debt is expected to begin to decrease.

The European Commission advocated differentiated fiscal consolidation plans for each member state. Based on the Stability and Growth Pact, a member state with an excessive budget deficit may be granted a longer period of time to amend the deficit.

The European Union also committed to creating growth-friendly consolidation. The European Economic Forecast was issued in autumn 2012 and forecasts that government spending will remain stable in the European Union and decrease slightly in the euro area in 2013. Government debt ratios in the European Union and the euro area were however projected to increase in 2012 and 2013. The gross debt for most European Union governments was expected to increase and peak at 88.6 per cent of GDP in 2014. Debt increased to 92.8 per cent of GDP in 2012 and will reach 94.5 per cent of GDP in 2013 in the euro area.[237]

The European Commission implemented the Financial Transaction Tax program to be applied at a regional level. The revenue generated by this program will be used to foster growth-friendly

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[235] Times Topic: The European debt crisis, New York Times (New York) 10 January 2013. Date of Access: 15 January 2013.
http://topics.nytimes.com/top/reference/timestopics/subjects/e/european_sovereign_debt_crisis/index.html

[236] Annual Growth Survey, European Commission (Brussels) 28 November 2012. Date of Access: 15 January 2013. http://ec.europa.eu/europe2020/pdf/ags2013_en.pdf.

[237] European Economic Forecast, European Commission (Brussels) 2012. Date of Access: 22 October 2012. http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-7_en.pdf.

investment and to support development in the European Union. The European Commission also took action to eliminate tax evasion and avoidance by passing the Action Plan on Tax Fraud and Evasion. This plan will allow the European Union to capture EUR1 trillion every year in public revenues. The stricter taxation was elected as an effective way to consolidate the fiscal situation in the European Union. The European Commission recommended that member states shift taxation from labour to target consumption, environmental protection or property ownership to make tax regimes more growth-friendly.

The European Union received a score of 0 for partially implementing its medium term nationally differentiated fiscal policies as outlined in the Policy Commitments Annex of the Los Cabos Action Plan for Jobs and Growth.

The European Union earned a cumulative score of +1 for complying with sub-commitment one and partially complying with sub-commitment two of the fiscal consolidation commitment.

Analysts: Lucy Lu and Elizabeth Stratton