



PDC Working Group on Fiscal exposures. Proposals to the meeting 2003, in Mexico City

- **A:1. Subsidies**, the boundaries of the public sector – the composition of the national debt. This is a British suggestion.
- NAO found some types of loans which should not be a part of the national debt.
- Perhaps combine with **B:2** about subsidies, contribution to stability and growth



Working Group Proposals (2)

- **A:2 Guarantees** as a potential national debt.
- A British suggestion: NAO and RRV both are auditing guarantees. RRV the 1997 Model, still not implemented fully.
- Problems in Sweden. Risk based fees, guarantee reserves and unauthorized guarantees because of the Swedish ceiling on government spending
- Do British and Swedish audits have something in common?



Working Group Proposals(3)

- **A.3 Fiscal discipline through ceilings (expenditure caps)** on government spending or borrowing or other limits for managing overall fiscal exposures. **The role for SAIs.**
- Britain and Germany has rules putting a cap on public borrowing. Japan earmarks borrowing to consumption and investment. Sweden has an expenditure cap (a ceiling, a budget margin and limited costs for each expenditure area except for public debt costs.)



Working Group Proposals (4)

- **Germany:** Public sector net borrowing in Germany is dependent on the magnitude of public investments and/or the need to avert general economic disequilibria. According to the constitution and the budget law the German SAI has a mandate to audit compliance with the rules.

Working Group Proposals (5)



- **Britain:** The British budget is ruled by two principles: The “golden rule” and the “sustainable investment rule” The meaning of the first rule is that over the economic cycle the government should only borrow for investments. The British also have a specific capital budget, like Sweden many years ago.
- Should NAO have a role auditing the implementation of the golden rule? If so. How to determine the phase of the economic cycle.



Working Group Proposals (6)

- **Japan:** The national debt is financed through different types of instruments depending on whether the resources should finance investments or consumption. Different laws regulate how the resources from different loans should be used. Construction Bonds for example is used to finance investments, while Deficit Covering Bonds could be said to finance consumption.



Working Group Proposals (7)

- **Sweden:** Since 1996 Sweden has a new budget process, where Parliament approve an expenditure cap comprising most of the expenses in the budget. The cap is later distributed on expenditure areas. Overdraws in one area must be compensated for by cutting down costs in other areas.



Working Group Proposals (8)

- Technically Sweden has a ceiling for total expenses, with an exception for public debt costs. It has a budget margin and limited costs for each expenditure area within the cap.
- There are a lot of ways to manipulate the system.



Working Group Proposals (9)

- Some ways to circumvent the cap are:
- Account for costs outside the cap or budget (cf. Debt costs)
- Net budgeting (cf. tax exemptions).
- Postpone costs to next year
- Postpone costs giving guarantees



Working Group Proposals (10)

- Prognosis are crucial for the timely management of the cap
- Then there may be a need for auditing prognosis
- The British SAI has a role auditing the governments forecast assumptions



Working Group Proposals (11)

- The German rules give the SAI a role auditing the "cap" on borrowing in an overall perspective on financial stability.
- Which role should the Swedish SAI have to audit the management of the expenditure cap.
- Which ways of circumvention could then be accepted. Which could not.
- What is in accordance with budget law and other general principles. What is not.



Working Group Proposals (12)

- The basic idea with a project of this character is to list, advantages and drawbacks with comparable systems and to learn from that.
- Structures of incentives should if possible be analysed. The Golden Rule has an advantage compared with total expenditure caps in the fact that the rule itself is normative (and give no room (?) for political choice like the Swedish model do)?



Working Group Proposals (13)

A4:Prognosis - organisation and control and the role of the SAI.

- Prognosis is an important part of risk control
- Sweden - independent authorities, that parallel with the Government make prognosis for the budget.
- In Britain NAO is auditing the forecast assumptions of the government.
- US? NBER make independent conclusions round the economic cycle?



Working Group Proposals (14)

- Drawbacks and advantages adhering to different control systems for prognosis?
- Specially taking notice of the needs of transparency in national debt policy, and the need for market confidence.



Working Group Proposals (15)

A5 Budgeting contingency reserves.

- The American paper describes “contingency reserves” or “reserve funds” from some countries. In general, criteria are established that must be met before obtaining these funds.
- For the Canadian contingency reserve it is stipulated, if not needed, it should be used to pay down the public debt.



Working Group Proposals (16)

- In Sweden “funds” is a standard solution for lots of problems from the influence over industry (employee funds) to the stability of the economy after joining EMU.
- Map the occurrence of “reserves” and “funds” in our countries and as a start describe the rules for using them.
- Discuss how “moral hazard” connected to these reserves is handled.



Working Group Proposals (17)

A6: Development and composition of public debt

- Different economic pressures, events, policies etc. lies behind the building up of a national debt.
- In Sweden the public expenditures has been bigger than income most years since 1970. In the early 90s the national debt increased rapidly depending on an economic slowdown, a bank crash and economic problems for some regional authorities.



Working Group Proposals (18)

- Compared to Great Britain Sweden has another duration of the debt and another composition of instruments.
- Sweden definitely has borrowed to finance consumption in the long run.
- Start with a short summing up of income, expenses and PSBR for a ten year period



Working Group Proposals (19)

- Continue with an analysis of the main determining factors and policies.
- The simple idea here is for the SAI to get a broader perspective of the actions of the own DMO.



Working Group Proposals (20)

A7:Asset and liability management considerations among other policy objectives in public debt

- The Swedish DMO (RGK) has got a government commission and should this year try to “develop the concept of financial risk for the state, on the grounds of an analysis and a coordination of assets and liabilities”. RRV will follow that work.



Working Group Proposals (21)

- **B:1 Direct control** of particular public expenditures
- In Canada it's stipulated that before a loan or guarantee is tendered the responsible department must analyse the project and demonstrate that it could not to be financed without government assistance.



Working Group Proposals (22)

- In Sweden some authorities in the field of industrial policy should live up to the same type of rules.
- 1997 RRV established that they normally didn't follow such rules.



Working Group Proposals (23)

B2: Different forms of subsidies – different contributions to growth and stability?

- Comparing public support to industries in the form of direct gifts, guarantees, loans or to let public agencies buy stocks directly or indirectly in supported companies.
- Relating to the fiscal risk matrix, if the state give a subsidy to a company as a gift we should register the event in the North West part of the fiscal risk matrix.



Working Group Proposals (24)

- If the state gives it as a guarantee we are in the North East part of the fiscal risk matrix. If the state gives a loan to the company, we have an asset. If the state buys shares in the company, we have an asset and a potential upside. We know that there are substantial differences in this respect between United States, Germany, UK, EU and Sweden since we made a project on this some years ago.



Industrial policy measures Possible outcome

