Credit Day: improving appetite for fiscal responsibility

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13 December marks Credit Day across the European Union. This is the day when, on average, European countries' central governments exhaust their annual tax revenue and start relying on borrowed money to fulfil their functions – 18 days before the end of the year. According to a study by the Institut Économique Molinari, this is 7 days later than last year, which is a substantial improvement.

Out of the 28 EU member states, 9 managed to achieve a budget surplus. 13 countries spent their annual tax revenue by December, while 6 had already done so by November. Out of all countries surveyed, Poland exhausted its revenues first, on November 10. Malta, on the other hand, was able to rely on 2017 revenues all the way to February 4 the following year.

The data on individual countries reveals a more mixed picture. While some countries – such as Germany and Sweden – managed to save some of their tax revenue all the way into the following year, others, like Romania and France, had to start borrowing by November.

A clearer approach to understanding government borrowing

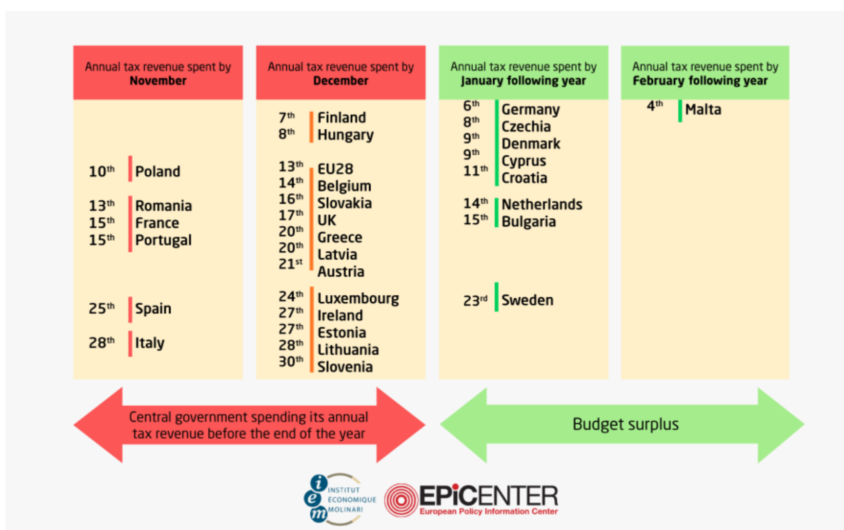
In its fourth edition, the Credit Day study by the Institut Économique Molinari compares revenues and expenses of the 28 EU member states, in order to determine the exact day tax revenues ran out and they began funding day-to-day spending with borrowed money in 2017. We have used this approach to clarify the concepts of deficit and debt, which can be complex to understand. By pin-pointing an exact date on which the central government starts relying on borrowed money, the study avoids the complications of dealing with GDP percentages and figures in the billions of euros. In addition, the debate around national deficits is often complicated by confusing assumptions and forecasts of economic growth, which are often out of step with reality. By calculating the specific day on which European economies begin relying on credit, the study allows us to understand Europe's dependency on borrowing without simplistic assumptions.

While last year there were only 5 countries with a budget surplus, there are 9 this year. The picture for the bottom quartile is mixed, however, with some countries substantially improving their situation and others going in the opposite direction.

The study reveals substantial improvements across the board. For the average EU country, Credit Day fell on December 13, an improvement from December 6 the year before. On a country-specific level, however, the picture is mixed. Nine countries save their annual tax revenue all the way into the following year, thirteen have their Credit Day in December and six in November. The situation of some countries in the bottom quartile is particularly concerning. While there has been an improvement on average, certain countries, notably France, Romania, Poland and Portugal have struggled to meaningfully reduce their deficits and debt, rendering them fragile to potential shocks. Overall, fiscal responsibility appears to be growing across the EU, as the average number of unfunded spending days is now exactly equal to pre-2008 crisis levels at 18 credit days.

Trends in EU28 borrowing and spending

Taken as a whole, EU28 countries have seen a reduction of 7 credit days in the past year. While in 2016 they had 25 unfunded days, by 2017 the number had fallen to 18. This substantial improvement can be partly attributed to central administrations placing more emphasis on fiscal responsibility in recent years. In Italy and Spain, for example, debates about the amount of government debt have been at the centre of political discussions. Italy's budget rejection by the EU due to high proposed levels of deficit provides evidence of pressure from the central authorities to have balanced budgets.

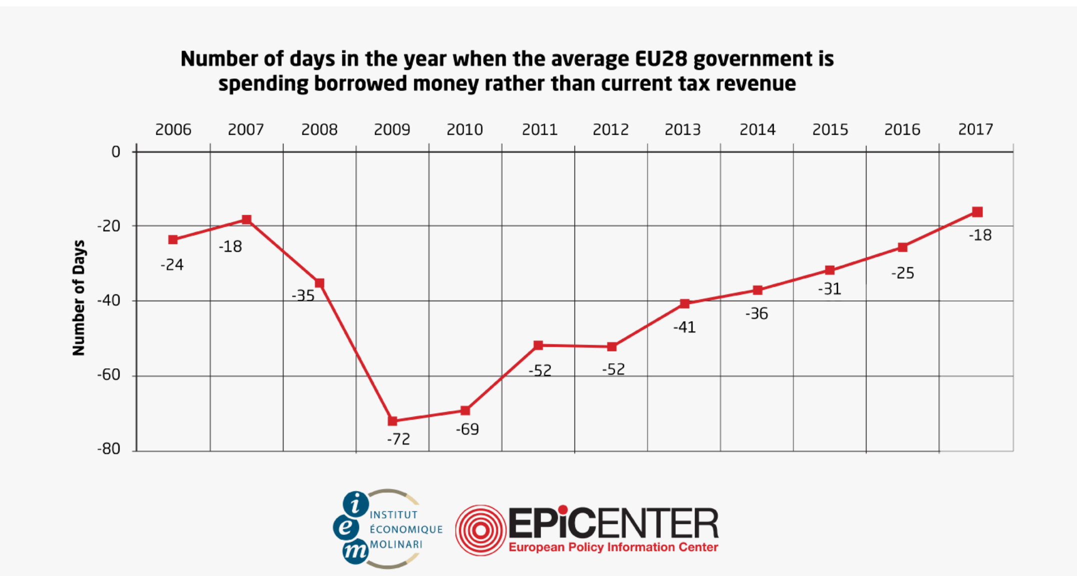


It is also remarkable that this year, 9 countries had budget surpluses by the end of the year, compared to 5 the year before. This improvement is in line with general EU-wide trends. The budget surplus countries of last year (Sweden, Malta, Germany and Cyprus) continue to perform well. Save Germany, all managed to exhaust their tax revenues later than in the previous year. This year, the group has widened to include the Netherlands, Croatia, Denmark and the Czechia – countries which used to operate a budget deficit but managed to achieve a budget surplus this year. This improvement is shown in the calendar above. In previous years, the countries surveyed would exhaust their budgets from between October and January. Now, the timescale has shifted to November and February. Given this positive situation, it is perhaps time for some countries to consider tax cuts. This would ensure that everyday citizens get to enjoy the benefits of fiscal responsibility. Overall, therefore, the outlook for the top quartile (highlighted in green above) is an optimistic one.

Despite this generally positive direction, the situation for the bottom quartile is more complicated. The fiscal situation of Poland, the country with the earliest credit day, has deteriorated quite significantly over the years. Its credit day worsened by 11 days from the 21st to the 10th of November, which may be linked to the rise of a new populist government in Polish politics. The Law and Justice party, which combines a conservative Christian democratic ethos with a Eurosceptic outlook, has been in power since 2015 and has criticised businesses for not sharing enough of their profit with the Polish people. France and Spain, on the other hand, managed to improve their situation quite substantially, though both remain in the worst performing quartile. The picture for the bottom quartile is therefore mixed, with some countries substantially improving their situation and others going in the opposite direction.

The study distinguishes between government administrations: central, regional (in Austria, Belgium, Germany, Bulgaria, Spain), local and social security spending. The biggest share of spending is held by central governments. In general, social security and local administrations have budget surpluses, whereas regional administrations and central governments depend on credit for their financing.

More public spending for a better life? A comparison of public spending with HDI and the Better Life study



Once again, the study by the Institut Économique Molinari compares the budget situation of European countries with their average score on the Better Life index, which asks participants to rate their quality of life on a scale of 1 to 10. The results highlight a flaw in the consensus that more public spending improves the wellbeing of citizens. High deficits are not necessarily associated with higher scores on the Better Life Index. If anything, the opposite seems to be true; countries with greater fiscal discipline tend to rank higher than their counterparts with earlier credit days.

Conclusion

European Union member states have improved their average budgetary position significantly over the past year – on average, by seven days compared to 2016 figures. This means that the number of non-financed days is finally back at pre-2008 crisis levels, at 18 days. This was partly due to strong performance from old and new 'budget surplus' countries, such as the Netherlands and Sweden. In the bottom quartile however, countries like Poland worsened their situation, while France and others saw improvements but remained in a state of deficit. For the worst performing states, the EU's new practice of rejecting budgets with overly high deficits seems to encourage fiscal discipline. On a national level, citizens ought to demand fiscal responsibility from politicians and be aware of the costs attached to promised policies.

References

Marques, N. and Philippe, C. (2018) *Le jour où les Etats de l'Union européenne ont dépensé toutes leurs recettes annuelles***.** Paris- Bruxelles: Institut Économique Molinari.