

## LONG - TERM FISCAL SUSTAINIBILITY REPORTING

### PROJECT BRIEF AND OUTLINE

#### Outline of the Project

##### a) Project Scope

No comment

##### b) Major Problems and Key Issues that Should be Addressed

###### (i) Definitions

The title should be « long term financial sustainability reporting ». The adjective "fiscal" is restrictive. There are other revenues. These definitions are located in the context of medium - term financial and not fiscal sustainability planning or budgetary frameworks.

The ratios net debt/Gross Domestic Product (GDP) or net debt/GDP per capita is inappropriate.

Recall the critic Paul Fabra on the European indicator of convergence in terms of public debt: "The reference to GDP is not appropriate because in purely economic terms (economic opposed by financier), both the absolute amount that on the debt has no reason to exercise a decisive influence on the country. One country (we consider the example of Italy, but could cite other ) where public debt exceeds 100% of GDP is not from the standpoint of growth, more fundamentally misplaced than another where the proportion is, say 20 to 30%. As the government is well placed to know, the truly crucial variable is the percentage of the budgetary burden of debt, ie interest payments, compared to total budgetary expenditure. "

One could add the anesthetic effect of the reference to GDP insofar as in the case of sustained growth, the public deficit could more easily meet the convergence criteria of Europe in this regard.

What indicator proposes a replacement? The question is whether a country is able to repay the debt. At the EU level, the answer is positive. Under these conditions, the indicator of convergence could be to bring the public debt of total operating revenue.

By analogy, the European convergence indicator for measuring the deficit in relation to gross domestic product, ie an expression of national wealth is also a measuring instrument questionable. Indeed, it leads to compare a balance, a difference between expenditure and revenue to the wealth produced by all economic agents, businesses, households, government.

Moreover, the excessive deficit procedure is implemented when a single year is a deficit. It would be more appropriate to express the amount of accumulated deficit from the

outset in relation to total operating revenue. Article L. 1612 - 14 of CGCT suggests this solution: "When the accounts of local and regional shows in implementing the budget, after verifying the truthfulness of inscriptions of income and expenditure, a deficit equal to or greater than 10% of recipes section operating case of a municipality under 20 000 inhabitants and 5% in other cases, the regional chamber of accounts, seizure by the State representative, offers to the community territorial measures necessary to restore fiscal balance, within one month from this referral. " Basically, this is the solution that retains Adam Smith when he argues that the economy policy should provide adequate resources to the sovereign.

On this basis, the deficit of the french government represent 20% of its revenue.

Indicators as Fiscal Gap and fiscal imbalance could be changed in Revenues Gap and Revenues Imbalance.

(ii) Status and Nature of Outputs

In my opinion, all governmental programs should be within the scope.

(iii) Reporting Entity for Long - Term Fiscal Sustainability Reporting

No comment.

(iv) Time Horizons

This project could explore various time horizons:

- for five years. A complete set of financial statements is required in New Zealand « New Zealand Financial Reporting Standard 42 - Prospective Financial Statements (2005)

- and for twenty years. Here, a set of financial statements is not required.

(v) Regularity of reporting

I agree with the sentence: "Publication of the general purpose financial statements is at a minimum, on an annual cycle.

(vi) Assumptions and Sensitivity of Assumptions

I agree with categories of assumptions as in the project brief.

(vii) Tensions with Current Legal Frameworks

No comment

(viii) Approach to Discretionary Programs

No comment

(ix) Financing

No comment

(x) Assurance and Verifiability

No comment

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