Conclusions and recommendations of the National Audit Office

Methods of forecasting general government debt

The audit examined whether the Ministry of Finance's forecast of the development of general government debt in the next few years has been prepared using appropriate methods. The audit supplements the National Audit Office's previous assessments of fiscal forecasts. In addition to obtaining verifying information, the aim of the audit was to increase information on what government debt is and what factors affect its development.

The Economics Department of the Ministry of Finance is responsible for preparing the macroeconomic and fiscal forecast in Finland. Based on the audit, the process used by the Economics Department for preparing government debt forecasts functions well as a rule, and the methods used are, in general, up to date and sufficiently accurate. However, the audit found that the process for preparing the forecasts was somewhat vulnerable to risks, and the forecasting methods should be updated in some areas.

It is an established practice to measure government debt using the concept of gross debt, which means that the assets of the central government and other general government are not taken into account. This is a practice that complies with legislation and fiscal rules and provides a clear baseline for monitoring government debt. However, as the assets play a significant role, it would be necessary to expand the examination of the state of general government finances by means of a net debt indicator.

No significant problems were found in the forecasting process and methods of the Ministry of Finance

The Economics Department of the Ministry of Finance bases its debt forecasts on the latest actual statistical data, which is projected forward in the forecast by using estimated annual changes. The method of estimating the annual change varies in the different areas of general government finances. With the central government, the Ministry of Finance bases its estimate on the borrowing requirement according to the budget and the General Government Fiscal Plan. The method provides a good basis for the debt forecast, although the borrowing requirement does not, by definition, correspond precisely to the concept of debt as presented in statistical data. With the local government, the Ministry of Finance bases its estimate of the annual change in debt on the local government deficit according to the Economics Department's own forecast.

The Ministry's process for preparing government debt forecasts is based on spreadsheets, which the audit found appropriate. In addition to finding no errors in the forecasting process, the audit found that the forecasts had been prepared with high expertise. However, the documentation included in the calculations was found to be partly limited, the process was found partly unnecessarily complex, and the practical responsibility for the forecasting was tied to an individual person. In addition, the results of the calculations are not verified systematically by methods of quality assurance. These factors pose a risk of a deterioration in the quality of the results, for example in the event of rush or a change of person.

As a rule, the methods chosen by the Economics Department for individual debt-affecting phenomena were found justified. However, according to the audit findings, the forecast calculations did not include an up-to-date systematic estimate of all debt-affecting items. It was found in the audit that the forecast method should be updated in the case of some items. However, the practical impact of these items on the forecast of government debt as a whole is relatively small.

The methodological descriptions published by the Ministry of Finance on the preparation of the macroeconomic and fiscal forecast are useful. However, the audit found the part describing the government debt forecast partly obsolete and too general, which undermines the transparency of the forecast for its users.

It is important to monitor general government net debt to form a comprehensive picture of the development of debt

It is an established practice to measure general government debt using the concept of gross debt in accordance with EU statistical legislation (the European System of Accounts, ESA 2010). Gross debt means that general government receivables (financial assets) have not been deducted from the debt measure. In this case, the data on debt does not take into account the fact that financial assets partly function as a fiscal reserve and counterpart of debt. For example, because the concept of gross debt is used, the sale of shares by the state and the use of the sales proceeds for the amortisation of debt appear to improve the debt situation even though the state's assets decrease correspondingly. In recent years, fluctuations particularly in the state's liquid assets have caused lots of changes in the amount of gross debt. There are also several statistical technical practices that increase both government debt and government receivables by the same amount. The significance of such items has increased particularly because ARA interest subsidy loans are currently recorded in statistics as government debt.

When examining government debt, it would also be important to examine net debt, which takes the financial assets of both the central government and the local government into account as a debt-reducing item. Similar information has already been presented in the Government's annual report. Taking financial assets into account has an impact on both the level of debt and the annual changes in it. The use of a net debt indicator does not change the overall picture of the development of general government debt but complements it in a useful manner.

Recommendations of the National Audit Office

Based on the audit, the National Audit Office recommends that the Economics Department of the Ministry of Finance should

1. update its process for preparing the debt forecast and its forecasting methods related to debt-affecting items,
2. update and expand the methodological description published on the forecast.