HOW TO STRENGTHEN FISCAL SURVEILLANCE TOWARDS A MEDIUM-TERM FOCUS

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This paper was prepared by an ad-hoc working group of the Network of the EU Independent Fiscal Institutions under the coordination of Lucía Rodríguez (Independent Authority for Fiscal Responsibility, Spain).

The group included the Independent Authority for Fiscal Responsibility (Spain), the Council of State (the Netherlands), the Parliamentary Budgetary Office (Italy) and the Secretariat of the Network of EU IFIs.

This paper has been reviewed by the EU IFIs Network. The analysis and views expressed do not necessarily represent the positions of individual members of the Network.
SETTING THE SCENE

• After the GFC a large number of Member States introduced medium-term budgetary provisions for the first time or considerably revamped the existing ones

• These provisions have been in place for around six years now

• 2014-2019: period suitable for assessment
  o No major macroeconomic surprises
  o Need to unwind public finances’ imbalances
  o What was to be expected if MTBF had worked? PERFORMANCE, STABILITY and PREDICTABILITY

• Is this what we find analyzing data in the SCPs?
Outline

I. Setting the scene

II. Revamped national frameworks
   i. Performance
   ii. Stability
   iii. Predictability

III. National frameworks and MTBF Index

IV. Survey’s results
   i. Gap between legislation and implementation
   ii. Aspirational rather than constraining targets
   iii. Disconnection between fiscal and budgetary elements

V. Main take-aways
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PERFORMANCE

Structural Balance, 2019

Overall performance slippage, 2014-2019
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STABILITY

Average change to the adjustment planned over 1 year

Average change to the adjustment planned over 3 years
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Discretionary component of expenditure-to-GDP slippages
(outturn vs plan in t-1)

Discretionary component of expenditure-to-GDP slippages
(outturn vs plan in t-3)
PREDICTABILITY

Discretionary component of deficit-to-GDP ratios slippages
(outturn vs plan in t-1)

Discretionary component of to deficit-to-GDP slippages
(outturn vs plan in t-3)
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HETEROGENEITY: CAPTURED BY THE MTBF INDEX?

The kind of relationship we expected to find...
The kind of relationship we found instead ...
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GAP BETWEEN LEGISLATION AND IMPLEMENTATION

• IFIs replying that things work differently than supposed to (e.g. ex post compensation for slippages)

• Politically-relevant fiscal targets are sometimes different than the legislated ones

• Goes in both directions:
  o in some cases implementation is looser than legislation
  o in other cases is the other way around (e.g. countries with stricter binding political benchmarks even though no legal basis for it – DE, DK)
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ASPIRATIONAL RATHER THAN CONSTRAINING TARGETS

• IFIs characterizing the process as an annual one with the filling out of outer years in the horizon being an “academic” exercise

• IFIs describing outer years’ targets as not realistic

• Asynchronous changes to different years included in the planning horizon result in an incoherent view of the orientation of fiscal policy.
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DISCONNECTION BETWEEN FISCAL AND BUDGETARY ELEMENTS

Medium-term Fiscal Framework

- Fiscal target in ESA – Structural balance
- Compatible budget balance for the general government
  - Target for Central State
  - Target for Social Security
  - [Where relevant, target for regions and municipalities]
- Projected revenues in ESA, for Central State and Social Security
- Maximum expenditure in ESA, for Central State and Social Security

Expenditure ceilings in budgetary accounting

Medium-term Budgetary Framework

- Spending departments
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MAIN TAKE-AWAYS

• Improving legislated aspects of MTF is important but not enough

• What do best performers have in common?
  o Strong political commitment
  o Constraining medium-term targets
  o Expressed over variables that are easily reconcilable with budgetary elements
  o Embedded in a MTBF
MAIN TAKE-AWAYS

• **Gaining credibility:**
  o Post – GFC: codification and (over)ambition
  o Post – COVID: stable and realistic targets that are easily reconcilable with the budgetary pillar of the process

• **Medium term targets:**
  o On the one hand, difficult for MS with national frameworks that mirror EU one (many) to plan for the medium term if SGP requirements only known for t+1 (preventive arm)
  o On the other hand, setting structural requirements for longer periods not viable... hence?

• **Difficult to have functional m/t frameworks without (i) changing the underlying fiscal rules and how targets are formulated and (ii) strengthening MTBF**
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