

FISKALRAT

Austria ■

Austrian Fiscal Advisory Council

(former Government Debt Committee)

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Office of the Fiscal Advisory Council

PEM PAL Budget Community of Practice (BCoP) Seminar
“The Role of Austria's Parliament in Budgeting”

Vienna, 31st January 2014

Outline

- **Fiscal Councils (FCs)**
- FCs within the new **EU fiscal framework**
- **Austrian Fiscal Advisory Council (FISK)**
- **FISK output**

The case for fiscal councils

Deficit-bias of fiscal policy, due to/manifested by:

- Political business cycles
- Short-sightedness, pro-cyclicality in good times
- Time inconsistency
- Moral hazard/free riders
- Informational asymmetry/lack of transparency/fiscal illusion
- Biased official forecasts

Possible remedies:

- **Fiscal rules**
- Improving policymakers' incentives by **raising reputational and electoral costs** of unsound policies
- Raising **public awareness** to address fiscal illusion and contribute to a stability culture
- **Independent forecasts/assessment and analyses**

Fiscal Council = independent public institution informing the public debate on fiscal policy (IMF, 2013)

FISK

Fiscal Councils: the Experience So Far I.

Figure 2. Remit of Fiscal Councils (relative frequencies)

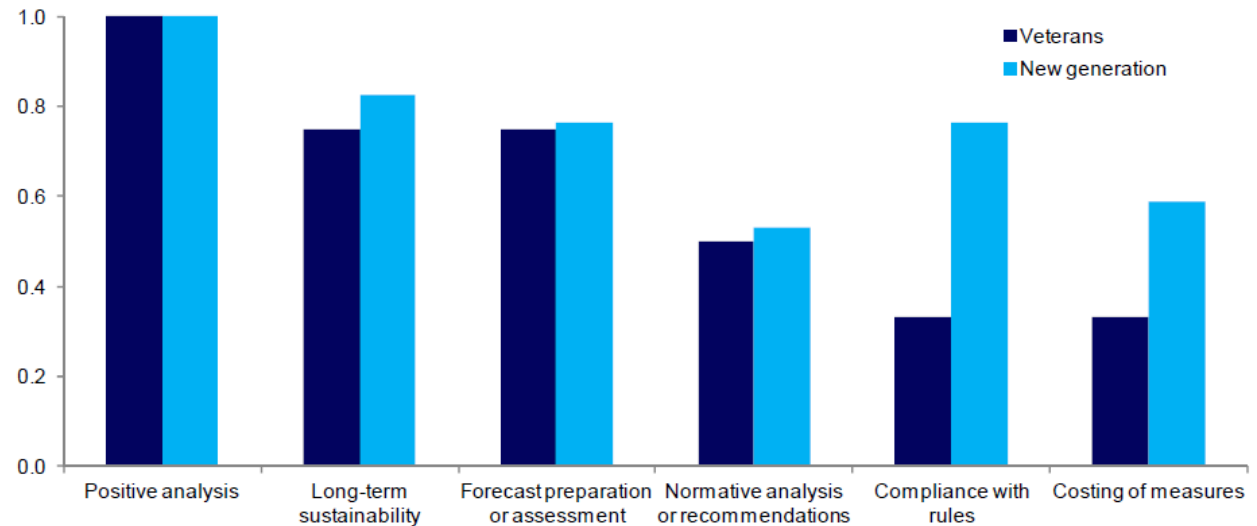
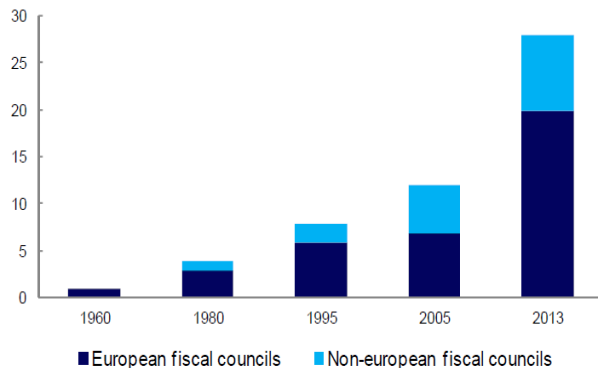
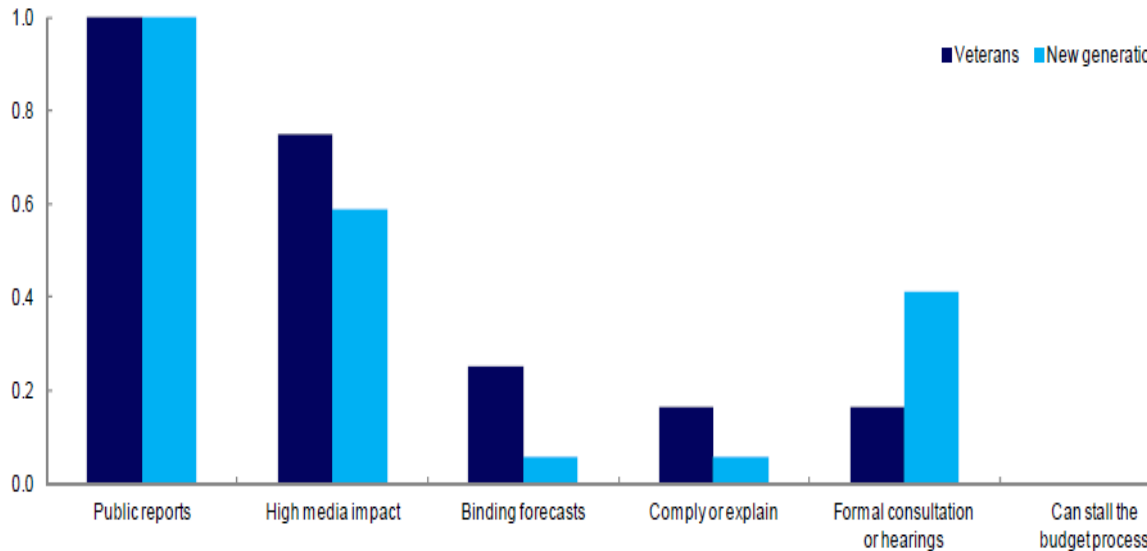


Figure 1. Number of Fiscal Councils

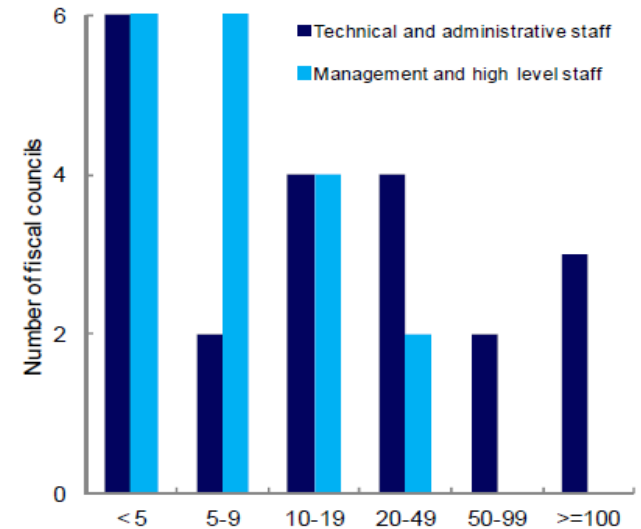


Fiscal Councils: the Experience So Far II.

Figure 3. Tasks and Channels of Influence (relative frequencies)

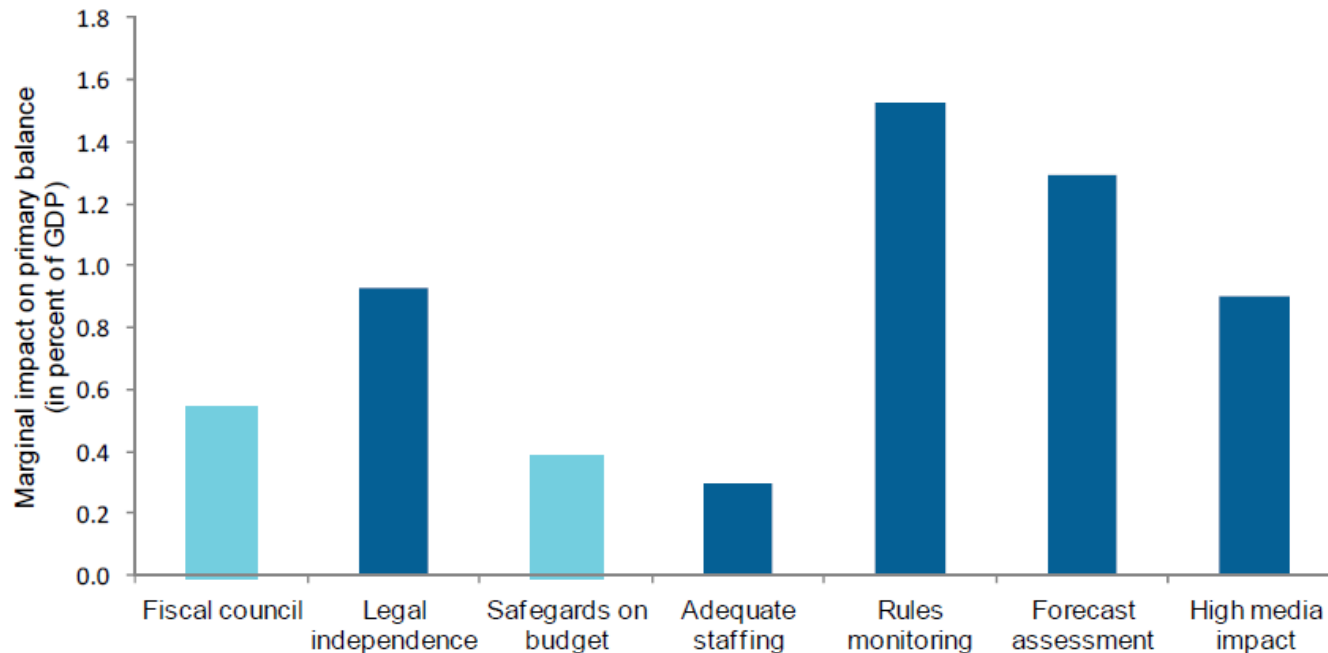


Size of fiscal councils (number of management and staff)



Fiscal Councils: the Experience So Far III.

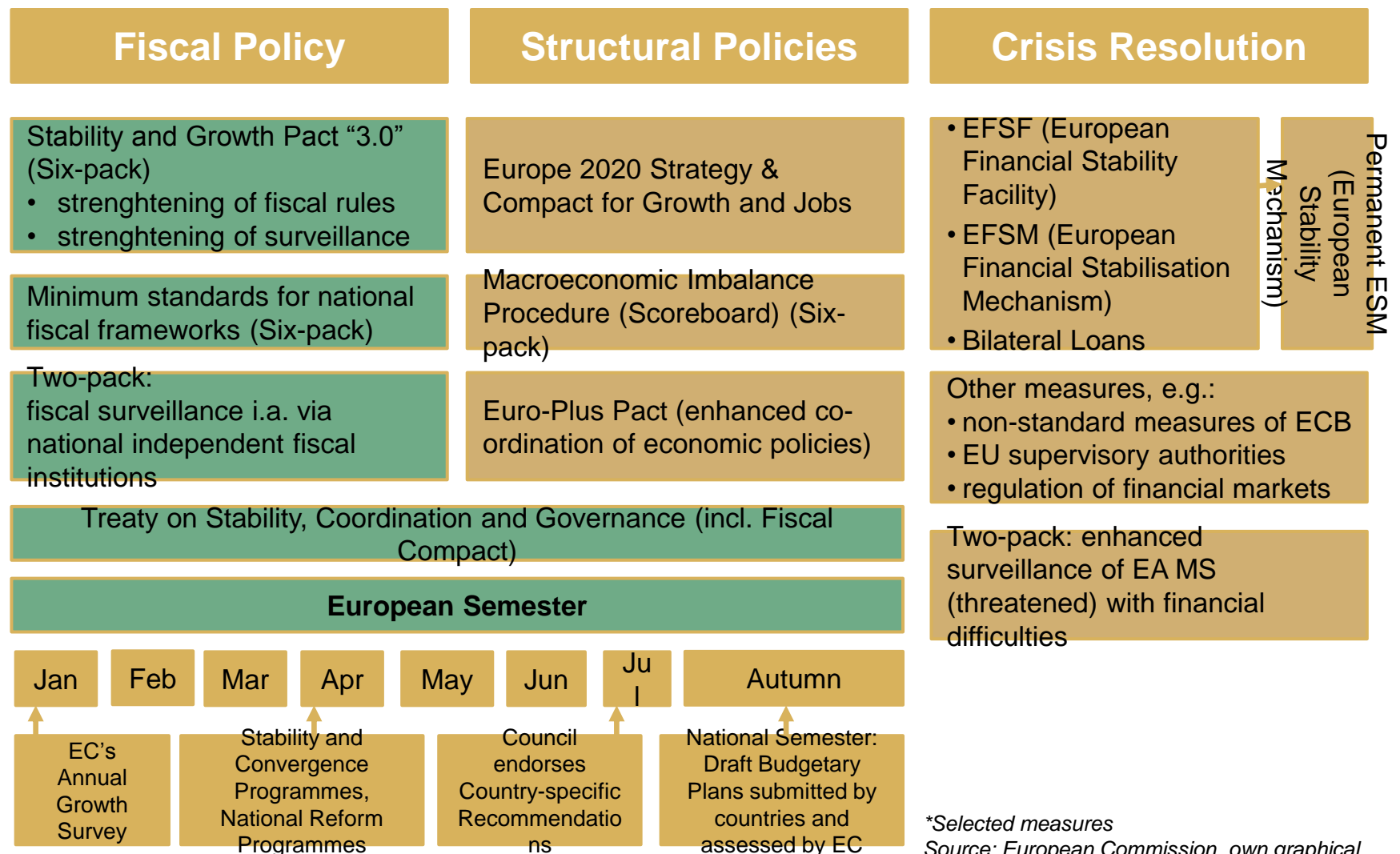
Figure 8. Fiscal Councils and Fiscal Performance



Source: IMF staff estimates (Appendix I).

Note: light-colored bars indicate that the estimated marginal impact of the binary variable is not statistically different from zero.

EU-Governance Response to Crisis



FISK ■ EU-Governance Response to Crisis: FCs

Independent Fiscal Institutions in the EU fiscal framework:

- **Six-pack** (*2nd update of the Stability and Growth Pact, „3.0“*)
 - entered into force on 13th December 2011
 - applies to all EU MS + stricter provisions for EA MS

- **Fiscal Compact** (*Articles 3-8 of the Treaty on Stability, Coordination and Governance; transposition of SGP into national rules*)
 - entered into force on 1st January 2013
 - signed by 25 EU MS (excluding CZ and UK), binding for EA MS

- **Two-pack** (*even stronger surveillance for EA MS*)
 - entered into force on 30th May 2013
 - applies to EA MS

According to **Two-pack** – forecasts:

Regulation 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the MS in the EA:

- ▣ Article 4:

“National medium-term fiscal plans and draft budgets ... shall be based on **independent macroeconomic forecasts**, and shall indicate whether **the budgetary forecasts** have been **produced or endorsed by an independent body**.”

- ▣ Two-pack Code of Conduct:

“...Member States may decide to involve **the independent body** in the preparation of **the budgetary forecasts** (either by **production** or **endorsement**), or on the contrary, assign the development of these budgetary forecasts to another institution with no further involvement of the independent body...”

According to **Two-pack** – monitoring:

Regulation 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the MS in the EA:

▣ Article 5:

Member States shall have in place **independent bodies** for **monitoring compliance with numerical fiscal rules** [debt, deficit, MTO]. Those bodies shall, where appropriate, provide **public assessments**..., inter alia relating to:

- the occurrence of circumstances leading to the **activation of the correction mechanism**,
- whether the budgetary **correction is proceeding in accordance with national rules** and plans,
- any occurrence or cessation of **circumstances which may allow a temporary deviation** from the MTO

Requirements: Two-pack vs. National law:

Two-pack definition of “independent bodies”:

- **Statutory regime** grounded in national law
- **Not taking instructions** from the budgetary authorities or others
- The capacity to **communicate publicly** in a **timely** manner
- Procedures for nominating **members** on the basis of their **experience and competence**
- Adequate **resources** and appropriate **access to information** to carry out their mandate

AT Federal Law on the Establishment of the Fiscal Advisory Council:

(Fed. Law Gazette No. 149/2013 of 31. July 2013)

- **Federal law** establishing the Fiscal Advisory Council
- Members are **not permitted to request or take instructions**; office period ≠ legislation period
- Public assessments; shaping public opinion, informational events
- Members must be **experts**; balanced view due to diversity of nominators reflecting the Austrian culture of social partnership
- funding by OeNB; legally based **data provision** from administrative authorities and Statistics Austria

AT Fiscal Advisory Council: Tasks

FISK as a national co-ordination and advisory body (the „old“ tasks):

- Assessing the **current fiscal situation**, incl. an **outlook for the future**
- Analyzing **the sustainability and the quality** of fiscal policies
- Analyzing **the economic effects of public debt**
- Providing **written recommendations** on fiscal policies
- Preparing an **annual report**

FISK as part of the EU fiscal framework („new“ tasks, as of 1.11.2013):

- i.a. **timely monitoring of compliance** with nationally transposed EU fiscal rules, as well as **providing recommendations** on **medium-term budget objectives**

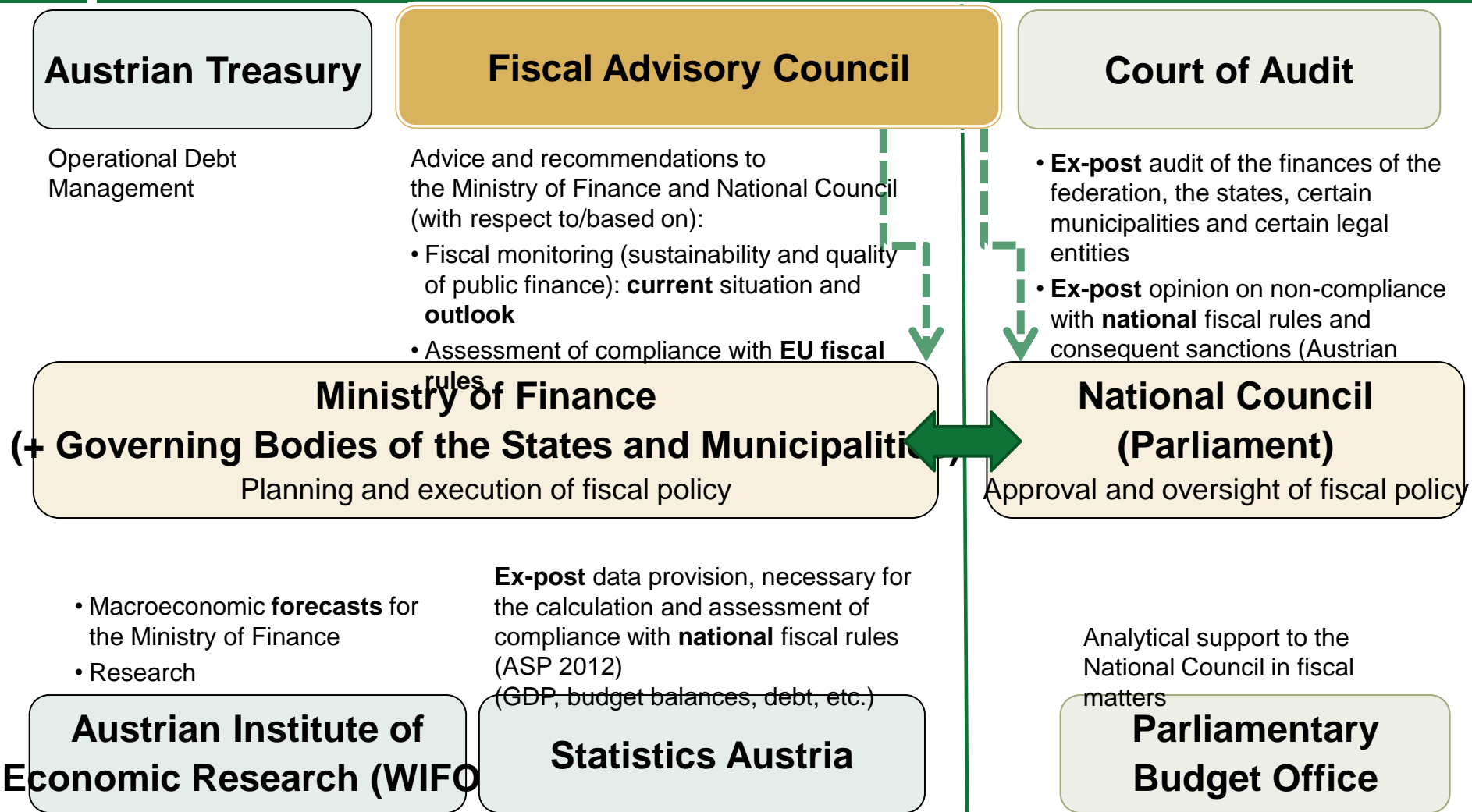
■ Key elements of EU fiscal rules (simplified)

- SGP: a **preventive** and a **corrective** arm

Main elements:

- **Medium-Term Objective (MTO):**
budget balance, adjusted for the effect of the business cycle („cyclically adjusted balance“) and excluding one-off measures („**structural balance**“)
 - level: **min. -0.5%** of GDP for EA MS
 - adjustment path towards it: **min. 0.5%** of GDP p.a.
- **Budget balance: min. -3%** of GDP
- **Public debt: max. 60%** of GDP, or **diminishing at a satisfactory pace**
- **Expenditure benchmark:**
real growth rate of public expenditure* < medium-term potential GDP growth

Austrian Fiscal Institutional Framework



AT Fiscal Advisory Council: Organisation

I.

15 members, independent fiscal experts appointed for 6 years by:

- **Federal government: 6 members** (1st nominee = FISK President)
- Austrian **Federal Economic Chamber** in agreement with the Presidential Conference of the Chambers of Agriculture: **3 members** (1st = Vice-President)
- Austrian **Federal Chamber of Labour: 3 members** (1st = Vice-President)
- + Austrian **Association of Municipalities**, Association of **Austrian Towns and Cities** and Conference of **Provincial Governors: 1 member each**, with no voting rights
- + A substitute member for each member in case they are temporarily unavailable
- + **The Oesterreichische Nationalbank (OeNB) and the Parliamentary Budget Office** are entitled to participate in the meetings in an **advisory capacity**
- + Further **experts** may be consulted
- Resolutions are passed with **simple majority**, the **President has the casting vote** in case of a tie

AT Fiscal Advisory Council: Organisation II.

Office of the Fiscal Advisory Council

- Provides **analytical** and **administrative support** to FISK
- 5 economists,
1 research assistant/statistician,
½ secretary
- Staff provided by and costs borne by **the Oesterreichische Nationalbank**

Main FISK Outputs (preliminary list)

- **Medium-term fiscal outlook:** based on AT Stability Programme with own calculations regarding **compliance with fiscal rules** and **assessments based on own forecasts**
- **Assessment of the Draft Budgetary Plan of the Government** with own calculations regarding **compliance with fiscal rules** and **assessments based on own forecasts**
- **FISK Annual Report:** main indicators of fiscal developments (**deficit, debt, their structure, etc.**), including extra-budgetary liabilities
- **Recommendations** (including macro outlook): bi-annually
- **Regional fiscal developments:** analyses on **compliance with national fiscal rules**
- **Quality of public finance:** analyses on **medium- and long-term developments** of public revenues and expenditures, as well as their structure

Fiscal performance: budget balance

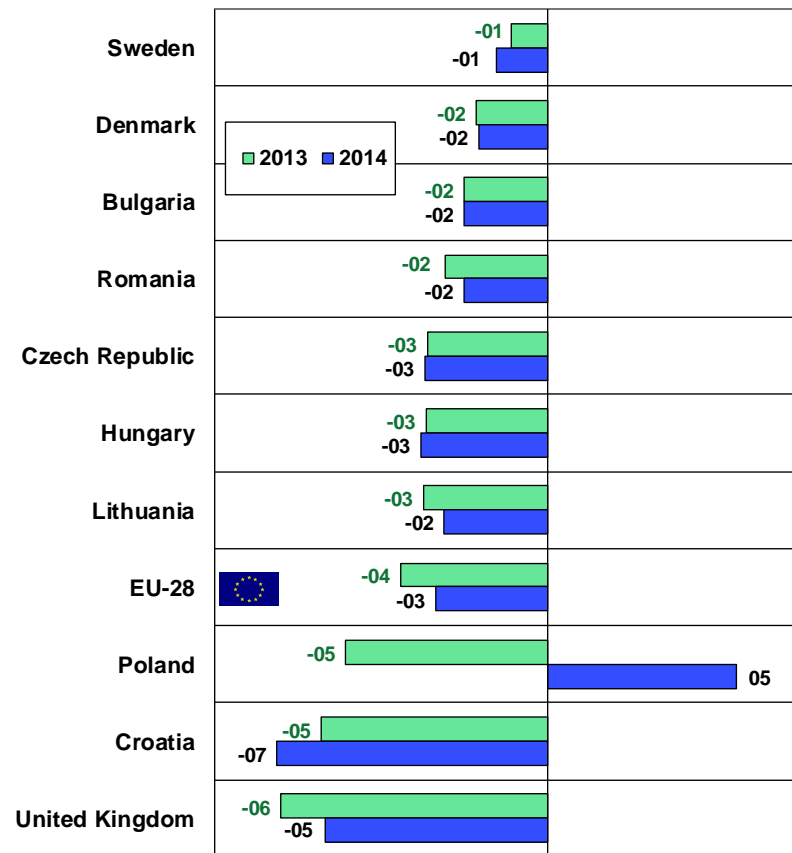
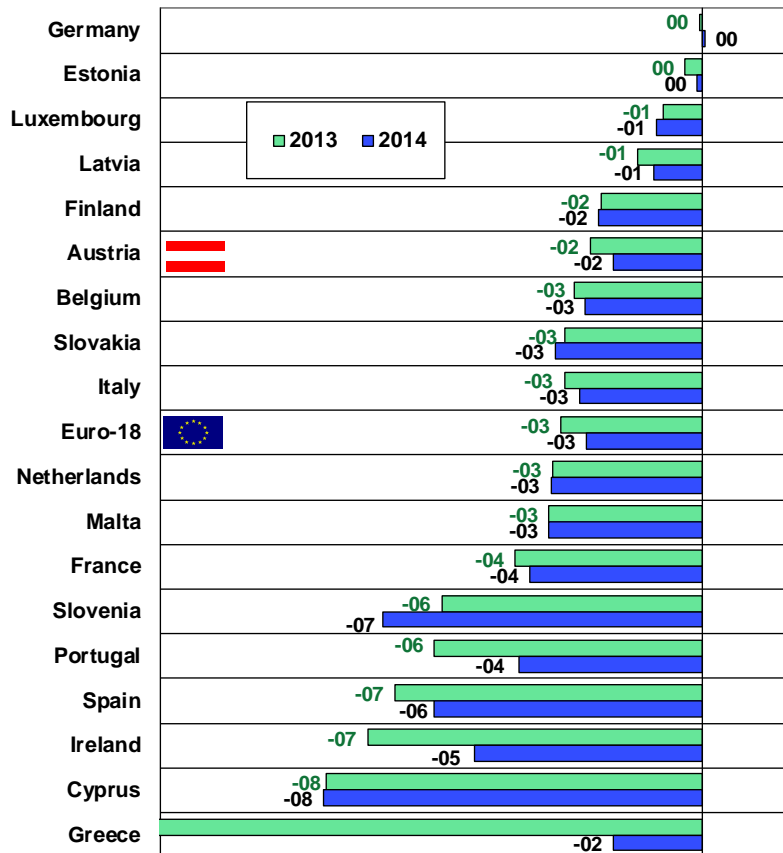
General Government Budget Balance of EU Member States in 2013 and 2014 in % of GDP

Euro area

Non-euro area

% of GDP

% of GDP



*) According to EDP (including swap transactions).

Source: Autumn 2013 Forecast, European Commission (November 2013), Euro-18 and EU-28: own calculation.

Fiscal performance: public debt

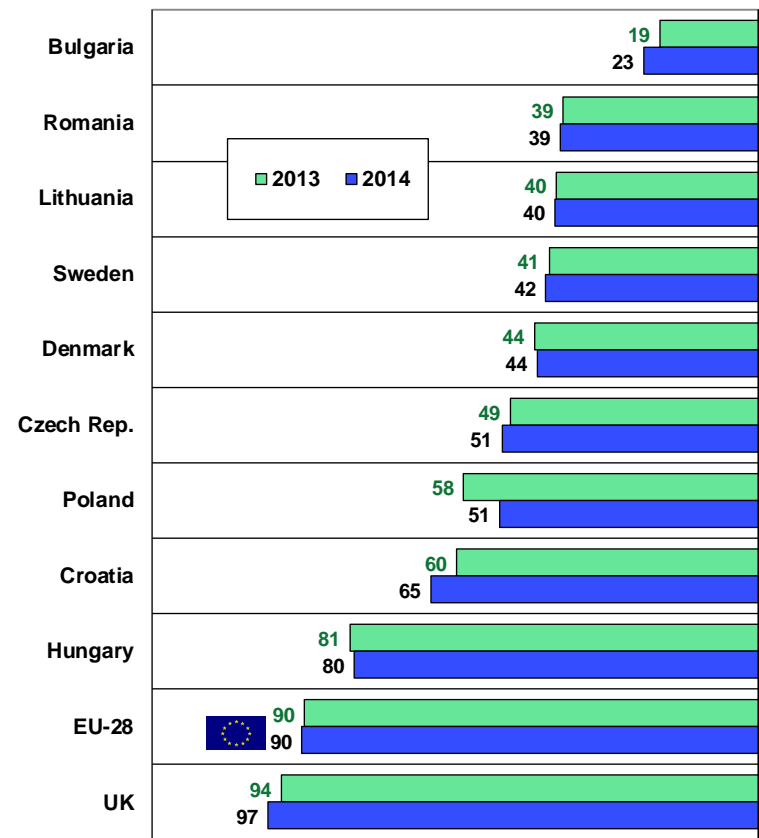
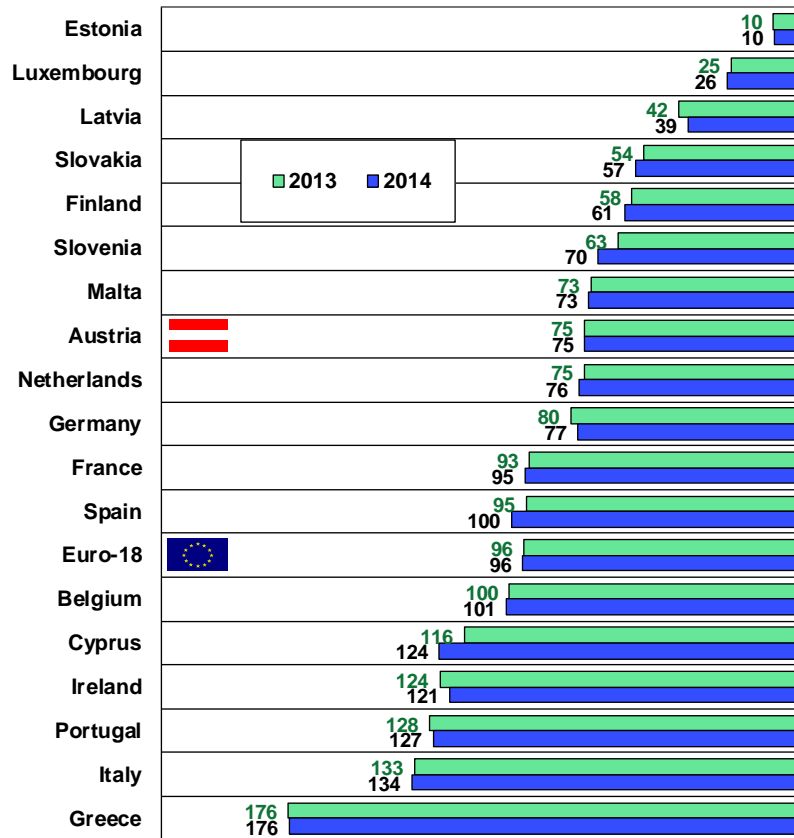
General Government Debt of EU Member States in 2013 and 2014 in % of GDP

Euro area

Non-euro area

in % of GDP

in % of GDP



Source: Autumn 2013 Forecast, European Commission (November 2013), Euro-18 and EU-28: own calculation.

December 2013 FISK Assessment – Summary

The sustainability of AT public finances needs to be supported by **structural reforms**

- **Expenditure-side structural measures** i.a.
 - Simplify public granting schemes and reform public governance,
 - Close efficiency gaps in health-care system, enhance co-operation of municipalities and within the welfare system
 - Strengthen the long-term sustainability of the pension system
- Growth-enhancing **structural reforms of the tax system** to relieve the tax burden on labor
- **Offensive measures** (to promote growth and employment) should be financed by **expenditure-side structural reforms**
- For 2014, AT has **not yet** ensured **full compliance** with the **EU fiscal rules**

December 2013 FISK-Assessment – EU Rules

Strict Application of the EU Fiscal Rules: Structural Budget Balance and Expenditure Growth 2011 through 2015 ¹⁾

General Government Total	Corrective Arm				Preventive Arm	
	2011	2012	2013	Ø 2011-2013	2014	2015
EU Rules for structural adjustment towards the MTO						
Structural Budget Balance (in % of GDP) ²⁾					-1.0	-0.5
Annual change of the structural balance (in pp of GDP)				0.75	>0,5	>0,5
Actual structural adjustment according to the EC						
Structural Budget Balance (in % of GDP)	-2.2	-1.6	-1.6	-	-1.5	-1.2
Annual change of the structural balance (in pp of GDP)	1.1	0.7	0.0	0.6	0,0 ³⁾	0.3
Adjustment ⁴⁾ (in pp of GDP)	-	-	-	0.2	-	-
Structural adjustment including adjustment ("effective action") (in pp of GDP)	-	-	-	0.8	-	-
Compliance with the rule: structural adjustment towards the MTO				yes	no	no
Expenditure rule⁵⁾						
Reference rate of expenditure growth ⁶⁾ (Growth rate in %)	-	-	-	-	0.1	-
Forecasted rate of growth of the expenditures ⁷⁾ (Growth rate in %)	-	-	-	-	0.3	-
Deviation from the rule (in pp)	-	-	-	-	0.2	-

1) Calculations are based on the Autumn 2013 Economic Forecast of the European Commission.

2) Under the assumption of a structural improvement by 0.55% of GDP p.a.

3) Difference due to rounding

4) Takes into account, e.g. revisions of potential output growth compared to the growth scenario in the underlying recommendation within the EDP procedure. The adjustment is applied in the corrective arm of the SGP only.

5) The expenditure rule is applied in the preventive arm of the SGP only.

6) Average rate of growth of potential output in the years t-5 through t+4 minus a convergence margin due to the country not yet having achieved the MTO.

7) Expenditures under consideration do not include interest payments or unemployment-related expenditure and any expenditure offset by discretionary revenue increases.

Thank you for your attention!

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