

## Economic forecasting and medium-term budgetary frameworks

### An unofficial Hungarian perspective

11TH ANNUAL MEETING OF CENTRAL, EASTERN AND SOUTH-EASTERN EUROPEAN  
SENIOR BUDGET OFFICIALS (CESEE-SBO)  
Warsaw, 21 May, 2015 | Balázs Romhányi

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## How far Hungary got on the road to MTB?

Simple logic	Hungarian practice
Macro-fiscal baseline projection for at least 3 years	Maybe calculated, but never published
Fiscal rule, or balance path	In theory several rules, in practice an ad hoc deficit target for the next year (<3%)
Calculation of the fiscal space	Maybe calculated, but never published
Fiscal impact assessment of different policy options	Mostly not calculated, rarely published something but for maximum one option; no update in the parliamentary phase
Decisions on taxation	Regular proposals for tax cut at any time of the year
Allocation of the revised fiscal space	Neither the convergence programs nor the annual EBP never contain the medium term budget plans in a functional breakdown
Expenditure ceilings	The government first didn't issue the decree prescribed by the law, then postponed the law.

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## Some lessons: Mandatory vs discretionary

- Separation of mandatory and discretionary budget items (à la US) is very good, but information on taxes paid within the government sector is needed
- Forecasts of mandatory items can be automated and the program has to be updated before the hot period (except for new legislation)
- For discretionary items either a rule based aggregate projection can be calculated (from constant in real terms till a sophisticated indexation system), or the „old budget” has to be calculated, but for calculating the „old budget” one needs much more information (e.g. a good recording system of obligations at the Treasury)
- Calculation of interest expenditures can be automated by defining a „neutral strategy” for debt management

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## Some lessons: no easy shortcut

- It is important to produce medium term baseline projections several times per year, but for that you need a methodology how to make use of intra-year (cash based) budget figures (e.g. how to calculate government consumption from cash figures on operational cost of budgetary institutions)
- Partial updates of the projection and rules of thumb are risky (e.g. there is no „fiscal multiplier” translating GDP growth changes into deficit changes that politicians can be given as a rule of thumb)
- A fiscal impact assessment is more than a cost estimate, but less than a cost-benefit analysis: all transmission channels of a measure have to be taken into account that can be fed back into the budget over the medium term horizon.
- Stability and Convergence Programs are no substitute for but rather a by product of MTB

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## Some lessons: speed is of the essence

- External economic conditions are volatile and political decisions with fiscal effects are more and more frequently made outside the budget process.
- Medium term budgeting is not any longer an offline exercise in 5 year, 4 year, or even annual cycles. It is a permanent eyeglass.
- A macro-fiscal system is complex, nobody can run it in his/her brain. Not even politicians who used to be experts before.
- If we want politicians to forget about oversimplified rules of thumb, speed is of the essence
- IT and automation is good, but senior civil servants' will to obey technological discipline is a precondition
- Treasuries should meet at least the management information standards that a commercial bank has to meet.

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## Some problems at expert level

- Medium term budgeting is mostly affected by the business cycle, but macro models good at the business cycle frequency (e.g. DSGE) are rarely good at forecasting trends.
- The 7 year cycles in EU programs are as important as business cycles, just there is no methodology to properly control for this
- International labor force migration is poorly measured but significantly affects potential growth prospects.

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Thank you for your attention

