





**MTBFs: How to revive a goldfish?**

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## Overview

- Medium-term budgetary framework = dying goldfish?
- 5 steps to revive a goldfish

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## Main message

- The EU fiscal framework is probably still resilient to flagrant departures from sound policy but there is a solid case for doing more at the national level
- We need to build consensus around national *operational* fiscal rules to underpin MTBFs
  - Striking the right balance between simplicity, soundness, transparency and flexibility
  - Forward-looking, aiming at a target consistent with fiscal sustainability
  - Overseen by national independent fiscal institutions

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## MTBF = Goldfish?



- Predictability ✓
- Commitment ✓
- Transparency ✓
- Efficiency ✓

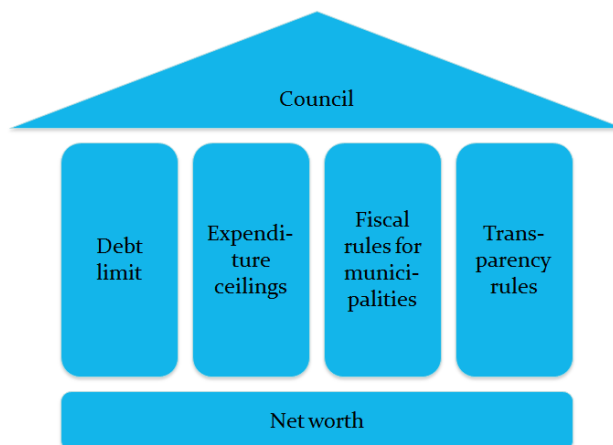
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## MTBF = Dying goldfish?

1. Attempts to kill many birds with one stone by the COM
  - ➡ desired fiscal trajectory blurred by a mist of multiple rules, exemptions and interpretations
  - ➡ expenditure ceilings no longer among CSR
2. Increased uncertainty following crisis
  - ➡ increased aversion towards automaticity in policy formulation
  - ➡ more myopia and improvisation in budgeting

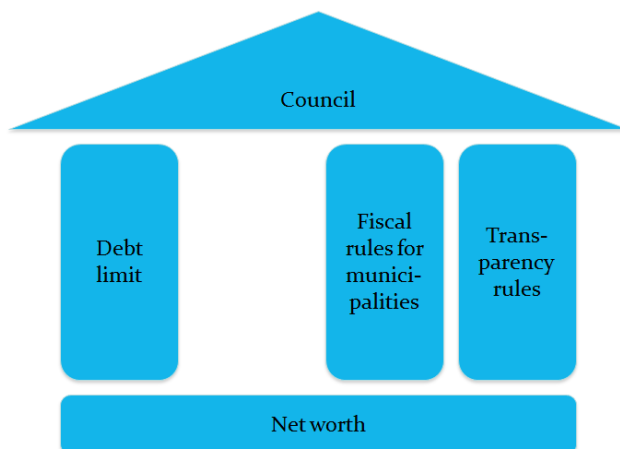
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## Planned Slovak fiscal framework



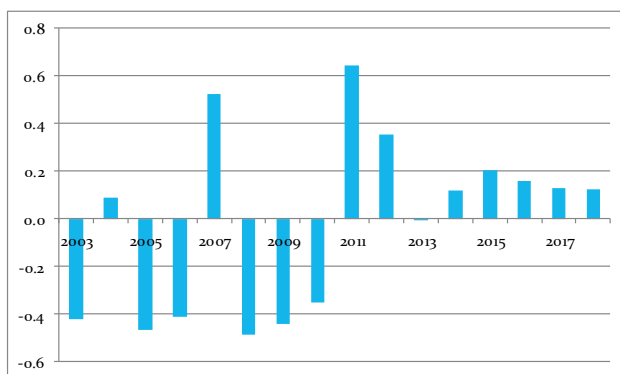
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## Actual Slovak fiscal framework



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## Slovakia: One-off measures (pct GDP)



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## Step 1: Is there a chance to revive the fish?



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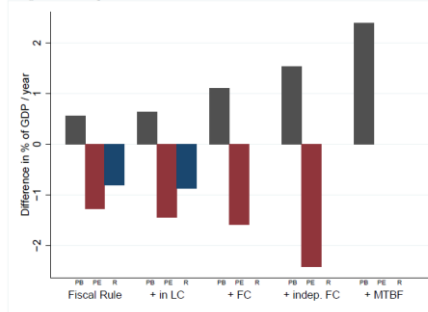
1. We have a solid legal backing
  - “Six-Pack” – numerical fiscal rules & MTBFs
  - “Fiscal Compact”
  - Pre-existing national legislation
2. We have a sound argument
  - A lot more work on and experience with fiscal rules

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## Evidence

Nerlich and Reuter (2013): "We find strong support that numerical fiscal rules help to improve the primary balance, and that the budgetary impact can be further strengthened when supported by independent fiscal councils and an effective medium-term budgeting framework."

Figure 3: Comparison of estimated coefficients for various fiscal frameworks



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## Step 2: Place the fish into cool water



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## Step 2: Place the fish into cool water

- Try to use maximum space in existing framework to promote a proper MTBF
  - Publish no-policy-change scenarios
  - Call for three-year budgets to be filled with substance
  - Use Fiscal Compact and related policy statements to define a trajectory
  - Use other national rules (if available) to promote convergence to a target

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## Step 3: Remove dirt from the goldfish



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## Step 3: Remove dirt from the goldfish

1. Fix cyclical adjustment methodology (disaggregated approach)
2. Define one-off and temporary measures
3. Confront short-termism: introduce long-term arguments into short-term analysis

→ important elements of a good rule-based MTBF

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## Step 4: Open gill covers



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## Step 4: Open gill covers

- Propose a national operational rule
  - Build on familiar, tested concepts
  - Based on some structural indicator linked to long-term sustainability analysis
  - Expressed as a series of nominal expenditure ceilings
  - Allow for automatic stabilizers and strictly defined exemptions
  - Evaluate past and update ceilings to keep on track to meet the target

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## Step 5: Place fish where there is water circulation



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## Step 5: Place fish where there is water circulation

- Test the proposal in expert fora
- Build consensus among specialist politicians

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## Summary

- The idea of a MTBF is having a rough time but there are very good arguments to keep it alive
- There is a lot we can do without changing the framework
- National operational rules are a key missing element and we should aim to fill this gap

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Thank you for your attention!