

How “risky” are fiscal rules for fiscal councils?

Seminar for practitioners, academics and policy makers

CBR, NBS, FPI, WIIW, OECD (ECO and GOV), Bratislava, 21 March 2014

National Bank of Slovakia www.nbs.sk

Imricha Karvasa 1; 813 25 Bratislava 1; Slovak Republic

10 am – 16 pm (registration and refreshments as of 9:30 am)

Fiscal rules can play a useful role in tying the hands of policy makers, who finance structural spending commitments with cyclical revenues. However, most fiscal rules contain elements, which are designed for an “ideal” reality and thereby generate noise for an “optimal” fiscal policy. Some rules contain error correction mechanisms in order to allow a temporary deviation of the fiscal stance from the rule. This seminar is taking stock of experiences with fiscal rules and takes a practical look at the most common risk factors when following a fiscal rule under real world conditions. The Seminar follows the “Vienna format” of Lead speakers and discussants and practitioners with civil servants and policy makers forming the audience, providing critical interventions.

Key note introduction by George Kopits, Woodrow Wilson Center: Assessing fiscal risk

Discussion statement by Ludovit Odor (CBR) on “Fiscal Risk Assessment at the CBR: conceptual framework”

1) Risks stemming from fiscal gimmickry

- ∅ How should fiscal performance be measured?
- ∅ How can fiscal performance be distorted?
- ∅ Possibility of new forms of “fiscal/debt engineering”

Key note by Jan Toth (NBS) on how to measure fiscal consolidation

Discussion statement by Joachim Wehner (LSE)

2) Risks to the potential growth estimates (most relevant for a country like Slovakia, but also Austria)

- ∅ shifts in FDI and migration flows
- ∅ changes in the relationship between potential growth and structural revenues/spending, in other words, how to separate a cyclical variation of revenue elasticities from a structural change

Key note by Ludovit Odor (CBR) on “Finding Yeti: more robust estimates of output gap”

Discussion statement by Michael Schuler (Eidgenössisches Finanzdepartement EFD, Bern)

3) Risks to the relative debt financing terms (mostly relevant for Germany on one side and “return to market economies” like Portugal or Greece.

- ∅ How to model interest rate spreads?
- ∅ What to do in case of a financial crisis with consequences for government debt and deficit?

Key note by Andreas Wörgötter (OECD)

Discussion statements by Marien Ferdinandusse (ECB)

4) Risks of shocks to government revenues:

- ∅ Model based framework for assessing and measuring fiscal risks
- ∅ Performance evaluation of various fiscal rules

Key note by Ondra Kamenik (OGR, Prague) “Fiscal rules and their stress testing”

Discussion statements by Martin Suster (NBS)

5) How well are error correction mechanisms working?

∅ The Swiss debt brake

Discussion statement by Michael Schuler (Eidgenössisches Finanzdepartement EFD, Bern)

∅ The German debt brake

Discussion statement by Elke Baumann (Bundesfinanzministerium, Berlin)

∅ The Slovak debt ceiling

Discussion statements by Eduard Hagara (FPI, Bratislava)

∅ The US debt ceiling

5) Summing up by Andreas Wörgötter (OECD/ECO)

Confirmed participants (without formal presentations):

Dr. Helmut Berger, Parlament, Leiter des Budgetdienstes, Vienna

Marien Ferdinandusse, Fiscal Policies Division, European Central Bank

Martin Filko, FPI, Bratislava

Niklas Frank, Swedish Fiscal Policy Council-Secretariat

Miroslav Gavura, National Bank of Slovakia (Department of Economic and Monetary Analysis)

Doris Hanzl, WIIW

Eva Hauth, Fiskalrat-Sekretariat, Vienna

Frantisek Hajnovic, National Bank of Slovakia (Research Department)

Edith Kitzmantel, Fiskalrat, Vienna

Jindrich Marval, MoF, Prague

Viktor Novyzedlak, CBR

Christian Marik, Bundeskanzleramt, Vienna

Radoslav Peter, National Bank of Slovakia (Research Department)

Lukas Reiss, OENB, Vienna

Branislav Relovsky, National Bank of Slovakia (Department of Economic and Monetary Analysis)

Susanna Maria Sandruschitz, Federal Ministry of Finance, Vienna

Tobias Schweitzer, Fiskalrat, Vienna

Irena Valkova, OECD/GOV, Paris

Erik Bugyi, CBR

Miroslav Klucik, CBR