



5<sup>th</sup> Meeting of the  
Advisory Panel

Minutes  
September 16<sup>th</sup>, 2020

## Advisory Panel Meeting

September 16<sup>th</sup>, 2020

**Venue:** Online

**Advisory Panel Members Present:** George Kopits, Kevin Page, Daniele Franco, Holly Sutherland

**CBR Members Present:** Ivan Šramko, Anetta Čaplánová, Juraj Kotian

**Secretariat of the CBR:** Viktor Novysedlák (Executive Director) and Members of the Technical Staff of CBR;

**Invited guests:** Ján Tóth, chair of the working group on Constitutional Act Amendment

**Apologies:** Simon Wren – Lewis

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### Session: **Introduction**

**Presented by:** Anetta Čaplánová instead of Ivan Šramko

**Chaired by:** Anetta Čaplánová

Ms Čaplánová welcomed all participants and apologized for the absent Chair of the CBR (Mr Šramko) who was in Parliamentary Session presenting Constitutional Act Amendment at that moment.

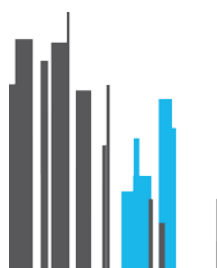
Ms Čaplánová firstly welcomed current members of Advisory Panel: George Kopits, Kevin Page, Simon Wren-Lewis, Daniele Franco and Holly Sutherland, a new member of the Advisory Panel (AP). Former member of the AP Jeromin Zettelmeyer had to resign since he started his service at the International monetary fund.

Holly Sutherland has been Emeritus Professor, University of Essex since 2019. Previously (2004-18), she was the Research Professor and Director of EUROMOD, she has over 30 years of experience in microsimulations. Ms Čaplánová emphasized the need for microsimulation expertise among the AP members and an important contribution Holly Sutherland will bring to the panel and CBR - since CBR activities such as a joint project with JRC Sevilla or SIMTASK model are implemented. It has been agreed that a separate session will be held with Ms Sutherland and the CBR microsimulation team.

After having delivered the introduction, Ms Čaplánová pointed out most important events and activities of CBR over the last two years and up-to-date challenges faced by the CBR.

The introduction of the Retirement Age Cap in 2019 to be one of them. CBR was involved in related discussions and was active to point out to the adverse impact this new legislation has on long-term sustainability of public finance in Slovakia. The communication took place in different forms including media coverage, website posts, blog posts, videos, etc.

An important activity was also the OECD review on the CBR mandate and functioning, which took place in 2019 and was published in February 2020. The importance of the introduction of Expenditure limits in the Slovak context continued, however, so far the expenditure limits have



not been introduced.

Also, regarding the Fiscal Compact and deviation from MTO, the CBR pointed out to government's deviation for both 2018 and 2019, the Ministry of Finance confirmed the significant deviation for 2018, but with a time lag. Since January 2020 corrective mechanism has been introduced with one-year expenditure limit. However, the COVID-19 pandemics required fiscal stimulus, - due to exceptional circumstances, the correction mechanism was discontinued

COVID-19 pandemic has obvious impact on public finance, it is obvious that the deficit and debt increase and related to it is the ongoing discussion on the appropriateness of the form and extend of the fiscal stimulus.

Currently (November 2020), the debt brake/Constitutional Law on Budget Responsibility amendments are discussed – since the impact on debt is noteworthy; expected to significantly breach upper limit of 57% in 2020 (escape clauses has been activated due to the new government coming to the office for 24 months). More discussion about changes in the debt brake took place later during the meeting (Session 2).

### Session 1: **OECD review**

**Presented by:** Juraj Kotian

**Chaired by:** Anetta Čaplánová

Mr Kotian provided the overview of the OECD review, explained the reasons beyond the request of the CBR for the OECD review. CBR was founded in 2012, i.e. before international network of IFIs and standards were created. CBR as an independent institution needs regular independent assessment of its performance to ensure that both legislative requirements and international principles for IFIs are reflected in its activities in an appropriate manner. CBR also needed insights on possible deficiencies in CBR functioning and asked for recommendations towards adopting best practices.

Mr Kotian stressed the immediate impact of the review: some points were reflected in new government's programme statement. Chair nomination process has become more transparent, there has even been progress in access to data. In terms of staff, there has been strengthening, one new media person and one junior analyst were hired. More analysts are needed if the CBR is to expand on its tasks and duties.

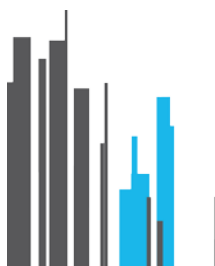
The cooperation with the Parliament has led to closer communication with the Parliamentary Committee.

There has been *established the working group to prepare changes in the Constitutional Act.*

Juraj Kotian disclosed points that got into the Government Programme Statement:

**Constitutional Act** – analysis of the Fiscal Responsibility Act (FRA)

- **Access to information** and necessary data
- **Cooperation with the Parliament**



- Dialogue at the partner level, "comply or explain" principles
- Draft budget of the public administration and on the long-term sustainability of public finances will be consulted with CBR
- Chairman of the CBR is invited to speak at a meeting Parliamentary Committee or Government or Parliament session
- **Introduction of expenditure ceilings**

Nomination process of the CBR Chair was more **transparent through:**

- public announcement of the job offer, incl. salary
- public hearing and its live stream
- individual scorings of candidates by every committee member made public.

The OECD review inspired many candidates in their "strategic vision" presented at the public hearing. There were **12** candidates, **3** short-listed, **1** recommended to the Parliament by the Government - Mr **Ján Tóth**

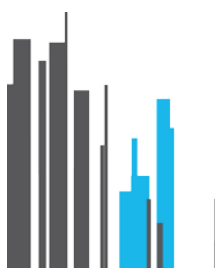
- former vice-governor of the National Bank of Slovakia
- former head of IFP, an analytical unit at Ministry of Finance
- at the time chairing working group for the amendment of the Constitutional act.

Regarding the action plan and CBR's position on OECD suggestions, J. Kotian presented the report of OECD action points and CBR feedback. Some recommendations have already been taken on board or are to be implemented by the CBR, others by other institutions.

Mr Kopits pointed out that CBR has tremendous capacity to do things quickly with limited resources, which is admirable but not healthy and it should be dealt with. In the area of long term sustainability he complimented the CBR for doing great job, but criticized that risk assessment has not so far been included when assessing sustainability as it should be. He insisted that macroeconomic forecasting should be done by an independent non-partisan institution, and it should be on pre-emptive basis. Mr Kopits made clear his strong opinion that hiring only two more people is not going to help the CBR because the staff should be at least doubled. He was missing more specific and ambitious suggestions in this regard in the review.

Mr Page spoke of examples from Canada, where they underwent similar transition process and as a result, they obtained additional staff, larger budget and broader mandate. He sees parallel possibilities for CBR and thus, opportunity for bigger impact. Mr Page was rather critical to the part of the review related to resources, as according to him, resources would be a problem, and so they must be dealt with. He argued that the Advisory Panel can be involved and might help in this regard.

Mr Franco commented on macro monitoring, considering it a good sign that CBR has tough dialogue with the Ministry of Finance about forecasts. He also did not omit that everything that CBR does requires a lot of resources. He explained that Italian council is strong on macro part, too. He stressed the positive impacts of Covid – the use of telecommunication – it is costly to travel and to stay in Bratislava, CBR should make use of the situation and organise the AP meetings more frequently online. He commented on relationship with the parliament saying it truly is important, but every country has its own ecosystem..



Mr Šramko, who joined the meeting later, expressed the necessity to formalize CBR's relations with other institutions because so far, they have been very informal. He said he had just come from the Parliament; MPs are not that much interested in the documents by the CBR. His question was how to persuade MPs to be more interested in fiscal health issues.

General discussion pointed out that this is not unusual situation for independent fiscal institution. The only way to achieve higher impact is regular communication with MPs, especially with dedicated committees. Ms Čaplánová said that two week before the AP there had been a CBR meeting with the Chair of Economic and Fiscal Committee, she found it a positive sign with possibility of meeting with the whole Committee and to organize seminar for the MPs. Mr Kotian said costings were going to be most appealing for MPs given the impact on pockets of individuals, therefore they can be better communicated to public than other reports.

**Participants agreed on the necessity of more online workshops to further explore the topics, which had been opened in this session.**

## Break

### Session 2: Debt brake

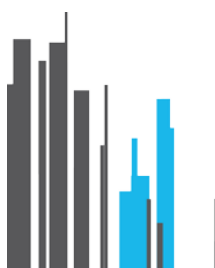
**Presented by:** Ján Tóth

**Chaired by:** Viktor Novysedlák

Ján Tóth presented the proposal to amend the debt brake rule through changes in the Fiscal Responsibility Act (FRA) in the light of ongoing economic crisis caused by the pandemic of the corona virus. With forecasts predicting that debt will exceed the upper limit of the debt brake rule in 2020 and remain above it over the medium-term horizon there has been a need to rethink this framework.

Mr Tóth started by explaining the current set up of the debt brake and concluded that the rule functioned relatively well at keeping the level of debt below its threshold, however, he highlighted the fact that at the same time the indicator of long-term debt sustainability has deteriorated dramatically, shifting fiscal risks further into the future. Mr Tóth explained that one of the biggest drawbacks of the current system is the lack of binding expenditure ceilings in the legislation, despite being presupposed in the FRA, suggesting that, had government implemented the ceilings, achieved its MTO and used windfall revenues to consolidate, debt could have declined by nearly 10 percentage points compared to its current level and thus afford the government more fiscal space in the event of an economic crisis.

Mr Tóth followed by introducing concepts to adjust the debt brake and improve the applicability of the FRA. The current legislation is too restrictive in its definition of a crisis, the framework needs more flexibility after periods of strong downturn, while stricter rules for consolidation need to be applied in the booming years. Therefore Mr Tóth introduced the idea of switching from gross debt to net debt as key indicator for monitoring level of debt, with two alternative



amendment. First, a temporary adjustment of threshold according to the size of the external shock or second alternative, put forth in the legislative process, to permanently increase the sanction buffer zone from 10 % to 15 % with increased responsibility for CBR over the escape clauses. The second, more favoured amendment alternative had been put in the legislative process. It was explained that the new thresholds for net debt would be between 40 % and 55 % of GDP, down to four sanction zones every five p.p. with sanctions completely shut off for the first two years with option for extension for three more years for the two harsher zones given CBR's approval.

Mr Tóth then argued that expenditure ceilings must be included in the amendment of the constitutional act. The limit for overall governmental expenditure should be set for every year of the election cycle. CBR should calculate the ceilings based minimum requirements, which depend on valid long-term sustainability risks (CBR's GAP indicator). Mr Tóth suggested that the ex-post assessment of compliance with the limits should be carried out by CBR and so should any updates to the calculations of expenditure limits. Then he outlined the plans to produce more reports and submit these reports into the parliament and government sessions. These reports include: Fiscal Risk Report published at least every four years, an annual report on the pension system and a biannual report on the social system funding.

During the discussion Mr Kopits suggested that an increase to the sanction buffer zone is quite reasonable given the need for more flexibility. While he welcomed the reduction in the sanction zones to four, he argued that the debt brake rule should be simpler and have fewer sanction zones. He then briefly described a system with two zones. He also pointed out the potential technical and reputational problems a change from gross to net debt might entail.

Mr Franco opened the issue of ownership when it comes to calculation and setting of binding expenditure limits. He argued that future governments and parliaments may try to oppose or reject limits calculated by another institution all together in the medium and long-term.

### Advisory Panel Follow up Meeting

October 1<sup>st</sup>, 2020

**Venue:** Online

**Advisory Panel Members Present:** Holly Sutherland

**CBR Members Present:** Anetta Čaplánová, Juraj Kotian

**Analysts of Microsimulation Department of the CBR:** Jana Valachyová, Zuzana Siebertová, Norbert Švarda, Matúš Senaj

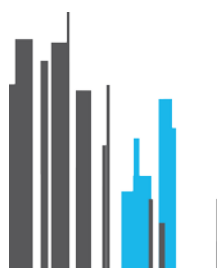
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**Session:** [Microsimulation models, approach and methodology](#)

**Presented by:** Jana Valachyová, Zuzana Siebertová, Norbert Švarda and Matúš Senaj

**Chaired by:** Juraj Kotian

Short intro by Mr Kotian who welcomed all participants.

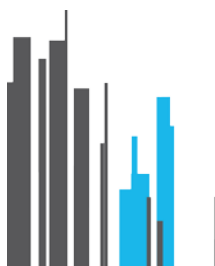


Analysts of microsimulation department of the CBR presented the Microsimulation framework developed and used within the CBR. The presentation covered four topics:

- Microsimulation model SIMTASK
- Labour supply model
- Micro-macro model
- New project: microsimulation model on administrative data  
The project is financed by the Structural Reform Support Program of the European Commission and the technical assistance is provided by the Joint Research Centre (JRC) in Seville.

After the presentation, Ms Sutherland answered the questions raised by the CBR analysts and added several interesting remarks how to further improve the microsimulation methodology. Her main comments were as follows:

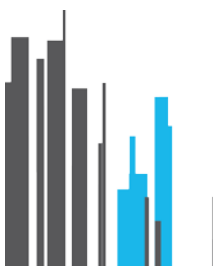
- Ms Sutherland pointed out that the way how the work of microsimulation team of CBR is organized is very appropriate. The fact that every analyst is at least partly involved in the whole microsimulation project lowers the operational risk.
- Having seen the presentation, she considered the framework used in CBR as cutting-edge methodology. To stay on the leading edge of methodology Ms Sutherland advised the analysts to be active in the microsimulation conferences and trainings and be also in touch with research groups active in related research areas.
- Regarding the small magnitudes of the estimated labour supply elasticities in Slovakia, Ms Sutherland concluded that they are in-line with the international evidence. She advised to build a small informal group of international experts who can consult details of the estimation approach.
- Ms Sutherland raised a question how are the self-employed treated when the labour supply model was estimated. Whether there are two choices for economically active persons (being employed or unemployed) or three (being employed, self-employed or unemployed)? Mr Senaj replied that the self-employed are treated as part of employment and the labour supply model distinguish only between two choices: either to be full time employed (including self-employed) or unemployed. There is no special category for self-employed.
- Next, Ms Sutherland raised the question whether it is possible to simulate macroeconomic shocks (e.g. labour supply shocks) directly using the micro-macro model presented before. Mr Senaj answered that the structure of the model does not allow to impose such shock directly in macro part, but the shock should be incorporated by adjustments in underlying dataset (e.g. increase or decrease number of employers).
- Ms Sutherland commented that the validation procedure of the simulation results performed in the model SIMTASK is appropriate. She stressed that it is important to communicate and give feedback to the Statistical Office concerning the quality of survey data.
- In the following part of the session, a discussion on the new microsimulation model using the administrative data took place. Ms Sutherland asked about the details of the underlying administrative datasets that will be used in the project. She commented that using the data from the Social Security Agency as the only source of information on income limits the simulations of taxes to those related to labour income from employment and self-employment, since other types of taxable income are not covered





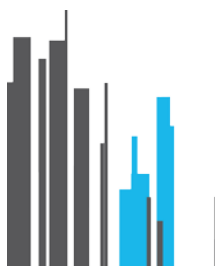
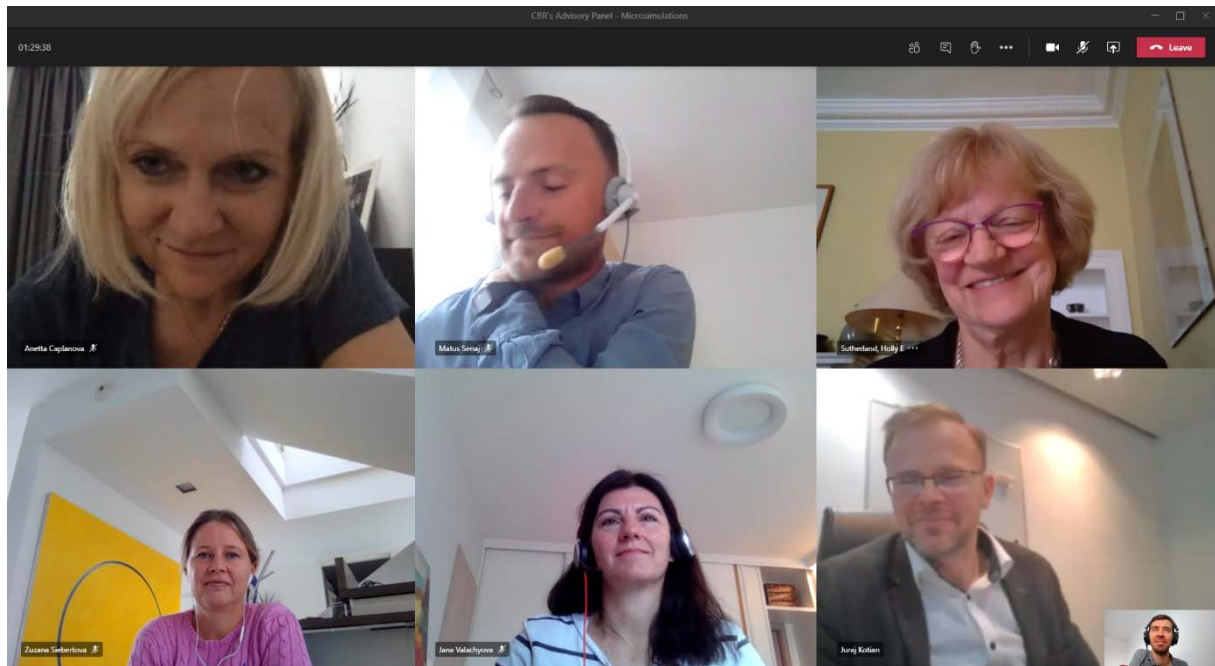
in this dataset. She asked about the possibility of using the data from tax records. Ms Siebertova informed about the current legislation and the state that CBR has access to limited number of administrative datasets - based on bilateral agreements between the CBR and selected institutions. She explained that a new Constitutional Act on Fiscal Responsibility (now being discussed in the Parliament) will, hopefully, grant the general access to all kind of administrative data. This will substantially broaden the possible range and quality of simulations.

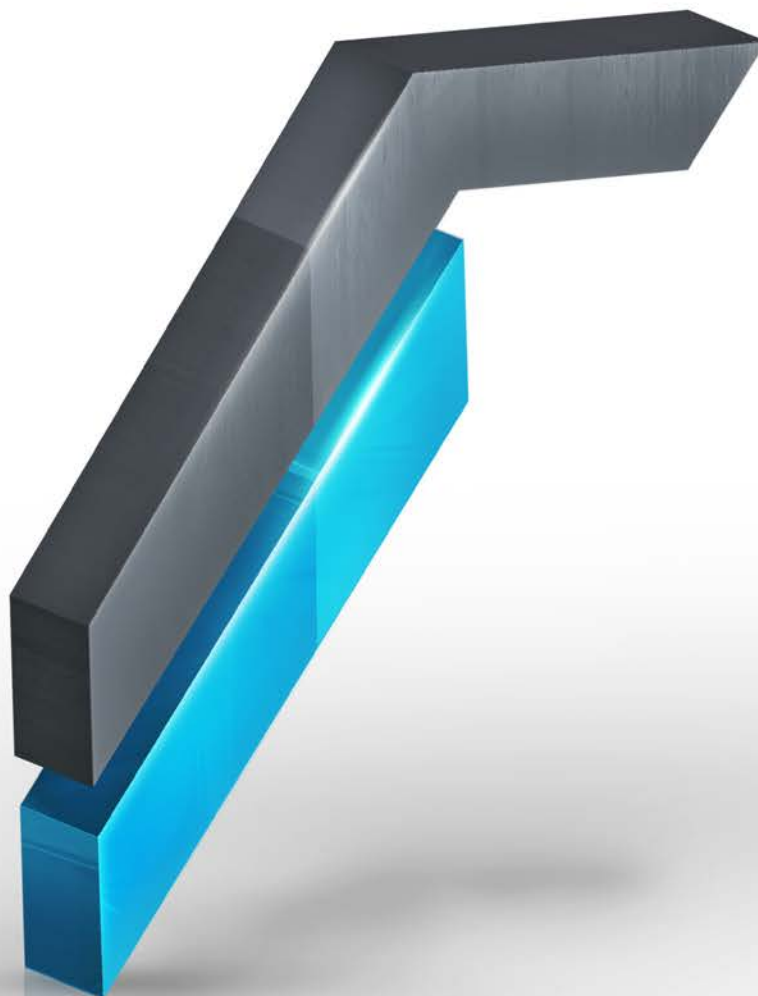
- Ms Sutherland had concerns about the running time of the new model with administrative data due to its size. She also raised the question whether it would be possible to share the model with such sensitive data to other institutions. Mr Svarda replied that sharing the model with institutions which have access to all databases would not be a problem. Institutions without access to databases could be provided with an anonymised sample dataset based on bilateral agreement like it's been done with JRC in the current project.
- In the lively discussion on microsimulation models using administrative data, Ms Sutherland mentioned that in several countries researchers are currently developing such models. She made a point that these attempts are still more frequent in small countries. She explicitly mentioned Andre Decoster and his research team in Belgium that is currently working on the tax and transfer system microsimulation model on administrative data. Her advice was to get into contact with the team.
- Ms Sutherland pointed out that it is important to be able to simulate the consequences of COVID-19 scenario. Furthermore, she advised to discuss this topic with analysts in JRC Seville who work on preparing such scenarios. Finally, she advised to attend the forthcoming conference of International Microsimulation Association that will be devoted to modelling of policy responses to COVID-19.





Picture taken during the follow up meeting





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