COUNCIL FOR BUDGET RESPONSIBILITY

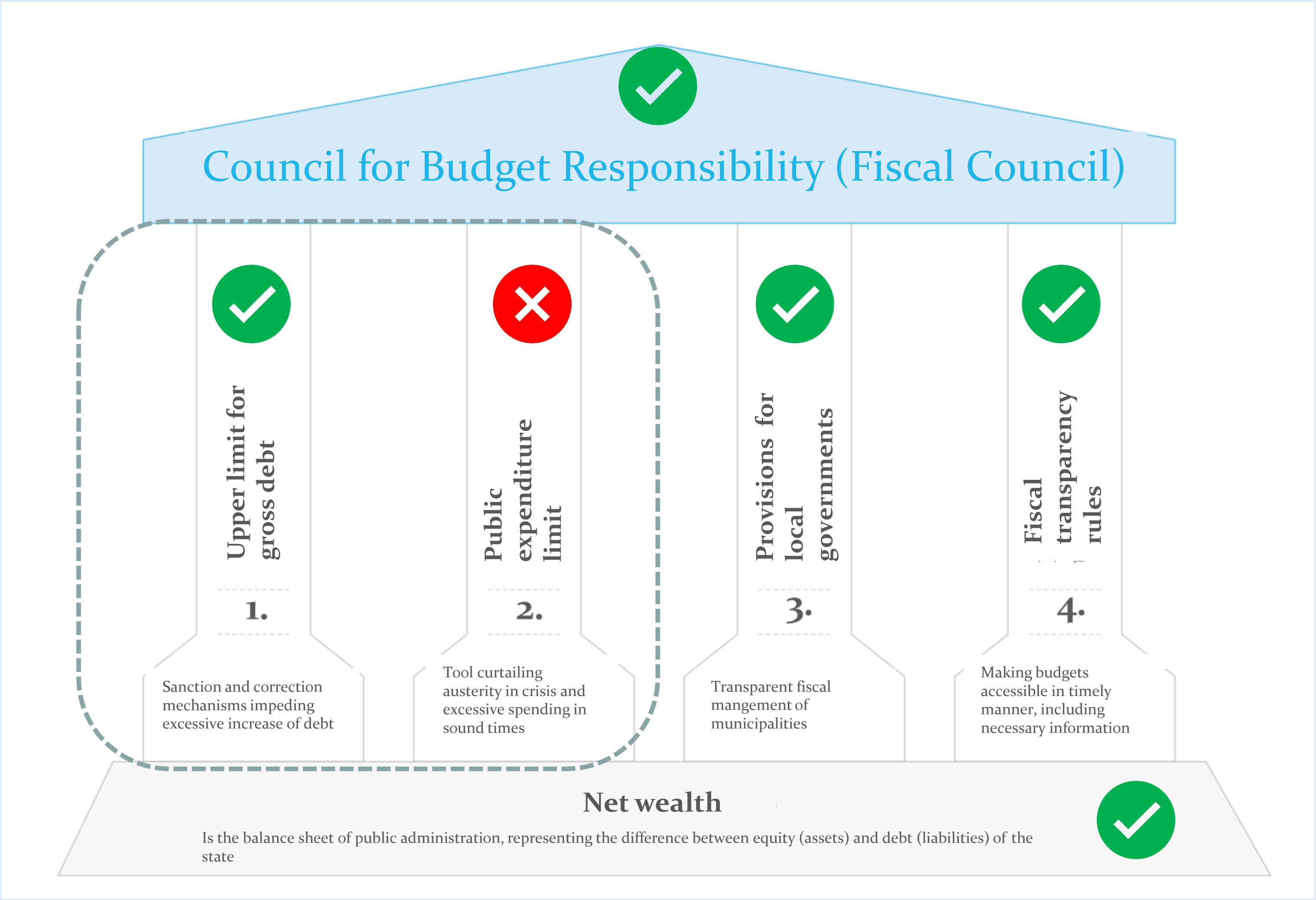
CBR's proposal for the Slovak Fiscal Framework

Jan Toth

How can the NFF be made fit for the future?

Brussels, 13 Dec 2022

Complete national fiscal framework in Slovakia



Long-term fiscal sustainability (i.e., future debt level) is the key objective/main anchor

- LT fiscal sustainability attained if debt does not exceed maximum “safe” level during 80 years under NPC scenario
- The indicator represents the amount of immediate consolidation needed to guarantee this LT sustainability -> consolidation (effort) is thus defined as the difference between the trajectories of structural balance in NPC vs. real scenarios
- This means that an unchanged structural balance does not mean 0% y-o-y consolidation, but could represent + or – consolidation effort based on economic outlook (NPC trajectory).
- Three zones for LT fiscal sustainability – low/medium/high risk
- Maximum “safe” debt levels different for different countries – 50% debt limit for Slovakia

Expenditure limits - the single operational indicator

For different risk zones of LT sustainability, different needs to consolidate (0.25/0.5/0.75% of GDP) required every year and takes into account debt brake sanctions (whatever is stricter) – the path of required structural balances is set

Structural surplus is capped at 0.5% of GDP

After each elections, nationally-financed 4-year net primary expenditure trajectory computed to meet the required structural balance path

Simple and easy to understand indicator, allows for the operation of automatic stabilizers

The expenditure aggregate is net of discretionary revenue measures and corrected for cyclical part of unemployment benefit expenditures, but also excludes:

- Interest payments, EU funds and co-financing, EU budget levy
- One-offs (also a vehicle to fight negative shocks) – computed by independent IFI

Reform support/protection of LT sustainability

The amount of consolidation required is adjusted for the impact of gov't measures on LT sustainability (e.g. pension reform)

Reform support - positive impact deducted from the required consolidation (capped at 0.5% of GDP if debt limit sanctions at play)

Reform "rewards" depend on the timing and how strong the legal framework is (normal act vs. constitutional act), if less credible, a 50% discount

LT sustainability protection - negative measures without any cap, ie, automatic "punishment" to cut fiscal space today to pay for the future fiscal slippage

Expenditure limits – surveillance and enforcement

LT sustainability indicator and expenditure limits calculated by national IFI and are binding by the law (state budget needs to respect them)

If necessary, could be formally approved by the parliament, the parliament can reject them only on the basis of miscalculation

Updates (reflecting new legislation, last year's performance) regularly done by IFI, could be requested by the gov't at any point, automatically binding

If the limit is not met, the gov't needs to provide an explanation to the parliament and the remaining limits are automatically updated to offset the gap

If limits are not meet for 2 consecutive years and the gap exceeds 1% of GDP, a vote of confidence for the government needs to take place in the parliament

Expenditure limits – exit clause

GDP falls – limits could be exceeded with the approval of the parliament for 1 year (-3% to 0%) or 2 years (-6% - -3%). Next year, a discount of 50% is applied for the consolidation requirement. For timely purposes, 2 conditions need to be met – 1/an independent annual forecast and 2/ one negative realized QoQ growth figure

General exit clause – in rare situations, the independent IFI could recalculate the limit taking into account the size of the shock (alternatively, in rare situations of a large price supply side shocks, IFI recalculates the limit – symmetric approach), could be better suited than EU general exit clause

Forecast errors – if revenue forecasts (adjusted for the measures) are different by more than 3% of GDP compared to the initial ones when setting the ceilings, the limits are recalculated

After each elections, the limits are reset by independent IFI to reflect the inherited fiscal situation

Debt brake – emergency tool only

The net debt figure provided by Eurostat

The sanction levels should create altoghether a 15% of GDP buffer up to maximum “safe” debt level

4 sanction zones call for 0.25/0.5/0.75/1% consolidation effort

Top sanction calls for the balanced structural budget as well as for the call of a vote of confidence in the parliament

Prevention of “original sin” for the new gov’t – the top sanction is not applied in the first year and as long as the gov’t meets the consolidation requirements, the top sanction is not applied

Debt brake – top sanction exit escape clause

For 1 year:

The gov't meets consolidation sanction (IFI report on the budget)

Expenditures that address major adverse events (banking crises, natural disasters) exceed 2 % GDP (a decrease from the current 3% GDP and two years)

New gov't after the elections

Methodological changes exceed 2% GDP on annual basis

For 1 – 2 years:

Low GDP figures (aligned with the expenditure limits exit clause)

CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Role of independent IFI

Macro and tax forecasts are independent (provided by the committees)

Expenditure limits computations by IFI according to the procedure specified by the law as well as an agreed upon methodology

IFI provides report on the budget (if consistent with sanctions)

IFI provides annual update report on pension system and fiscal risk report ahead of elections

IFI always provides costing on the LT fiscal measures

IFI presents key documents (budget and LT sustainability report) to the parliament and gov't

Independence secured by 1-term longer mandate of board members, public hearings, a guaranteed minimum of financing provided by the central bank, legal guarantee for data access)

CBR
COUNCIL FOR BUDGET
RESPONSIBILITY

Council for Budget Responsibility

Imricha Karvaša 1
Bratislava 1
813 25
Slovakia

www.rrz.sk

Thank you !