

LINK BETWEEN MACRO-FISCAL FRAMEWORK AND STRUCTURAL REFOMS

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AGENDA



- MACRO-FISCAL FRAMEWORK
- STRUCTURAL REFORMS
- WHERE MACRO-FISCAL FRAMEWORKS AND SRs MEET
- WHAT IF... A SIGNIFICANT FISCAL RISK MATERIALISES?
- CONCLUSION

MACRO-FISCAL FRAMEWORK

- Conducting sound fiscal policy requires a strategic vision that anchors annual budget in a medium-term perspective
- Ministry of finance (MoF) needs a unit with strong macro-fiscal analytical capacity → a critically important function which underpins good fiscal policy and budget systems
- Medium-term macro-fiscal framework has become a key fiscal policy tool, as it provides overall context for sustainable fiscal targets, policy choices, and realistic revenue and expenditure projections.

Source: <https://blog-pfm.imf.org/pfmblog/2018/12/-strengthening-the-macro-fiscal-function-in-ministries-of-finance-.html>



MACRO-FISCAL UNIT OUTPUTS

- **Medium-term fiscal strategy document (MTFF), including medium-term macroeconomic and fiscal projections.**
- **Macro-fiscal strategy & policy priorities for the annual budget.**
- **Fiscal risk statement.**
- **Debt sustainability analysis.**
- **A report on compliance with fiscal rules (if in place).**
- **In-year economic and fiscal reports.**
- **Long-term fiscal projections (20-50 years).**

Source: <https://blog-pfm.imf.org/pfmblog/2018/12/-strengthening-the-macro-fiscal-function-in-ministries-of-finance-.html>



STRUCTURAL REFORMS

- At its simplest, structural reforms imply changes to the way the government-led system works.
- Structural reforms became popular with the emphasis on flexibility and competitiveness of economies, as opposed to macro-management of economic cycles
- EU's Lisbon Strategy (2000) tried to combine the drive for competitiveness with the modernization of the „European Social Model“
- ERP definition combines competitiveness with the need to strengthen employment and welfare – this reflects the key development challenges in (potential) candidate countries

Source: www.economist.com/the-economist-explains/2014/12/09/what-structural-reform-is-and-why-it-is-important



ERP DEFINITION OF STRUCTURAL REFORMS

Focus: increase competitiveness, support inclusive growth & job creation in medium term

The term structural reform shall be understood to mean public policies that:

- tackle obstacles to the fundamental drivers of growth,
- facilitate the use of resources and productive factors as efficiently as possible,
- or contribute to a more equitable and inclusive economy.

(ERP Guidance 2019)

This includes policies that:

- modernise **labour markets** and make them more adaptable & responsive,
- make **product and service markets** more efficient,
- simplify the **regulatory environment** for businesses while increasing transparency overall in the economy,
- create equal opportunities and ensure **social inclusion**.



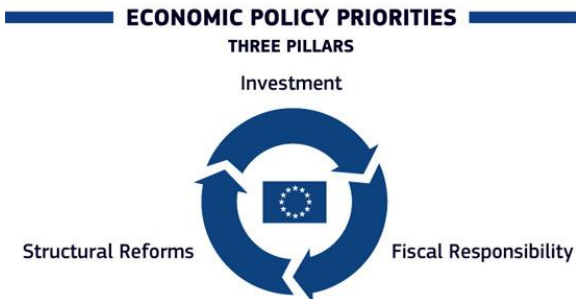
SRs IN 2019-2021 ERPs (20-22)

Based on 7 ERPs, Ch. 4.2 Summary of Reform Measures

ERP policy sector	Number	Share	Most frequent reforms
Energy and transport markets	21	16 %	Market liberalization / opening Energy efficiency, renewable sources Infrastructure
Agriculture, industry and services	18	14 %	Agricultural investment, production Industrial policy Tourism
Business environment	36	27%	Reduction of regulatory burdens, e-services Informal economy, tax collection, inspections Support to SMEs
RDI and digital economy	15	11 %	RDI system and support Broadband infrastructure/regulation
Trade-related reforms	8	6 %	Trade facilitation
Education and skills	16	12 %	Aligning VET with labour market needs
Employment and labour markets	8	6 %	Active labour-market policy measures
Social protection and inclusion	10	8 %	Social protection system Health system



WHAT MATTERS IN SR FORMULATION?



- OWNERSHIP
- PARALLEL WORK OF ALL LEVELS OF GOVERNMENT & LMs:
 - MINISTERS & PM OFFICE
 - STATE SECRETARIES
 - FINANCE DIRECTORS OF LMs & BUDGET DIRECTOR @ MoF
 - EXPERT LEVEL OF LMs AND LM MANAGERS @ MoF
- CLEAR IDENTIFICATION OF SR:
 - IMPACT ON COMPETITIVENESS / GROWTH / EMPLOYMENT
 - WELL DESIGNED MEASURES
 - IMPLEMENTATION COMPLEXITY & RISKS
 - IF GOOD STATISTICAL DATA - COSTING IS EASY

Macro – fiscal framework preparation

Macroeconomic framework (independent institute*)

*or EC forecast

Public finance objectives – M**T**F, M**T**O

Debt management

Revenues policy

- Taxes
- SS Contributions
- Dividends
- Non-tax items
- Tax collection efficiency

Expenditure policy

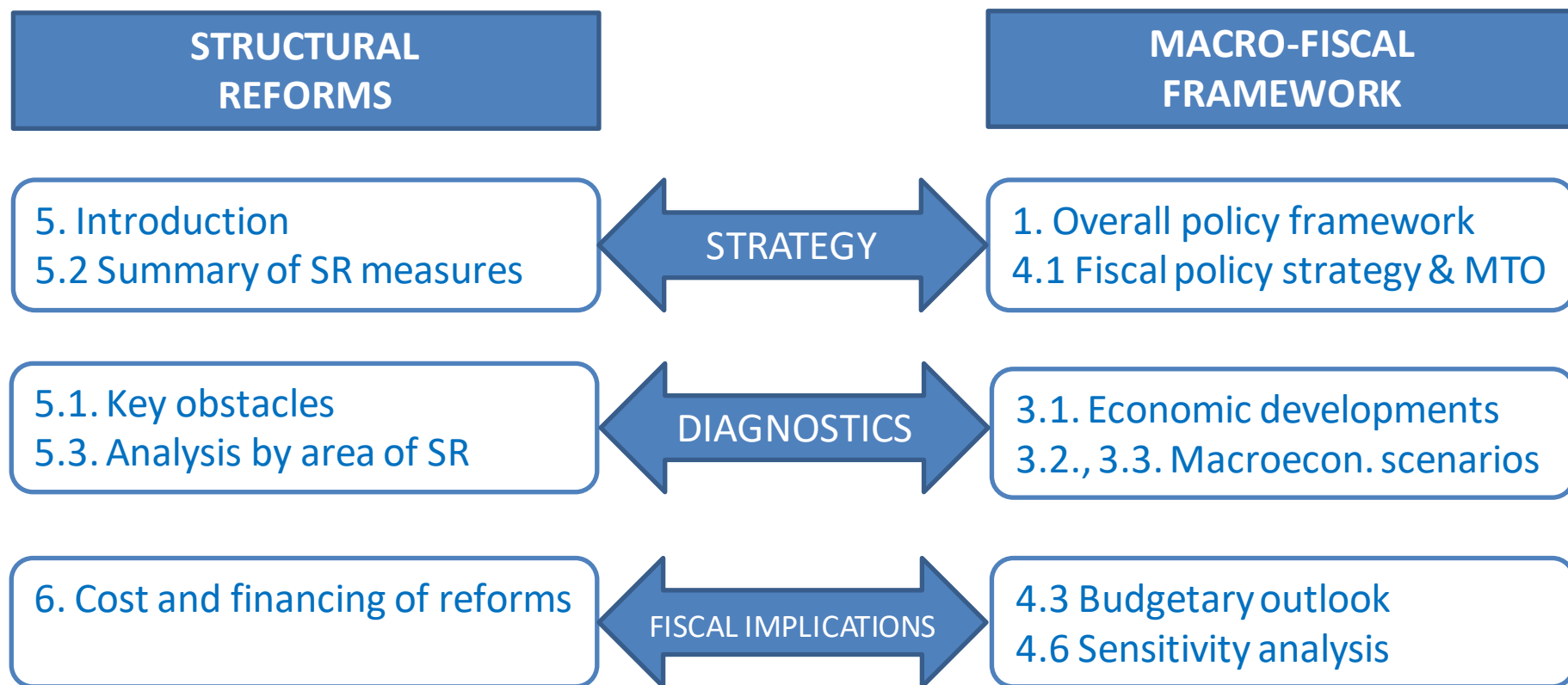
- Public sector wages
- Interest payments
- Social fund transfers
- Transfers to individuals
- Subsidies to firms
- Investments (EU funds)

Structural reforms



Linking SRs with macro-fiscal framework

Framework for internal consistency of ERPs



Linking SRs with macro-fiscal framework

Medium-Term Budgetary Outlook (ERP Chapter 4.3)

EXPENDITURE OUTLOOK: Make sure that at least the costliest reforms are mentioned among spending priorities – have the text of the chapter checked by the ERP Structural Reforms Coordinator.

REVENUE OUTLOOK: Specify whether any expected revenue effects from structural reforms are included in the estimations. If yes, provide quantitative estimates of expected effects.

MACROECONOMIC FRAMEWORK: Specify whether any expected economic effects of reforms are included in the baseline scenario which was used for fiscal projections. If yes, provide quantitative estimates of expected effects on economic growth and the budget.



What if something unexpected happens?

e.g. COVID-19?

1. **MACRO** OUTLOOK CHANGES DRASTICALLY (lower / negative growth, worsened labour market conditions, inverse price movements, hampered international trade)
2. (AT LEAST SHORT TERM) **FISCAL** OBJECTIVE CHANGES, FISCAL RULES ALLOW FOR EXCEPTIONAL CIRCUMSTANCES (deviation from fiscal rules is tolerated)
3. DEBT MGMT becomes more challenging (more risky, higher IR)
4. REVENUE DECREASES (tax, dividends), EXPENDITURE INCREASES (one-off measures), **FINANCING NEEDS** GO UP
5. **PRIORITIES** (as well as **SRs**) CHANGE „BIG TIME“, **COUNTER-CYCLICAL FISCAL POLICY** CALLS FOR EMERGENCY MEASURES „AT ANY COST“
6. EC. REFORM PROGRAM turns into EC. **RECOVERY** PROGRAM.



Macro fiscal framework in **exceptional times**

Macroeconomic framework **WORSENS**

Public finance objectives – MTFF
CHANGES

Debt mgmt **MORE
CHALLENGING**

Revenue **DECREASES**

- Taxes
- SS Contributions
- Dividends
- Non-tax items
- Tax collection efficiency

Expenditure **INCREASES**

- Public sector wages
- Interest payments
- Social fund transfers
- Transfers to individuals
- **ONE OFF MEASURES**
- Investments (EU funds)

Structural reforms



What if something unexpected happens?

e.g. COVID-19?

1. IN SHORT – FORGET ALL ABOUT REGULAR PRACTISE (SLIDE p9).
2. RUN COUNTER-CYCLICAL FISCAL POLICY WITH THE MOST APPROPRIATE **COUNTRY – SPECIFIC MEASURES**.
3. IF ANY EXISTING SRs USEFUL FOR A QUICK RECOVERY, THEY SHOULD BE **PRIORITIZED**, OTHERS **POSTPONED**.
4. THE „RECOVERY“ MEASURES SHOULD BE **FLAGGED** IN THE BUDGETS SO THEY CAN BE TRACKED LATER AS A **ONE-OFF** EXPENDITURE.

HOWEVER, EVEN WITH EMERGENCY MEASURES, PRUDENT MoF WILL WANT TO KNOW:

- HOW MUCH PUBLIC MONEY IS NEEDED?
- WHO GETS IT AND ON WHAT CONDITIONS?
- WHAT CONTROLS (AND SANCTIONS) WILL BE IMPOSED?
- WHERE IS FINANCING COMING FROM AND AT WHAT COST?
- GREEN LIGHT FROM FISCAL COUNCIL / COURT OF AUDIT WELCOME



CONCLUSION

1. Conducting sound fiscal policy requires a strategic vision that anchors annual budget in a **medium-term perspective**
2. Medium-term **macro-fiscal framework** is a key fiscal policy tool (overall context for sustainable fiscal targets, policy choices, realistic revenue and expenditure projections)
3. **Structural reforms** should be an integral part of macro-fiscal framework
4. In case of **exceptional circumstances**, macro environment changes, as well as fiscal targets, financing needs, priorities. Special times call for special (counter-cyclical one-off) measures which should nevertheless be flagged.

