LINK BETWEEN MACRO-FISCAL FRAMEWORK AND STRUCTURAL REFORMS

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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.

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).

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
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

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

**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**

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Linking SRs with macro-fiscal framework

Framework for internal consistency of ERPs

**STRUCTURAL REFORMS**
- 5. Introduction
  - 5.2 Summary of SR measures
- 5.1 Key obstacles
  - 5.3 Analysis by area of SR
- 6. Cost and financing of reforms

**MACRO-FISCAL FRAMEWORK**
- 1. Overall policy framework
  - 4.1 Fiscal policy strategy & MTO
- 3.1 Economic developments
  - 3.2, 3.3 Macroecon. scenarios
- 4.3 Budgetary outlook
  - 4.6 Sensitivity analysis

**STRATEGY**

**DIAGNOSTICS**

**FISCAL IMPLICATIONS**

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Fiscal Implications of Structural Reforms
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

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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.