



Center  
of Excellence  
in Finance

# **MTBF and structural reforms in the situation of extreme one-off measures**

## **Preparing exit and recovery strategies**

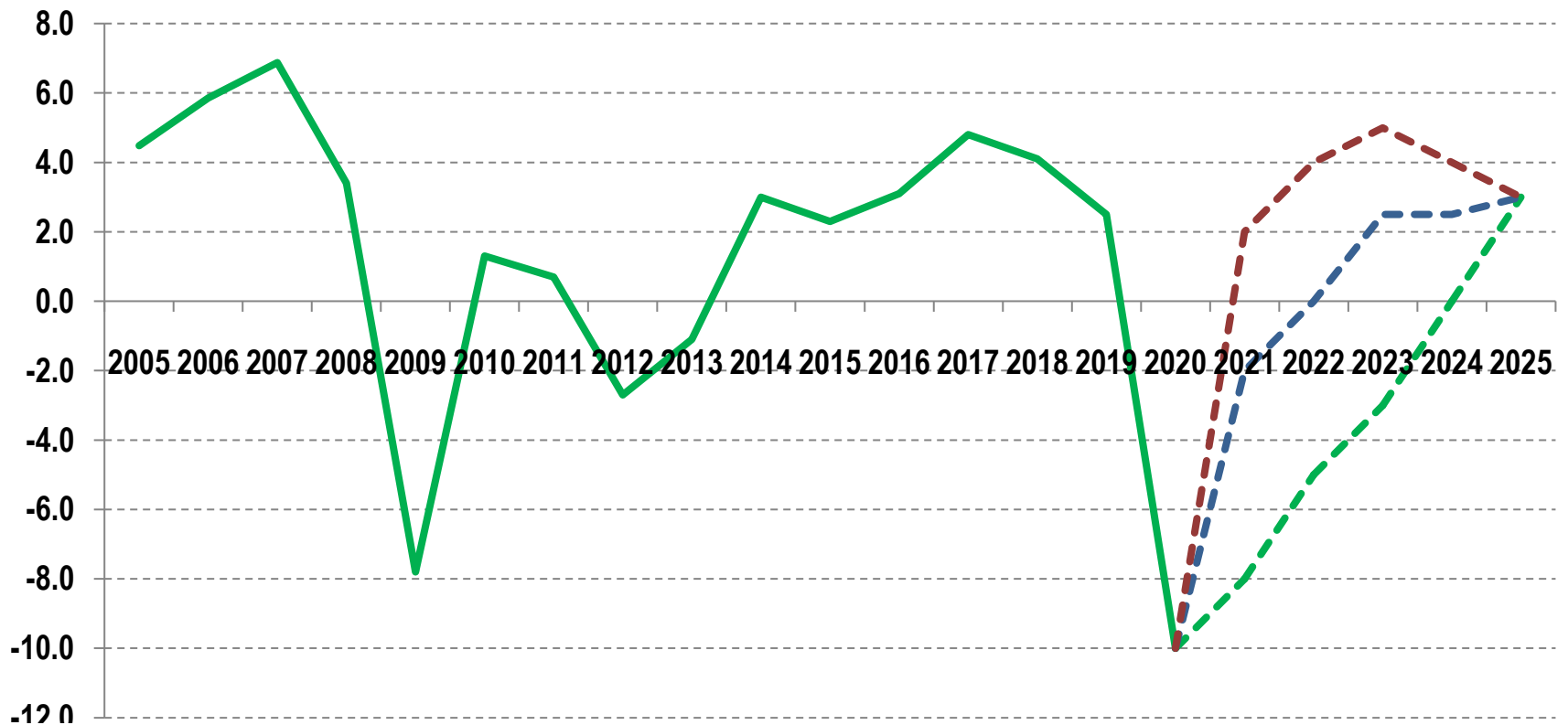


Funded by the European Union.

Fiscal Implications of Structural Reforms

# Economic cycles

## The shape of the curve: shock and recovery



# Crisis are different

## Typical versus Covid-19: cause, scope

### Typical

- Structural, excessive debt build up, poor investment, policy mistakes;
- Direct effects largely to region or group of countries
- Unemployment rises steadily with a lag; risk of structural unemployment
- Consumption falls in general
- Investment declines
- Structurally weak firms, NPLs;
- Decline in trade
- Fiscal policy: aggregate demand management

### Covid-19

- Exogenous to the economy, pandemic;
  - Global, every country directly affected
  - Sudden sharp increase in unemployment, massive public support to preserve jobs
  - Part of consumption unavailable
  - Investment disruption in some sectors
  - Supply chain problems, industry closures
  - Structurally sound firms may fail
  - Fiscal policy: infection fighting and disaster relief
- (based on OECD)



# Economic policy in normal times

## Creating resilient economic and fiscal environment

- ❑ **Working of automatic stabilizers:** act to stabilize economic cycles and are automatically triggered without additional government action
  - Flexible labour markets: unemployment schemes
  - Financial system resilience: capital adequacy of banks
  - Sustainable social security schemes: pension and welfare incomes focused on vulnerable groups
  
- ❑ **MTBF: following medium term structural balance:** act to ensure long term sustainability of public finance
  - Fiscal buffers in good times: with working of fiscal rules
  - Debt and deficit levels improving and stabilizing
  - Fiscal policy mix balanced: restrictive/expansive

# Severe economic shock Covid-19

## Extreme economic damage

- Complete shut down of several sectors of economy, sales decline (retail sale, construction, transport, tourism, restaurants)
- Termination of supply chains (automotive industry, household appliances)
- Changes consumption patterns (basic needs, on-line ...)
- Sudden job losses
- Access to health care limited only to Covid needs
- Environmental and pollution effects

### **MTBF path „disrupted“**

- Severe downturn of fiscal revenues
- Increase in public expenditure:
  - ✓ to ease the direct impact of crisis
  - ✓ to give incentives to growth
- 



# Measures and SR in times of shock

## Adjustement of ERP and MTBF

### **Drastic containment measures – new, not planned, rapid response needed:**

- Medical and health care equipment
- Saving jobs and businesses: short term work schemes; tele-working
- Social safety nets to compensate income shortfalls (one-off payments..)
- Guarantee schemes, state-aid schemes

### **Adjustment of existing measures and reforms**

- Redesign measures to support economy and achieve structural change (support to businesses, labour market...)

### **Postponement or abolishment of planned measures**

- Education, deregulation, market liberalization...

**MTBF goals adjusted and postponed**

**Deviation form fiscal rules due to extreme circumstances**



# Financing the response to shock

## Discretionary budgetary and off-budget easing

**The type of emergency spending mechanisms** (use of reserve, reallocations across budget lines, suspension of execution, supplementary budgets, use of multilateral mechanisms (EBRD, ESM, etc.))

**The adaptations to budget execution processes** (handling priority items, fast track expenditure authorizations, simplified controls, cash advances, etc.)

**Mechanisms for tracking**, accounting and reporting of emergency spending (e.g. specific budget line, specific budget chapter, tagging of expenditures, etc.)

**The format and content of budget information** made available to the legislature and the public on the emergency spending (e.g. on line data, ad hoc reports, etc.)



# Exit and recovery strategies

## Back to „new normal“ – beyond containment phase

**Shape of the recovery** - V, W, U, L and length of economic cycle, ongoing uncertainties, behavioral response of households and companies

**Reshuffled priorities**, not necessary „traditional structural reforms“, serving dual goal:

- i) rapid economic recovery (productivity patterns, global value chains, job creation)
- ii) tackling social effects of crisis (social safety nets, access to health care...)

**Synergies/complementarities between structural reforms and short term economic recovery measures supporting recovery AND structural goals.**

- Post crisis sustainability of public finances: fiscal path to new MTBF**
  - COVID-19 measures gradually abolish and separate from other measures
  - Tax revenues in recovery phase: timing of fiscal tightening ?
  - Changes in allocation of public spending: timing for restrictive fiscal policy ?





# Measures and SR in new normal

## ERP measures: design, sequence and articulation

- ✓ Clear overall policy strategy with defined goals
  - ✓ Supporting diagnosis and analyses
  - ✓ Political consensus and social dialogue
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- Reviving the economy: productivity, competitiveness
  - Labour market
  - Social policies
  - Competition and product markets
  - Financial market and liquidity issues
  - Education and research
  - Access to health care
- 
- MTBF: clear and transparent fiscal implications of measures (also based on costing methodology...)

