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

Preparing exit and recovery strategies
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 loses
- 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

Adjustment 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

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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

- 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...)

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