

Fiscal Rules

Department of Finance Seminar

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- Why Fiscal Rules?
- Public Finances Correction Rule
- Prudent Budget Rule
- Sustainable Expenditure Rule
- Exceptional Provisions

Why Fiscal Rules?

- “Discretion” versus “Rules”
- Achieve and maintain fiscal sustainability
- Facilitate counter-cyclical role for fiscal policy
- Focal point for fiscal debate

- If General Government Deficit above 3% or General Government Debt above 60%
- Improvement in primary balance of 1.5 percentage points if Debt above 90% (or GGB above 3%)
- Improvement in primary balance of 0.75 percentage points if Debt below 90%
- Smaller adjustment if targets can be met
- 4 percent ceiling on primary surplus

- Unadjusted primary balance - procyclical pattern
- CAPB but faster pace?
- 60 percent vs medium-term budgetary objective for debt?

- Why is primary surplus of 4 percent the ceiling for rule-based correction?
- 120 to 60 in 15 years:
 - Optimistic: 3.1%
 - Standard: 4.4%
 - Pessimistic: 5.8%
- 120 to 60 in 10 years:
 - Optimistic: 5.1%
 - Standard: 6.4%
 - Pessimistic: 7.8%
- IMF Fiscal Monitor: need 6.3% CAPB 2020-2030 (Table 1.5a, p22)

Medium-Term Budgetary Objective (MTBO)

- Structural budget target - floor under SGP is 1% deficit
- Set by government

Prudent Budget Rule I

- If general government deficit exceeds MTBO
- Improvement in cyclically-adjusted primary balance of 0.5%
- Smaller adjustment if meets target
- 4 percent ceiling on primary surplus

Prudent Budget Rule II

- MTBO: some target for structural balance “over the cycle”
- “Over the cycle” - allows fiscal activism
- MTBO - target debt level, implies target structural balance
- Deviation: “over the cycle” GGB versus “over the cycle” target balance
- Why 4 percent ceiling on primary surplus?

Sustainable Expenditure Rule

- Gross current government expenditure shall not grow faster than medium-term nominal rate of economic growth unless matched by a discretionary increase in tax receipts in that year
- In steady state, shifts in expenditure/GDP ratio require shifts in revenue/GDP ratio
- PAYGO
- Medium term
- Defined in terms of current expenditure. Fuzzy?

- Trigger - role for fiscal council?

Prospective, Not Retrospective

- Rules about plans, not outcomes
- Expenditure “surprises”
- Revenue “surprises”
- “Bygones are bygones”
- Alternative: clawback to avoid debt drift
 - “control” account

- DF Fiscal Reform publication a good starting point for design or rules
- Extensive probing required before legislation