Comments on the presentations of Serbia and Italy

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General issues

- Some rule for the balance is a precondition (paygo is a version)
- No permanent ER formula is possible, these are just MTEF
- Separate problems are long term sustainability and short term financing constrains
Italy

• Convincing arguments for an ER
  – „Reform fatigue” in 2003-2008?
  – Is trend revenue around 45% of GDP stable?
• Nominal or real?
  – Nominal, because the rule is a medium term tool
• Primary or total?
  – Primary because interest is volatile but G is not able to manipulate
• Capital expenditure excluded?
  – No, because fixed capital is not the key to growth in Italy
• Cyclical expenditure, mandatory and entitlements excluded?
  – Certainly not on the horizon of 3 years or more and even for the shorter horizon only if an effective IFF exists
Serbia: Sequencing reform areas

• Response to the crises
  – Fiscal adjustment: no room for extra spending
  – How to prioritize for 2011?
  – How to replace the IMF SBA?

• Systemic reforms (in the frame of a FRA)
  – Sustainability
    • 3 year MTEF with binding ceilings (2011?)
    • Fiscal rule
  – Transparency
    • Fiscal Council
  – Allocative efficiency
    • Medium –term Public Investment Plan (from 2009)
    • 3 year MTEF (from 2009)
    • Program budgeting: 2015
Comments

• Be cautious but credible instead of unsustainably generous (political will)
  – MT planning is impossible without credibility
• Don’t go for allocative optimality in 2011, put effort more into creating the new system which can correct errors (Sweden in the 90s)
• Use the crises as an opportunity
  – To introduce a fiscal rule (later more difficult)
  – to set up a fiscal council (you will need it)
  – To create future room for spending after the crisis
  – Good idea to postpone program budgeting, but be ready when room is available