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# Under Threat: Rules-Based Fiscal Policy and How to Preserve It

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## Key findings

- Rules-based fiscal policy is facing existential threats
- The usual culprit:
  - the impossible trinity of fiscal rules (simplicity, adaptability and enforceability)
- Solution: Lose enforcement
  - Use FTR
  - Enhance reputational effects through IFIs

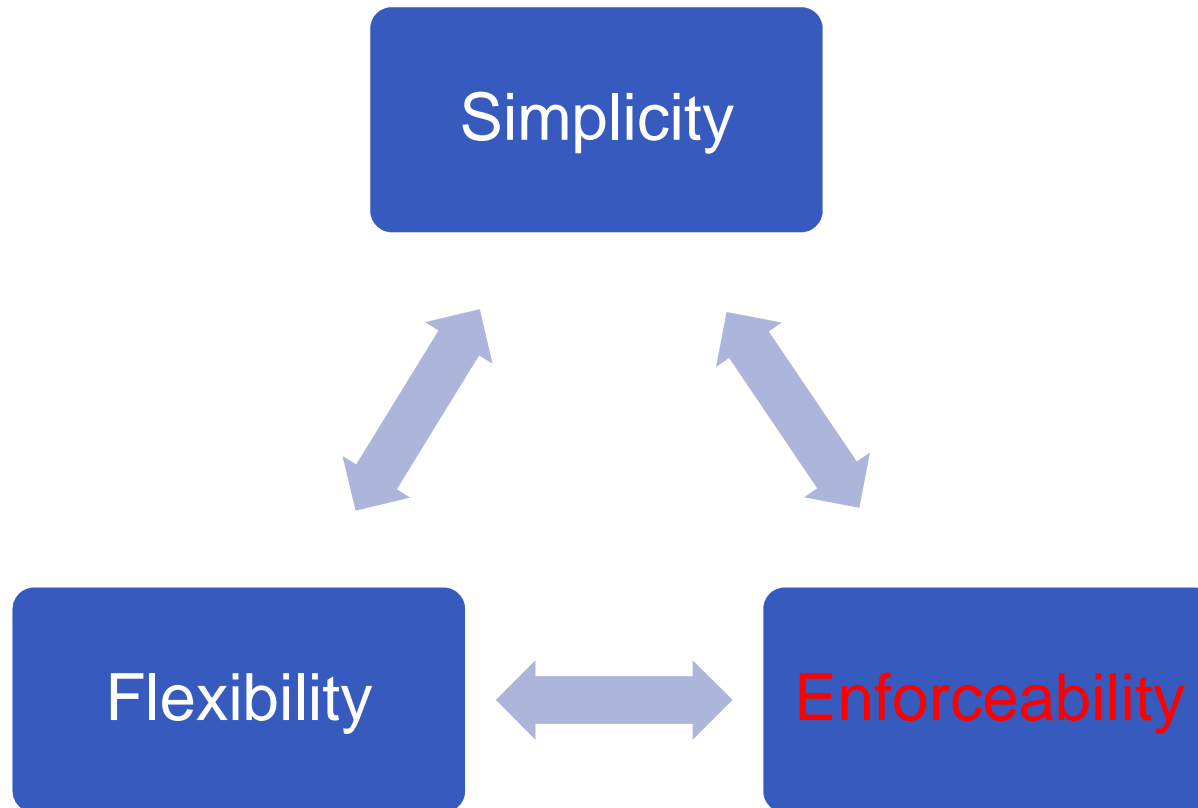
# Track record of fiscal rules

- Performance of EU rules:
  - Deficit: all compliant at the moment; deficits have come down in the EA/EU; deficits lower than in the US and Japan
  - Debt: majority of MSs compliant but divergences large; debt lower than in US or Japan
  - Structural balance: on average looks good but significant differences among MSs
  - Expenditures: expenditure growth has been reduced but unsure whether this can be credited to the rules
- At the same time number of national rules has been increasing

# Role of fiscal rules

- **Main goals (IMF 2018):**
  - Commit policymakers to fiscal sustainability
  - Enhance transparency
  - Signal to financial markets the course of fiscal policy
- **EU framework:**
  - SGP: "safeguarding sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation"
  - Ex ante guidance
  - Ex post checking of compliance

# The impossible trinity of fiscal rules



# Using Fiscal Taylor Rule

- No enforceable numerical rules but an indicative rule
  - Formally guide discretion in the short term
  - Promote debt sustainability in the long term
- Positive:
  - Single rule
  - Anchoring to debt
  - Based on nominal and structural balance
- Questions:
  - Benchmark only, use of output gap, the right degree of stabilisation...

# Enhancing reputational effects by increasing the role of IFIs

- No formal commitment device
  - -> are reputational effects enough?
- Role of IFIs:
  - equal treatment
  - market reactions
  - design of rules vs. ownership
- "MTO a form of FTR"

# Conclusions

Would not give up on fiscal rules yet!





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Thank you!

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