

Workshop on implementation of
expenditure ceilings in Slovakia
February 21st, 2019



Expenditure ceilings: CBR comments

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Agreement on the main features of expenditure ceilings

1. Numerical formulation and link to the fiscal targets
 - ✓ Safe debt level --> medium-term objective --> trajectory set by the government
 - ✓ Binding fixed ceilings for 4 years set at the beginning of government term
 - ✓ Ceilings defined in levels (EUR)
 - ✓ Countercyclical policy (ceilings based on structural revenues)
 - ✓ Discretion in implementation of policies (ceilings adjusted for discretionary revenue measures, ex-post assessed revenue efficiency measures, measures with long-term impact)
 - ✓ Carry-over of a limited amount of expenditures (investments)
2. Coverage by items and sectors and the level of detail
 - ✓ Excluded GG subsectors and/or entities, excluded several expenditure items
3. Tools to absorb uncertainties in the medium-term planning/forecast
 - ✓ Contingency and planning margin (clear rules, independent institution involved)
 - ✓ Escape clauses

- The main fiscal anchor should be the long-term sustainability indicator
 - Basic requirement: improvement in the indicator – meeting the MTO set according to the SGP might not be enough
 - Consistency of the national framework (linking the ceilings with long-term sustainability in line with the intentions of the FRA)
- Need to define a rule preventing setting optimistic targets in 4th year
 - Implementation of the expenditure ceiling in 4th year might be to a large extent in responsibility of a new government (limit set by previous government)
- Assign new tasks requiring independent assessment to institutions
 - If assigned to existing committees (macroeconomic, tax revenue forecasting), increased requirements on members with uncertain impact on quality of outputs
 - Need to change governance rules of the committees (status and leadership of committees, using forecast in budget process)

- Strengthening the role of the CBR would increase credibility of the rule
 - Proposed recommendatory role of the CBR creates a risk of inefficient functioning of the rule (similarly as in the case of the balanced budget rule)
- Expenditure ceilings should be corrected for slippages
 - Exceeding the ceiling in one year should affect the ceilings in the following years (to neutralize the impact on debt)
- CBR would welcome an ambitious schedule of implementation
 - Testing should start as soon as possible and last no longer than 2 years
 - Historical data should be used as well
 - Implementation phase (assessment of the ceilings, drafting the legislation) could also last not more than 2 years

- Extend the independent assessment to all revenues
 - Budgetary risks regularly concentrate in non-tax revenues (dispersed over growing number of items) and changes in committee-approved tax forecasts
- Need to select the approach to estimation of cyclical component
 - MoF uses two approaches depending on the target audience
 - CBR prefers its approach (taking into account estimates of other institutions and using several methods), included also in the long-term sustainability assessment
- Special attention should be devoted to measures affecting public finances beyond the horizon of expenditure ceilings
 - Assessed by an independent authority, asymmetric approach (cautious approach concerning measures improving structural primary balance)

- Need to select the approach to identification of one-offs
- Modify the currently used simplified approach to estimate the impact of tax revenue efficiency measures
- Size of the contingency reserve should be based on rigorous analysis
 - Taking into account economic development in Slovakia and sensitivity of public expenditure to economic shocks
- Escape clauses during extraordinary events should afterwards allow to align expenditure limits with new revenue levels
- Changes in sector classification should not be automatically translated into the limit
 - There is a need to examine the reasons for change in classification, as it might be a consequence of government policy

- Need to fine-tune the scope of the ceilings
 - Expenditures under the control of the government which have no impact on the GG balance should be excluded (healthcare contributions paid by the state on behalf of certain groups)
 - Carryover of expenditures should be treated symmetrically (postponing investments should increase limits in next years, but decrease in current year)
- Full comparability of budgeted and reported data should be achieved
 - Need to budget some previously unbudgeted entities and transactions (smaller central government entities, entrepreneurial revenues of universities, FISIM)
 - Unifying bridge tables (from budgetary classification into ESA2010) between the budget and financial reports
 - Changes in budgetary classification to identify transactions excluded from the ceiling and better define EU funds



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