

Intergovernmental Fiscal Outlook

19th Annual Meeting of the Network of Fiscal
Relations across Levels of Government

20-21 April 2023

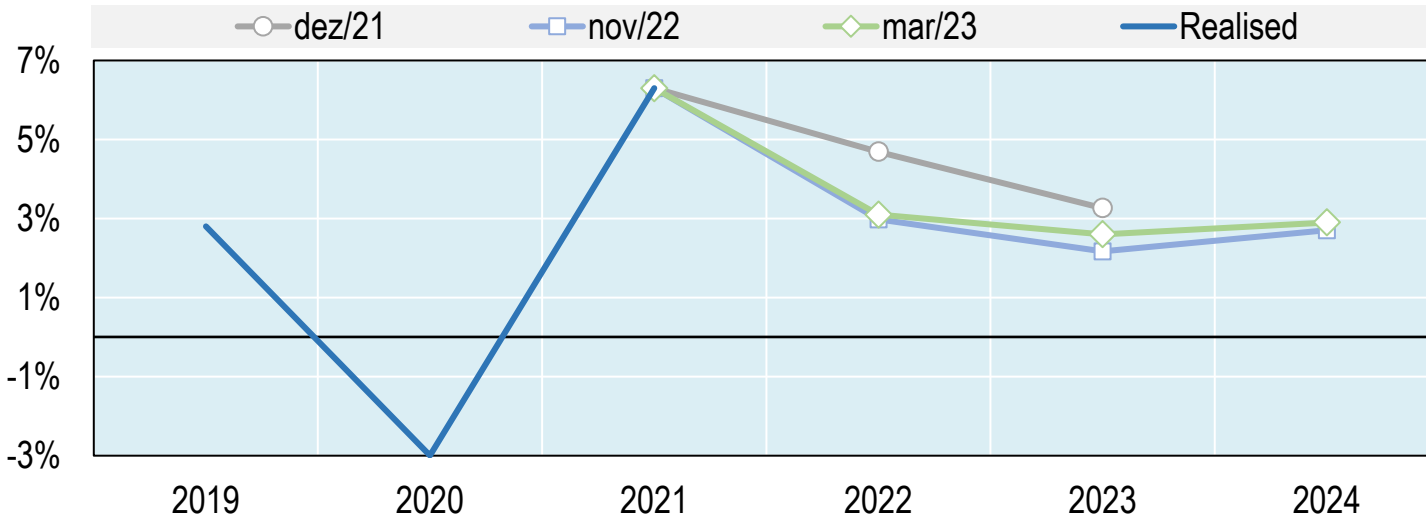
*Sean Dougherty, Head of Secretariat,
OECD Network on Fiscal Relations*





The economic outlook has slightly improved but remains fragile

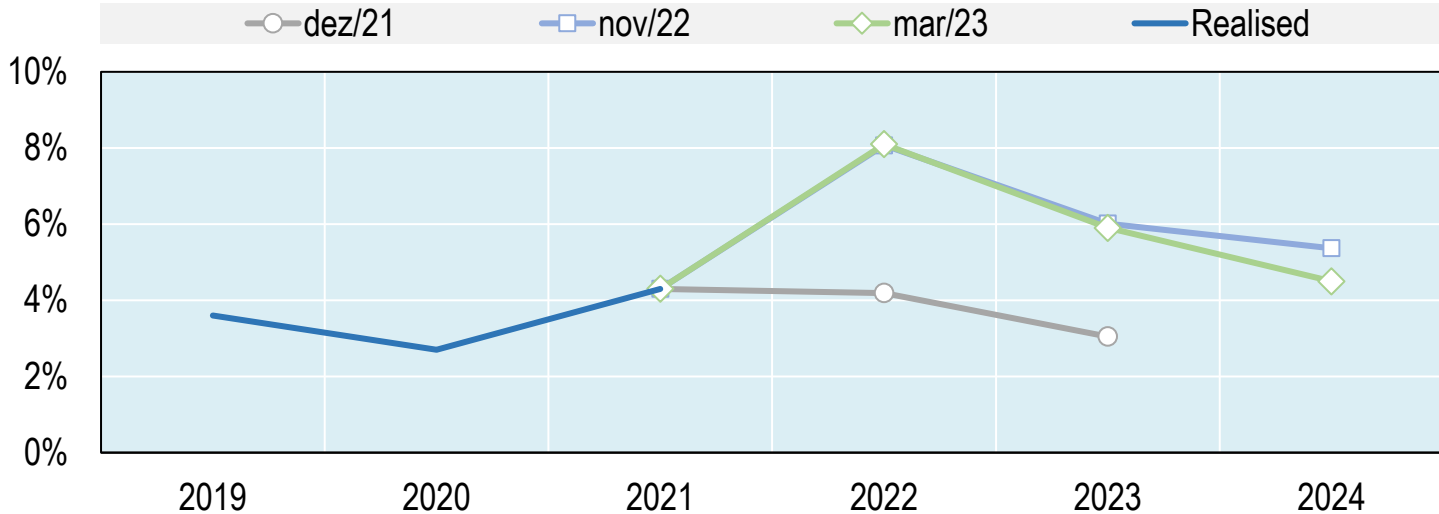
GDP growth outlook



Output growth prospects for 2023 | 2024 in:

- December 2021: 3.3%
- November 2022: 2.2% | 2.7%
- March 2023: 2.6% | 2.9%

Inflation outlook



Inflation prospects for 2023 | 2024 in:

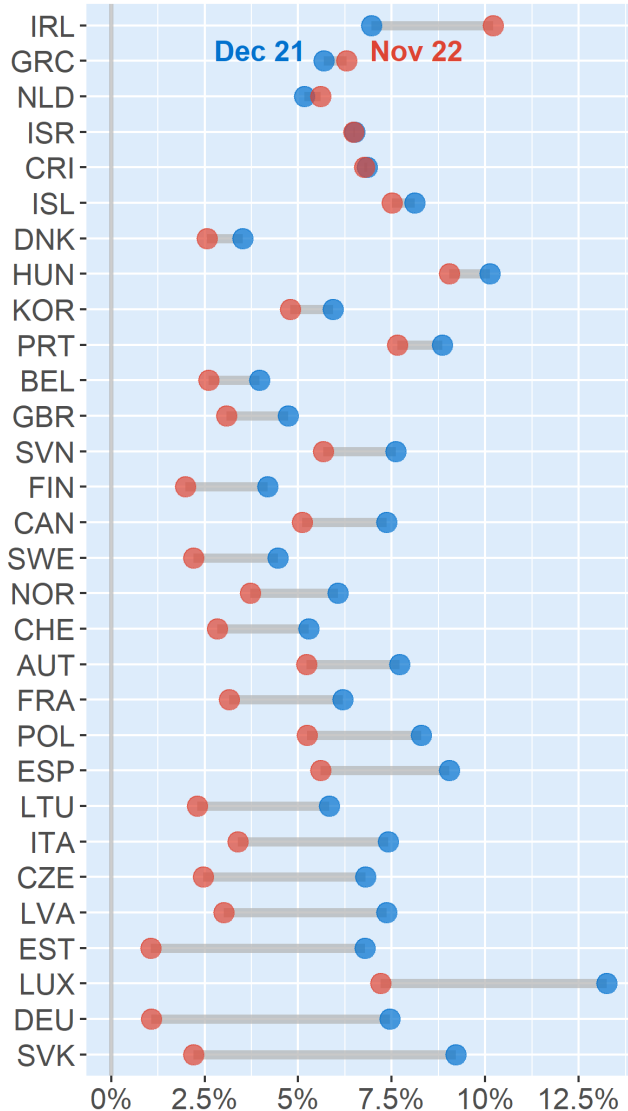
- December 2021: 3.0%
- November 2022: 6.0% | 5.4%
- March 2023: 5.9% | 4.5%

Sources: OECD Economic Outlook of n° 110 (December 2021), n°111 (June 2022), n°112 (November 2022) and Interim Report March 2023

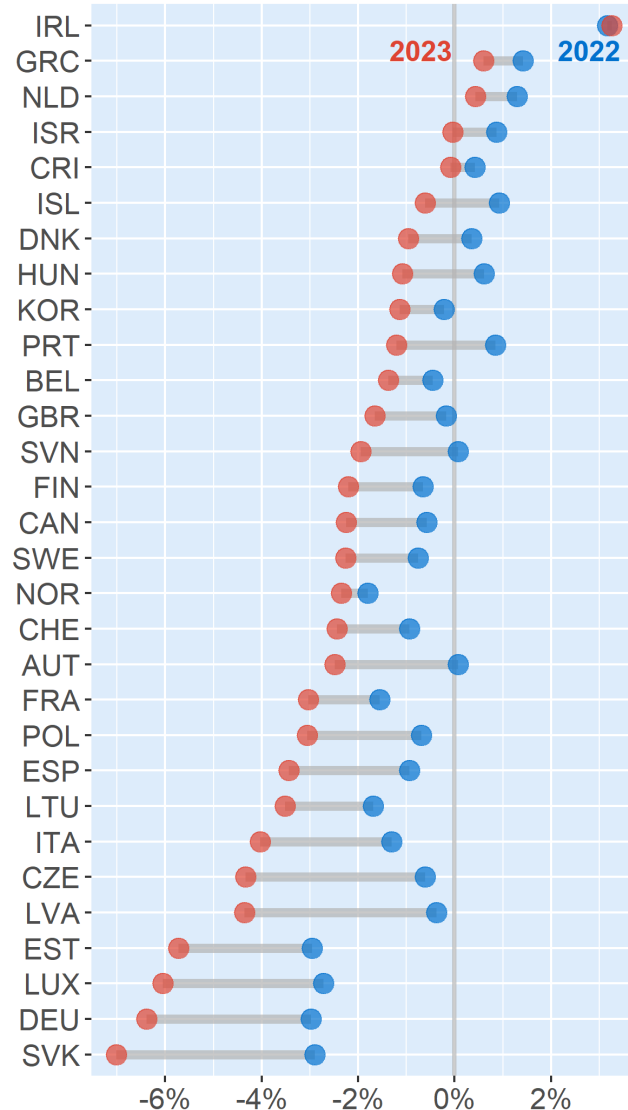


SNGs' revenue outlook worsened significantly for both 2022 and 2023

Future own revenues by forecast date vs. 2021



Change in forecasted revenues for 2022 and 2023 vs. 2021



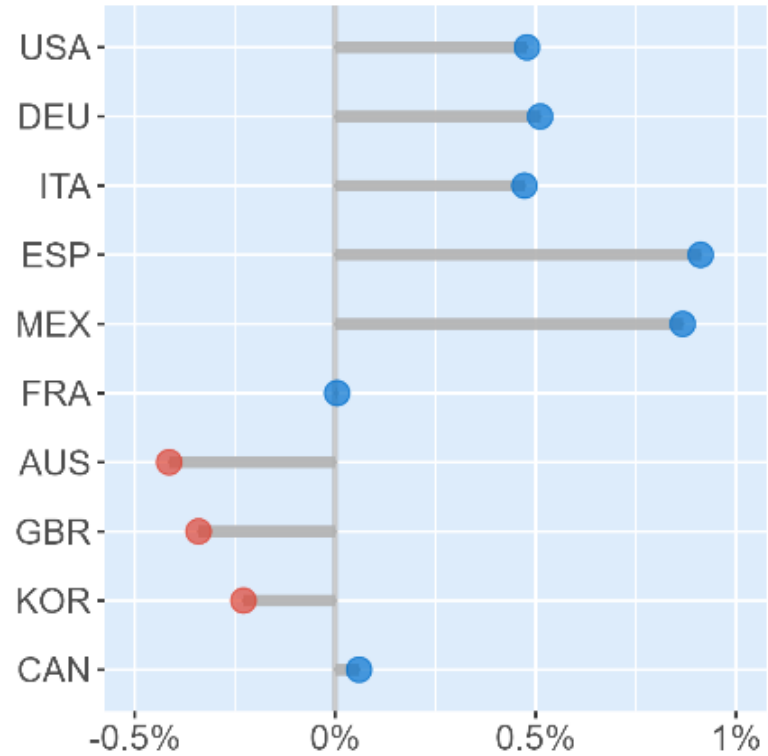
- *Projected SNGs' revenues fell, on average, by 2.4 percentage points, over 12 months*
...using the Fiscal Network's buoyancy framework, along with OECD Economic Outlook GDP projections
- *For 2022, in 2/3s of countries, SNGs' revenues are expected to weaken in comparison to the one year earlier forecast*
- *The outlook for 2023 SNGs' revenues has dramatically worsened, for 27 out of 30 countries.*
- *The extent of the projected decrease can reach up to 6 percentage points (e.g., Slovakia, Germany and Luxembourg)*

Sources: Authors calculations based on OECD Economic Outlook of n° 110 and 112, OECD System of National Accounts and OECD Fiscal Decentralisation Database.

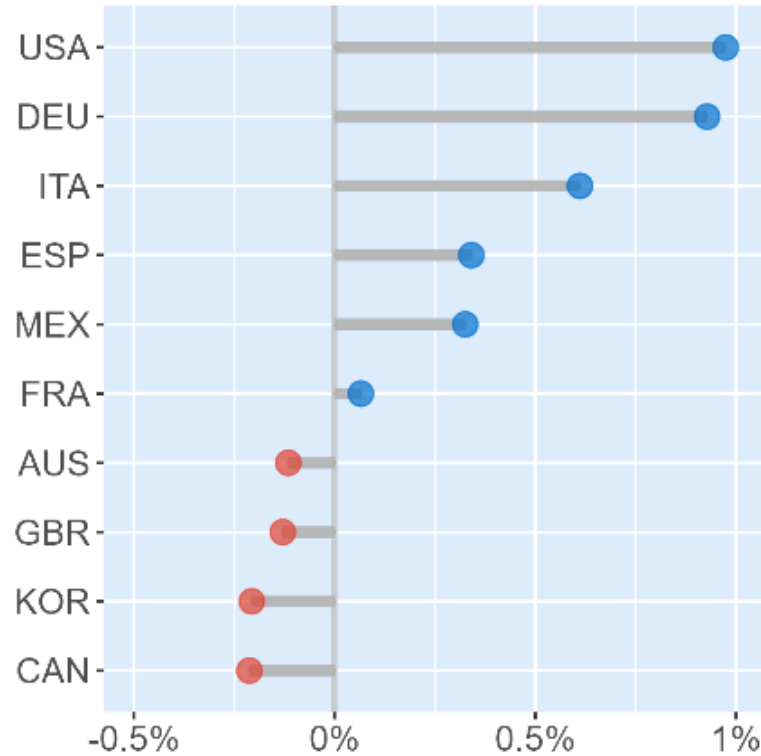


SNGs own-revenue growth in real terms was revised

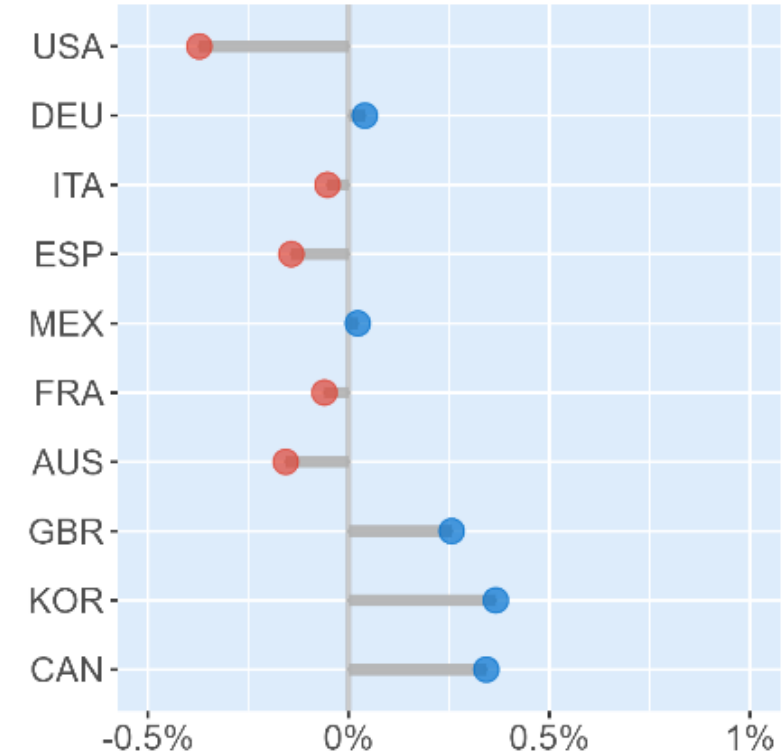
Changes for 2022 estimations



Changes for 2023 forecasts



Changes for 2024 forecasts



- Improved in 5 countries for 2022
- Remained roughly stable in 2 countries
- Worsened in 3 countries

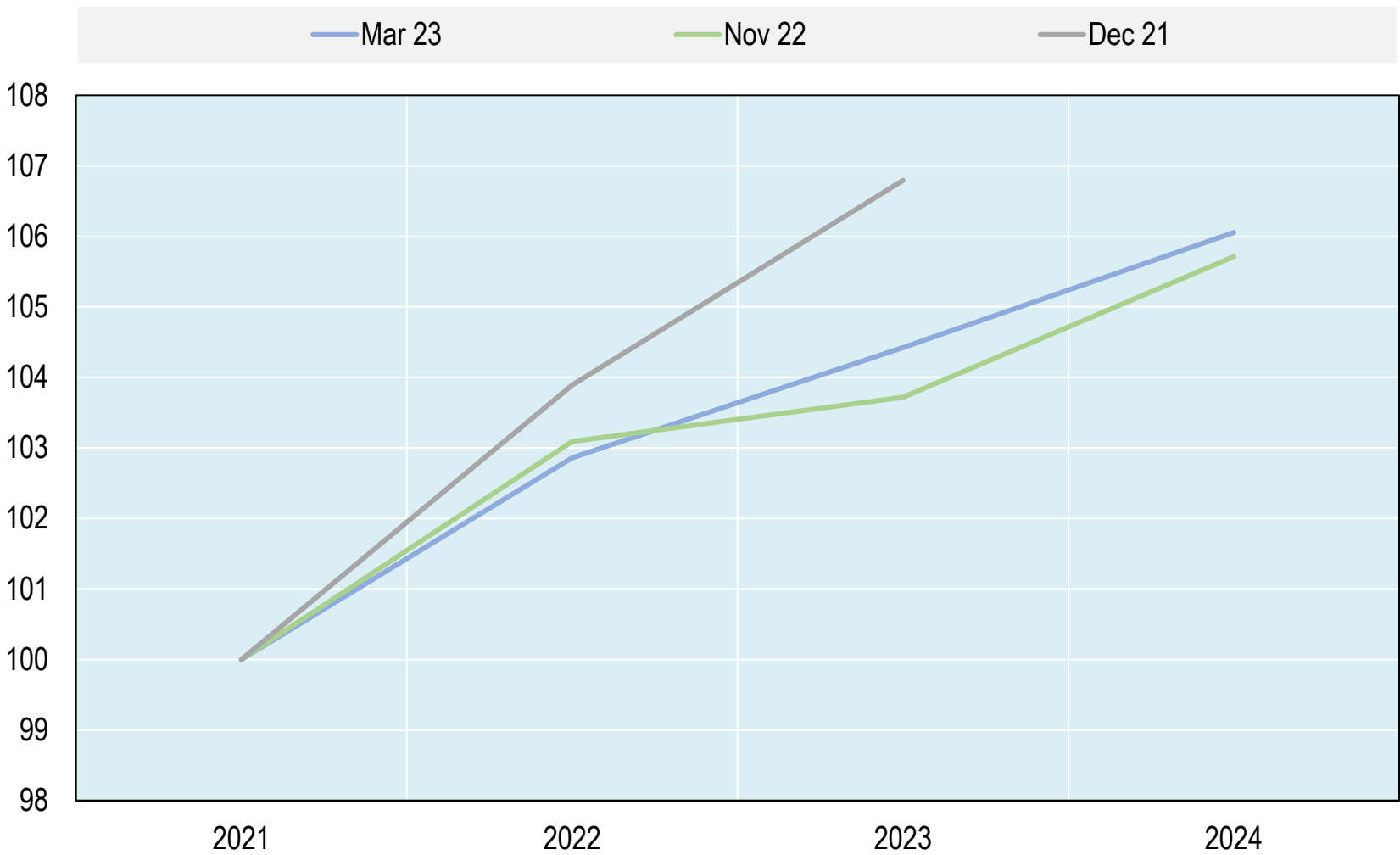
- Improved in 5 countries for 2023
- Remained roughly stable in FRA
- Worsened in 4 countries

- Improved in 3 countries for 2024
- Remained roughly stable in 4 countries
- Worsened in 3 countries



The situation remains much worse than what was expected at the end of 2021

*The median trajectory of SNGs' revenues expected at current and previous outlooks
(base 100 in 2021)*



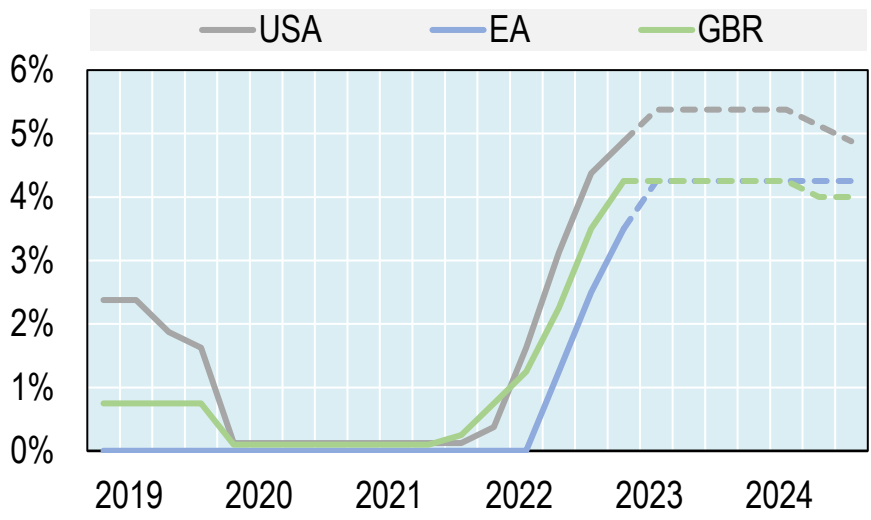
- Compared to the estimates made in November 2022, there was a slight improvement
- Compared to estimates made in December 2021, median forecasted SNGs' revenues are almost 3% below those former estimates.

Sources: Authors' calculations based on OECD Economic Outlook of n° 112 (November 2022), OECD Economic Outlook – Interim Report (March 2023), OECD System of National Accounts and OECD Fiscal Decentralisation Database.



Policy rates are expected to be maintained or tighten further in the short-term

Policy Interest rates in selected AEs



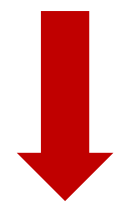
Compared to the end of 2022:

- Short and medium-term rates rose
- Long-term rates fell

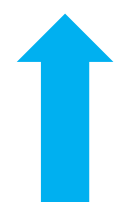
Implications to SNGs' finances vary:

- SNGs with the following might suffer a slight deterioration
 - Higher debt, financing and liquidity needs
 - Low access to long-term funding
 - High share of floating rates' debt
- SNGs with the following might experience an improvement
 - Liquidity cushions (e.g. from COVID-19)
 - High access to fixed rate long-term funding
 - Low share of floating rate debt

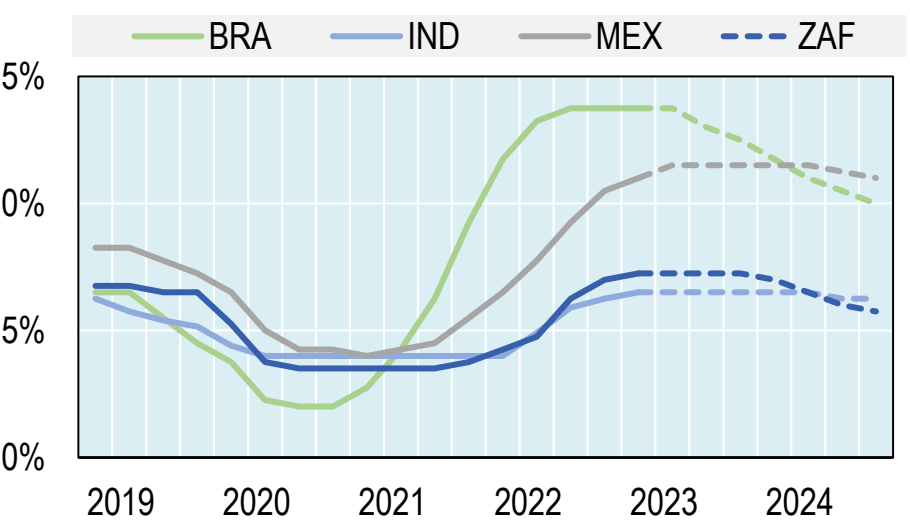
Deterioration



Improvement



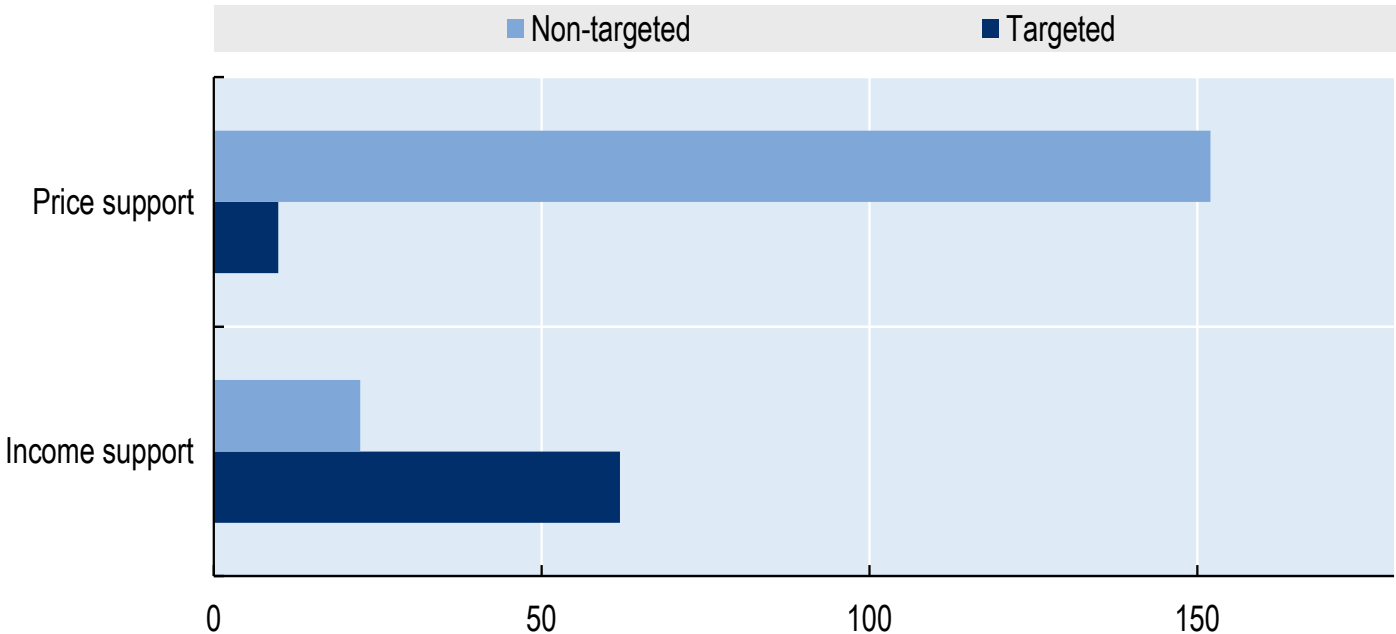
Policy Interest rates in selected EMEs





Short-term expenditure pressures remain with measures to mitigate the impact of inflation

Number of fiscal measures undertaken by OECD and partner countries



Fiscal measures have been poorly targeted

- 66% of the measures were classed as price support and 94% of these measures were non-targeted
- 34% of the total value of the relief packages comes from income support measures, of which 73% have been targeted
- These untargeted measures tend to thus have a substantial fiscal cost

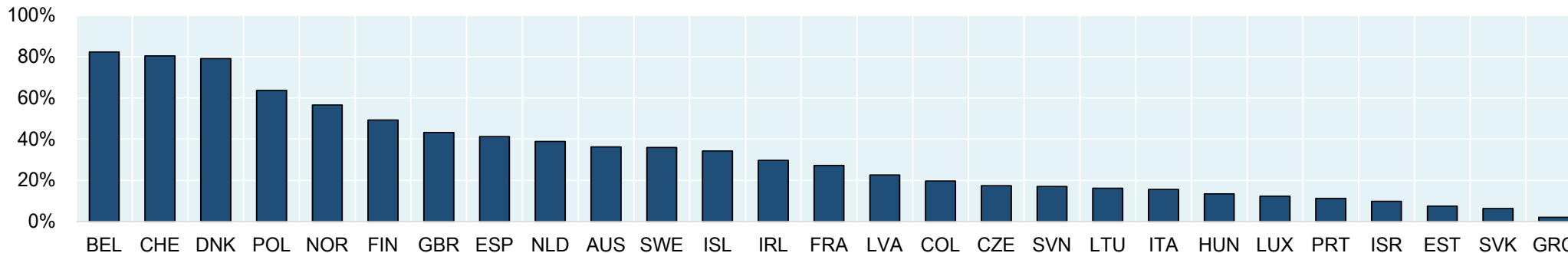
Source: OECD. (2022g). *Paying the price of war*. In *OECD Economic Outlook, Interim Report September 2022: Paying the Price of War (Issue September)*. OECD Publishing. <https://doi.org/https://doi.org/10.1787/ae8c39ec-en>.



In the medium term, SNGs might suffer increasingly high expenditure pressures due to the energy/climate transition and migration

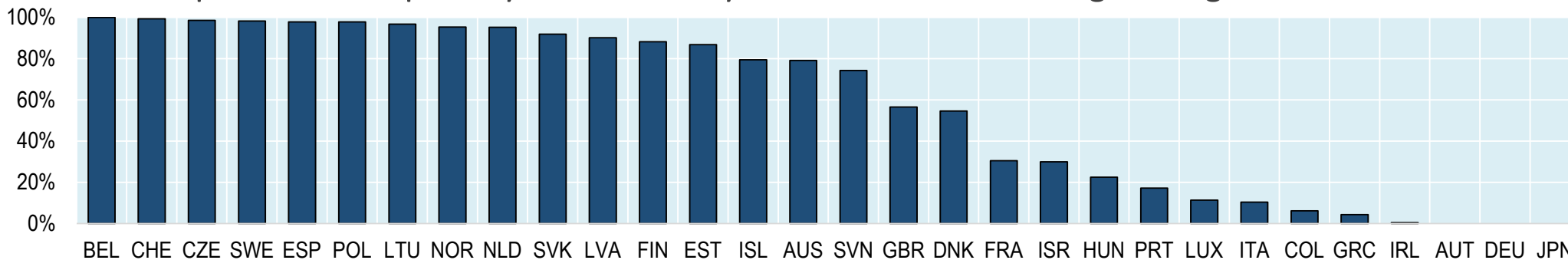
SNGs shares of the costs of integrating refugees

1) social protection for socially excluded people and family and children, 2) policy services and 3) housing as a share of general governments' (unconsolidated)



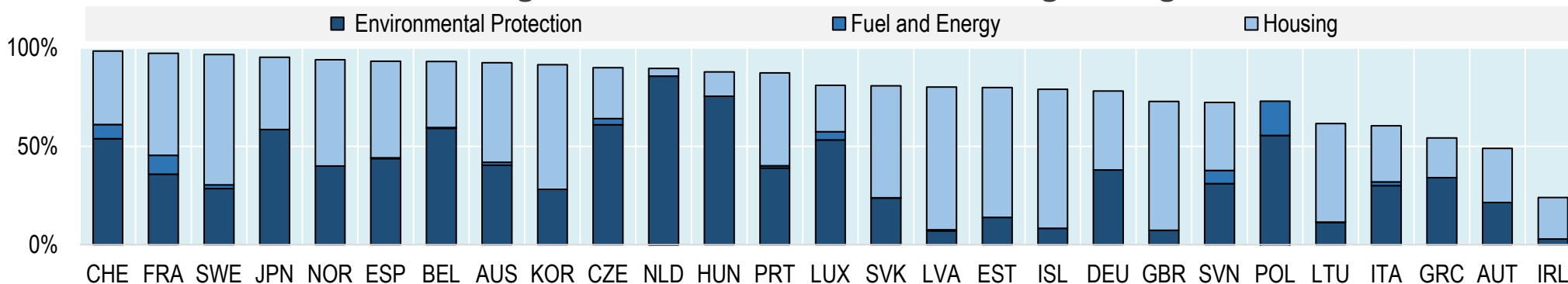
- Initial costs for integrating nearly 8M war refugees have been managed with EU aid but medium-term costs might impact SNGs' budgets

SNGs expenditures on primary and secondary education as a share of general governments' (consolidated)



- Energy transition became a more prominent objective due to the vulnerabilities of current energy systems

SNGs investments' on selected government functions as a share of general governments' (unconsolidated)



» Items for discussion

- How consistent are your country-specific forecasts with the Network's?
- Can untargeted support measures be unwound soon and transitioned to more efficient targeted policies?
- What are the best strategies for putting fiscal rules back into action?
- Are there any plans for revising monitoring and enforcement mechanisms?
- Are there pending changes to equalisation systems or ones already in motion?
- Have proposals for pursuing relevant structural reforms been made?

