

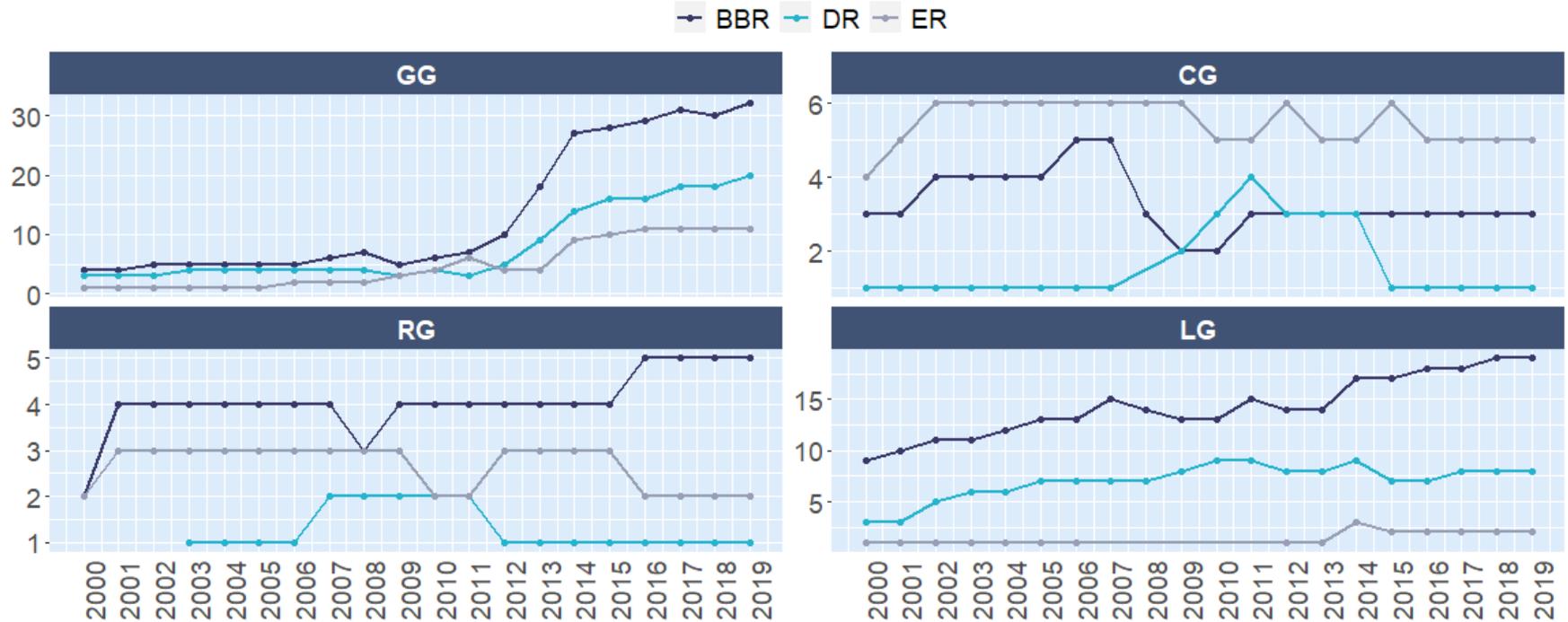
TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

SUBNATIONAL FISCAL RULES BEFORE AND AFTER THE COVID-19 CRISIS

21 April 2022 – OECD Network of Fiscal Relations across Levels of Government

The GFC has prompted substantial changes to FR frameworks

Number of fiscal rules in place across levels of government



Note 1: DR, BBR and ER refer to debt rules/borrowing constraints, budget balance objectives and expenditure rules, respectively. GG, CG, RG and LG refer to the general, central, regional and local level of government, respectively.

Source: De Biase (forthcoming)

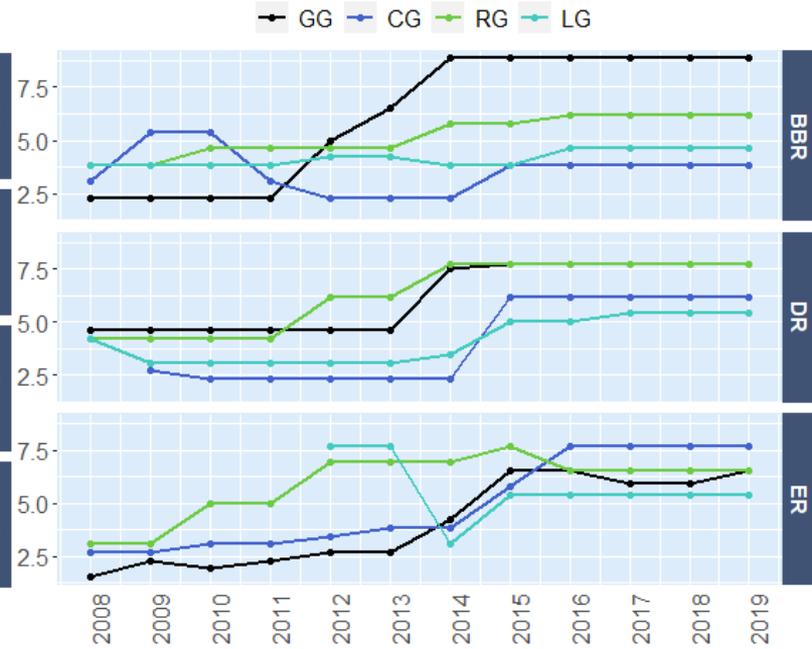
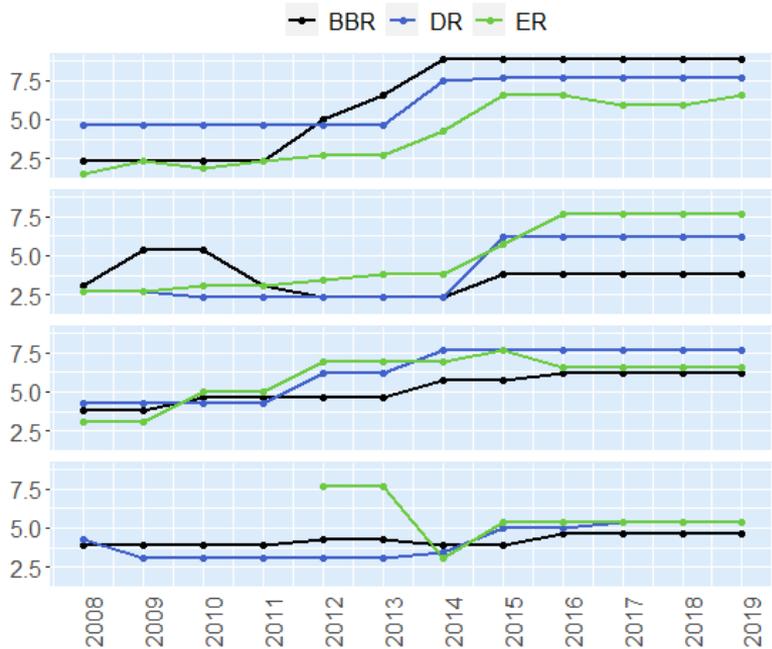


The GFC has prompted substantial changes do FR frameworks

Evolution of the median of the Fiscal Rules Strength Index (FRI)

A. Fiscal Rule type VS Level of government

B. Level of government VS Fiscal Rule type



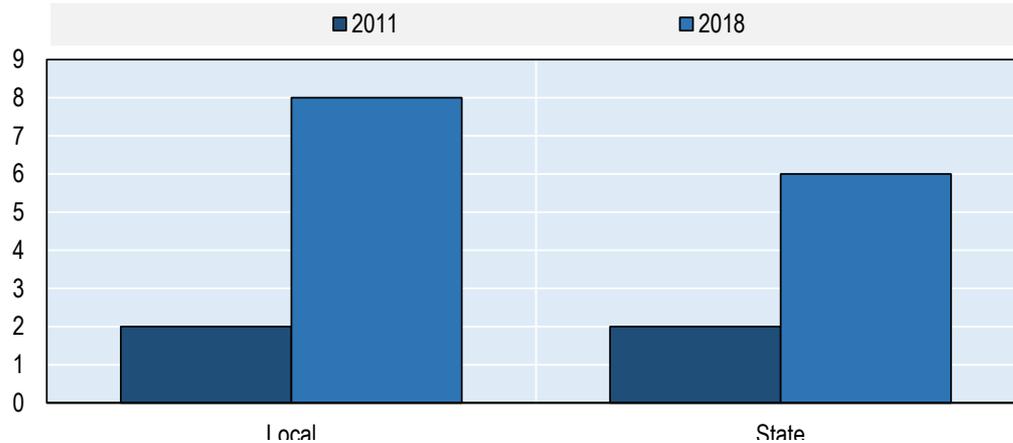
FRI Dimensions

- FR's Legal base
- Nature of the body monitoring:
 - 1) correction mechanism
 - and 2) deviation from the rule
- Correction mechanism in place
- Resilience to shock

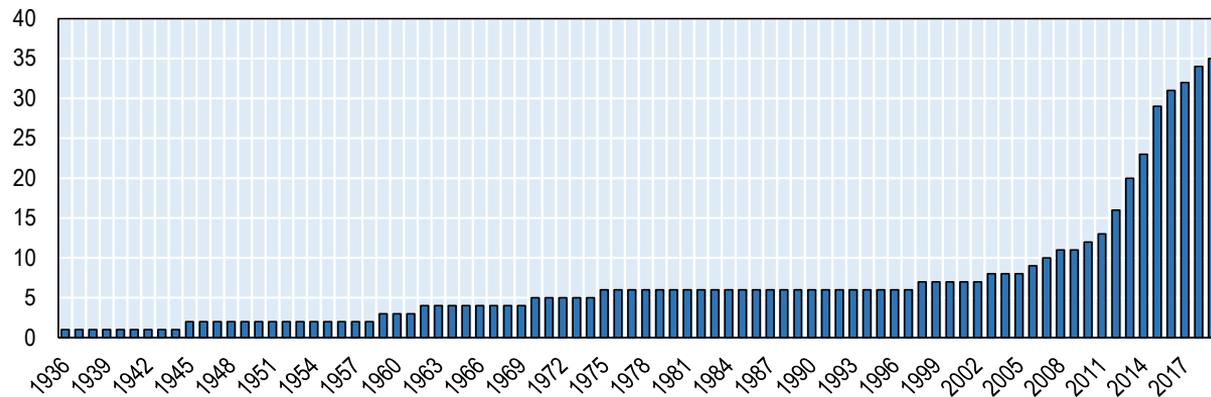
Source: De Biase (forthcoming)



The GFC has prompted substantial changes do FR frameworks



Number of OECD countries that reported having escape clauses in their subnational fiscal rules' framework



Number of IFI in place across OECD and partner countries

Source: De Biase (forthcoming)



Empirical analysis: impact of FR on three six indicators

Goal	Indicator	BBR	DR	ER
Fiscal Sustainability	Fiscal balance to revenue ratio	+	-*	+
	Debt to revenue ratio	-	+	+
Budget composition	Investment to total expenditure ratio	-	+	-
Pro-cyclicality of fiscal policy	Elasticity of FB to output gap	-	+	-
	Elasticity of FB to GDP	-	-	+
	Elasticity of expenditure to GDP	-*	+	-

Source: De Biase (forthcoming)



What we can conclude for the future of fiscal rules by looking at their past?

Countries adapt/tune their FR framework to the present socioeconomic environment

The implications of the COVID-19 crisis for fiscal policy are substantial

- Health systems reforms
- Digitalisation of the economy and had asymmetric impacts across sectors, regions and income brackets

In addition to these, even before the crisis there were a couple of persistent trends in policymaking that were already exerting pressures on fiscal policy in various ways

- Accommodative monetary policy in place since the GFC, with small interest rates and increased role for fiscal policy to achieve economic stabilisation
- A reduction in long-run GDP and productivity growth in OECD countries, which became evident after the GFC
- Climate change



What can countries do to reform SNGs FR framework?

Challenges:

- 1) calibrating fiscal rules to scenarios with low interest rates, low output growth and population ageing,
- 2) calibrating fiscal rules to deal with increasingly higher regional inequality and
- 3) making fiscal rules compatible with policies aimed at tackling climate change and future health crises.

Example of options:

1. Targeting debt services instead of debt ceilings/ debt to revenue or GDP ratios
2. Keeping different targets across jurisdictions or level fiscal capacity through equalisation
3. Combined expenditure rules (if possible) or rainy day funds with other types of rules to allow counter-cyclical policymaking
4. SNGs' fiscal rules institutional elements can catch up with those enforced at upper levels of government.

Conclusion:

The choice of a fiscal rule should ideally take into account: the technical design based on the expected effects of fiscal rules, institutional elements adequate to maximise compliance and effectiveness, and be aligned with policymakers' objectives as, ultimately, fiscal rules are a political choice and require political commitment.



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Thank you

For more information

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