Fiscal Rules in an EU-candidate country

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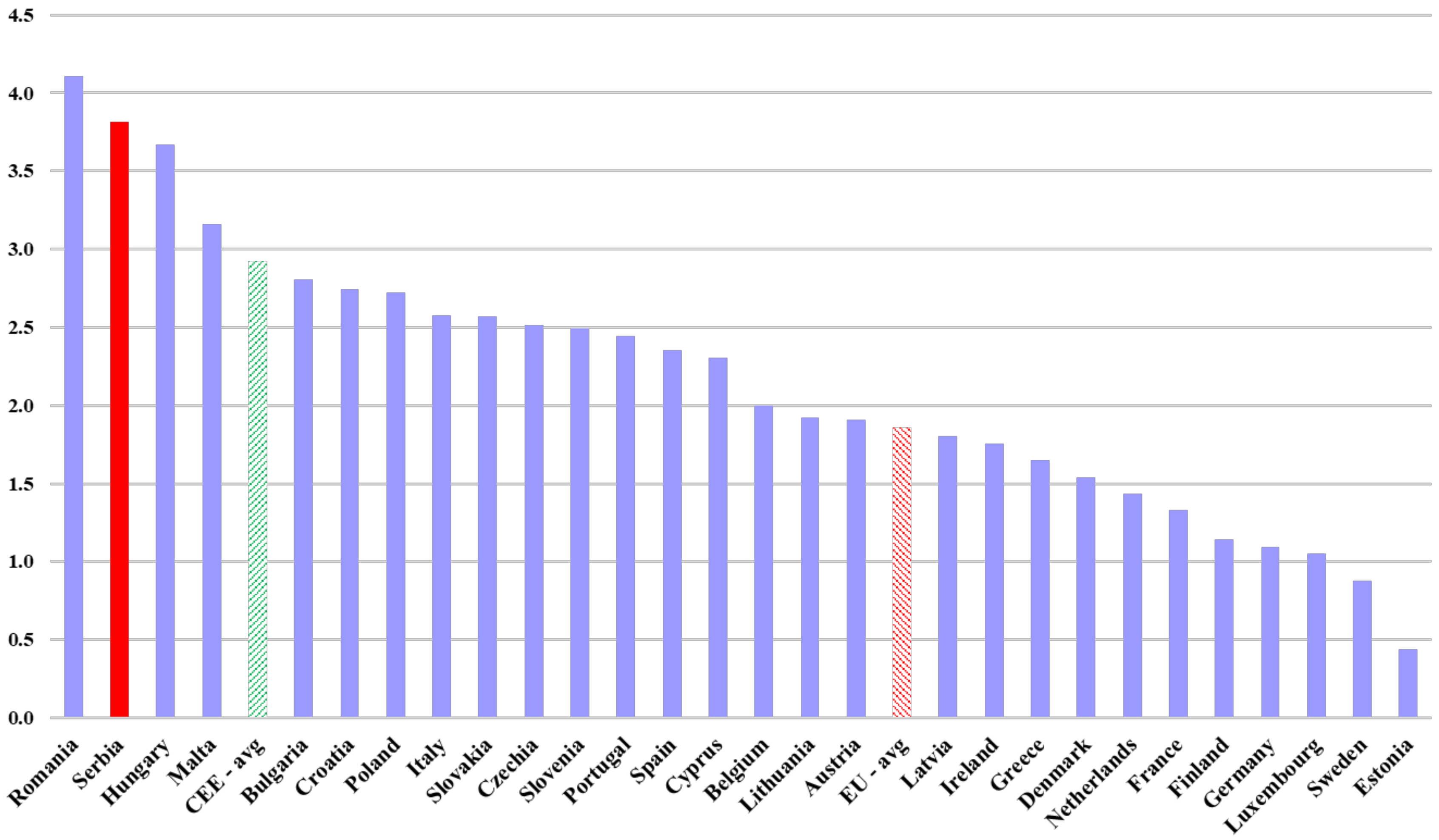
Implicit interest rates - 2020



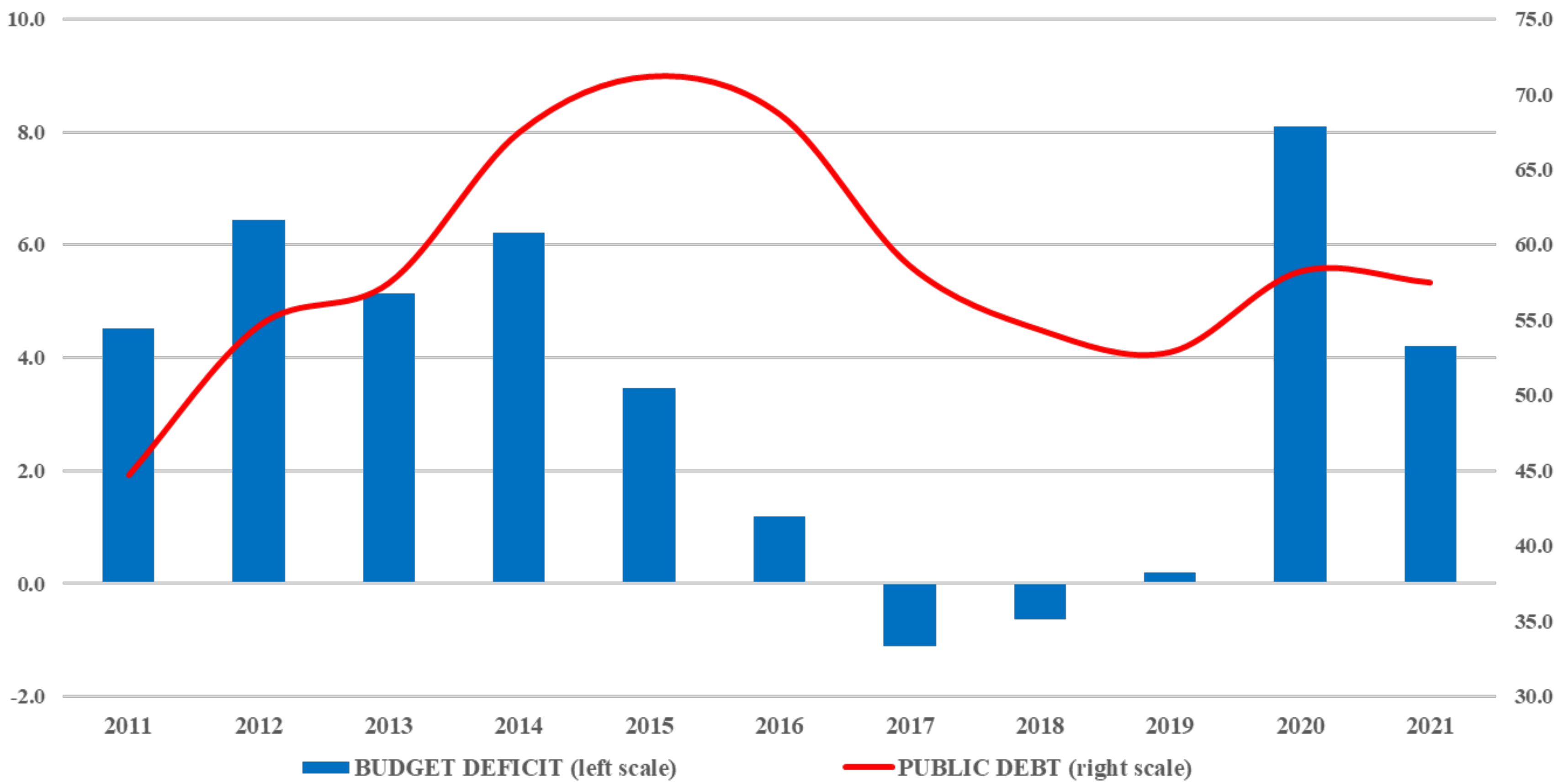
Serbian Fiscal Rules - 2010

- Debt Limit of 45% of GDP (excl. restitution bonds)
  - Lower than EU limit due to lower fiscal credibility
- Deficit target of 1% over the business cycle
  - Augmented growth deficit rule – simplified structural deficit
- Expenditure limits for pensions & wages
  - 11% and 8.5% of GDP, to control major expenditure items
- Fiscal rules apply to the general gov’t
  - Golden rule for local gov’t remains in force
- Escape clauses for national emergencies
  - Activated in 2020 due to Covid crisis

Serbian Fiscal Council - 2011

- Independent Parliamentary Institution
  - Observes fulfillment of fiscal rules
- The goal is to improve fiscal culture in a country
  - FC likely to be more important than FR in early stages
- Domestic ownership is crucial
  - IMF / EC support most welcome
- Small institution focused on major deficiencies, simple models, simple messages, transparency
- Name & shame approach, educating broad public
  - Changing political incentives in non-political manner

Deficit & Debt Dynamics



Amending Fiscal Rules - 2022

- Process initiated before Covid crisis
  - To reinforce existing rules and make them more binding
- Progressive debt limits
  - 45% debt limit with 1% deficit target – Existing rule
  - 55% debt limit with 0.5% deficit target
  - 60% debt limit with balanced budget requirement
- Simplifying the augmented deficit formula
  - $D_t = D_{t-1} – 0.3 * (D_{t-1} – D^*) – 0.4 (g_t – g^*)$
  - Introducing mandatory semi-annual deficit assessment
- Reinforcing the name & shame approach
  - Finance Minister held responsible when FR breached