Fiscal Rules – Quo Vadis?

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Promote economic recovery as fiscal constraints intensify

Advanced Economies (percent)

Emerging Markets and Middle-Income Economies (percent)

Sources: IMF, World Economic Outlook database.
Path to the future – *flexibility versus credibility*

Swift return to fiscal rules could be disruptive

- High uncertainty around the pandemic; economic recovery
- Premature withdrawing of support measures

A medium-term transition path contingent on economic developments

- Path depends on degree of scarring, debt levels, borrowing costs
- If *credible*, it can anchor expectations and increase fiscal space now to respond to crisis
- *Agile, flexible* policies: contingent on state of economy (labor market; output gap?)

Role of fiscal councils
Revising fiscal anchors and rules?

Large shock
- Anchor may no longer be credible; re-calibrate targets
- Global environment (e.g., low interest rates)

Fiscal risks and fiscal rules
- Mechanisms to manage shocks (buffers)
- Large scale and diversity of risks (loans, guarantees, equity positions in firms; other contingent liabilities)
- How to better incorporate in fiscal rules?