Serbian Fiscal Council & Fiscal Rules
- Lessons from the first decade -

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Ideas behind Fiscal Rules & Fiscal Council in Serbia

- Local initiative from Minister of Finance in 2009 to counter strong political deficit-bias and improve fiscal culture in Serbia
  - Gained support from the IMF, not so much from politicians

- Initial dilemmas:
  - Expenditure Rule vs. Deficit Rule
  - Central vs. General Gov’t Rule
  - Appropriate level of Public Debt limit
  - Temporary adjustment period or not
  - Is Fiscal Council really needed

2010 Fiscal Responsibility Provisions

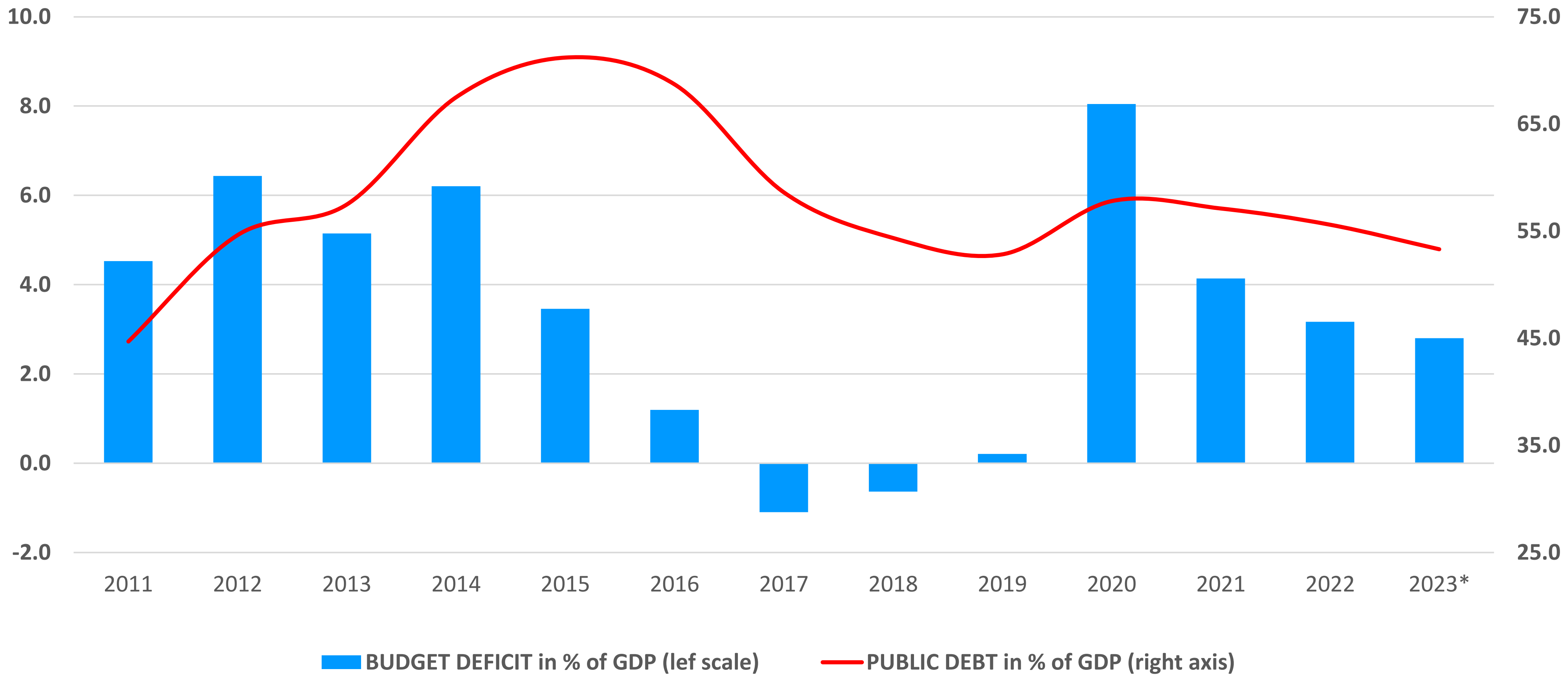
- **Public debt limit** of 45% of GDP (eff. 50% with restitution bonds)
- **Augmented deficit target** of 1% of GDP over medium-term
  - To avoid technical difficulties with structural deficit target
  - $D_t = D_{t-1} – 0.3 * (D_{t-1} – D^*) – 0.4 (g_t – g^*)$
- Two important **additional expenditure rules**
  - Public pension spending limit of 10% of GDP
  - Public wages limit of 9.5% of GDP

- Escape clause for national emergencies (activated during Covid)
- Pre-existing “Golden rule” for local governments was maintained
- Rule for “incentivizing” capital spending above 4% of GDP (abandoned)

Fiscal Council established in 2011

- Three members nominated by President, Minister of Finance, Governor
  - 6-year mandate with possibility of renewal
  - Small support staff: 5-6 economists, 3 administrative workers
- Main Fiscal Council tasks:
  - Observing fulfillment of fiscal rules
  - Assessing annual Budget Law, 3-year Fiscal Strategy
  - Assessing other laws with significant fiscal impact (taxes, pension, etc)
- Initial public reception was negative due to absence of executive powers
  - Comply or Explain principle, Name & Shame approach
- FC gained prominence & credibility after budget deficit “exploded” in 2012 and significant fiscal consolidated became necessary
  - First ever nominal cut in pensions & wages in former Yugoslavia

Deficit & Debt Dynamics



Lessons learned

- Do not confront technocracy to democracy
  - Increase political cost of fiscal imprudence
  - Simple macro-fiscal models, peer comparisons
  - Positive economic analysis

- Communication strategy is important
  - Focus on relevant fiscal issues in a non-partisan manner

- Domestic ownership is crucial
  - IMF and EC (DG EcFin) provided vital institutional support

- WB was part of the problem, NOT solution
  - WB institutional adversary to FC, undermined crucial reforms

2022 Updated Fiscal Rules

- To reinforce existing rules and make them more binding
  - Augmented deficit approach proved too complex and was abandoned
- Progressive debt limits with decreasing deficits
  - 3% deficit limit when debt is < 45% of GDP
  - 1.5 % deficit limit when debt is <55% of GDP
  - 0.5% deficit limit when debt is <60% of GDP
  - Balanced budget when debt is >60% of GDP
- Expenditure limits for pensions & wages at 10% of GDP maintained
- Penalties for non-compliance missing
- FCs more important than FRs in early years