



Overview of the CBR's Toolkit

Ludovít Ódor

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Motivation (1)

Q: How many Keynesian economists does it takes to change a light bulb?

A: All. Because then you will generate employment, more consumption, dislocating the aggregate demand to the right.



Q: How many Chicago School economists does it take to change a light bulb?

A: None. If the light bulb needed changing the market would have already done it.

Motivation (2)

- Basic principle: minimal analytical toolkit for filtering out populism and creative accounting (CAPE)
- Human resource constraint: 10-15 analysts
- Time dimension: short-, medium- and long-term
- Topics: macro, budget, debt, sustainability

CBR in the Constitutional Act

- Four main tasks of the Council
 - evaluating the fulfillment of the fiscal responsibility rules and transparency rules
 - reporting on long-term sustainability
 - assessment of legislative proposals (voluntary)
 - monitoring and evaluation of meeting budget's targets

Other Important Legislation

- Act on Budgetary Rules
- 6Pack (directive on national fiscal frameworks)
- 2Pack (endorsing or producing macro forecasts)
- Fiscal Compact („comply or explain“ principle, escape clauses, sanction mechanisms)

Macroeconomic Forecasts and Analysis

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- Short- and medium-term:
 - Standard ECM macro model (forecasting)
 - DSGE model (scenarios, simulations)
 - Fiscal multipliers (additional models, VARs)
- Long-term:
 - Convergence models (Solow-type)
 - Simple supply-side model (for micro-macro interactions)
 - Overlapping generations models?
- Output gap
 - “estimate combination“

Budgetary Analysis (1)

- **Monitoring:**
 - Tax models (forecasting, distributional impacts, individual data)
 - Structural budget balances (fiscal compact)
 - Balance sheet (debt, net worth)
- **Impact assessment:**
 - Euromod (static)
 - Behavioural microsimulations linked to a macro model

Budgetary Analysis (2)

- Risk assessment
 - Leading indicator (budgetary „now-casting“)
 - Fiscal limit/space
 - Contingent liabilities
 - Simple sectoral analysis (healthcare, transfers, etc.)
 - Municipalities
 - Public companies
 - EU funds
 - Stock-flow adjustments (from deficit to change in net worth)
 - UMOD, URSIM

Long-Term Sustainability

- **Demography and labour market:**
 - Simple demography (for simulation purposes)
 - Cohort simulation approach (labour market trends)
- **Sectoral:**
 - Pensions: SLOPEM, PESO (armed forces)
 - Healthcare: LTHM (based on individual data)
- **Distributional impacts**
 - Generational accounting
 - Cohort level tax-benefit simulations
- **Indicators**
 - Fiscal gaps, cost of delay, sensitivity analysis, etc.



Council for Budget
Responsibility

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Thank you for Your attention!