Counter-cyclical fiscal rule is the balance between fiscal discipline and stimulation of the economy

On instruction of the Head of State K.K. Tokayev announced in the Address to the People of Kazakhstan, the Government, together with the National Bank, is developing 2030 Concept for Public Finance Management.
Olzhas Kubenbaev, Director of NBK Financial Stability and Research Department, spoke about how the new fiscal rule will help reduce withdrawals from the National Fund and discipline the public spending system.

– **What is the fiscal rule of Kazakhstan?**

– The fiscal rule focuses to reduce dependence of the public finance on the oil cycle and has two elements.

The *first* provides for establishing the limit for guaranteed transfer from the National Fund at a level not exceeding an amount of receipts to the National Fund from the oil sector at a cut-off price (estimated oil price) that ensures a sufficient level of conservatism.

The *second* sets a direct cap on the growth rate of government spending at the level of long-term economic growth adjusted for the long-term inflation target. This, in addition to improvement of fiscal discipline, will allow to improve a level of coordination between monetary and fiscal policies.

Full implementation of the counter-cyclical fiscal rule will isolate government spending from oil price volatility and increase the predictability of fiscal policy. Setting the cut-off price as a reference price for budgeting will increase resilience of the pursued budget policy to the oil cycle as well as smooth out impact of short-term shocks.

– **When is it planned to apply the fiscal rule?**

– Application of the fiscal rule is planned for 2022 for formation of the budget for 2023–2025 fiscal years and beyond and subsequent years.

It is important to understand that in the long term, a sufficient level of conservatism will ensure safety and accumulation of funds in the National Fund, which will allow to maintain sustainable economic growth even after oil reserves deplete.

– **In addition to improving fiscal discipline through introduction of the fiscal rule what issues are still urgent and important?**

In my opinion, the issue that needs to be addressed is debt sustainability of the state. The global practice demonstrates that debt sustainability becomes agenda often post

factum, after risks have occurred and it has become necessary to take response measures.
In this connection, it is advisable to carry out analysis and monitoring of potential risks on an on-going basis, at the planning level, when there is still some margin of safety. An important element of risk analysis is conduct of macro-fiscal stress testing, which will help assess readiness to implementation of various shocks, given projected macroeconomic and budget parameters. In this area, there is a sufficient amount of research that can form a basis for creation of appropriate analytical tools.

– How important do you think it is to take into account conditional obligations of the state?

– Timely identification and monitoring of such commitments are vital.
Moreover, it is important to understand that contingent liabilities can arise even in relation to companies without government involvement and without government guarantees.

Recent examples of growing risks of materialization of contingent liabilities in both private and quasi-public sectors are Evegrande and Rusnano cases.

In the first case, the risk took place due to high concentration of the company in the construction sector and a potentially significant effect on the Chinese financial system case of a default. Thus, even though the company is privately-owned, according to market experts, support from the government, or bail-out, was likely. According to the latest information, Fitch Ratings Agency downgraded rating of the company to a ‘limited default’. Against this background, Governor of the People’s Bank of China announced that the problem would be solved by market methods, which implies a lack of government support.

In the second case, due to government participation and provision of government guarantees for bonded loans of the company, risk of accepting obligations on the government’s balance sheet was more significant. As in the first case, default of the company can significantly affect the financial market, and if government guarantees are implemented, create an extra burden on the budget.

In both cases, the situation is not totally stabilized and allied risks to the budget and financial system of states persist.

These examples illustrate importance to carry out a debt sustainability assessment taking into account direct contingent liabilities and hypothetical, unlikely but possible shocks.