

Discussion on Session 1-1: Credible and Robust Fiscal Framework

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Recap of presentations

- **Ms. Li**

- Fiscal space has narrowed, while long-term pressures from aging and climate change are rising.
- While many countries have adopted fiscal rules and MTFs, effectiveness and compliance vary.
- Future reforms should adopt a comprehensive, risk-based approach.

- **Dr. Lee**

- Korea's public finances are still sound, but rapid population aging and slower growth will squeeze the budget.
- A well-established performance-based budgeting system exists, yet important effectiveness gaps remain.
- Next steps: formalize fiscal rules and a broader structural-reform package.

- **Mr. Westmore**

- Rising fiscal pressures highlight the need for robust fiscal frameworks (FFs).
- OECD's "Spending Better" framework supports growth-friendly consolidation.
- Asian economies are making progress, but continued reforms are essential.

Responses

- Well-designed fiscal frameworks are necessary for achieving fiscal sustainability and supporting growth.
 - Fiscal rules reduce budget deficits, public spending and borrowing costs and GDP growth (e.g., Potrafke, 2025)
 - MTFFs promote fiscal discipline and sustainability, transparency, and better-informed fiscal decision (IMF, 2024)
- Issues for further discussion:
 - Growth-friendly fiscal framework
 - Rethinking sustainability beyond “knife-edge” logic
 - Fiscal policy effectiveness under high debt and aging
 - Medium-term frameworks and forecasting capacity
 - Political incentives and public trust

Fiscal-Growth Nexus

- Maintaining fiscal discipline should not come at the expense of long-term growth.
- Recent evidence suggests that firms' investment and productivity respond to fiscal policy interventions
- "Fiscal stagnation" highlights the risk that sustained primary surpluses may suppress productivity and entrench low-growth equilibria (Fornaro and Wolf, 2025).
- Public spending on education, R&D, infrastructure, and climate mitigation may enhance long-run growth.
- Should growth-enhancing expenditures be exempt from expenditure ceilings?
 - The productivity of such spending remains uncertain and context-dependent.
 - Risk of re-labelling current spending as "investment".
 - What objective criteria should be used—and who decides?

Rethinking Fiscal Sustainability Beyond the Knife-Edge

- Static notions of fiscal sustainability—such as stabilizing the debt-to-GDP ratio—may offer short-term reassurance, but dynamic risks can quickly destabilize debt trajectories.
 - OECD (2024) warn against “knife-edge sustainability,” where any negative shock can quickly reverse gains.
- Should fiscal rules aim for a declining debt trajectory rather than mere stabilization?
 - If so, how should countries determine a realistic long-run debt target and the appropriate pace of adjustment?

Fiscal Effectiveness in Aging, High-Debt Economies

- Some studies suggest that fiscal multipliers decline when debt is high or when populations are aging
 - Kirchner et al., 2020; Ilzetzki et al., 2013; Basso and Rachedi, 2021; Honda and Miyamoto, 2021.
- As more countries face both, the macro impact of counter-cyclical fiscal policy may weaken.
- Design challenges:
 - How should this possibility influence the design of stabilization policies?
 - how to calibrate counter-cyclical policy and decide the “necessary & sufficient” deficit size under such conditions?

MTFFs and Forecasting Capacity

- As the IMF rightly emphasizes, projections are the backbone of MTFFs (IMF, 2024).
 - Rules and ceilings are only as credible as the forecasts they rely on.
- Yet many countries still lack technical and institutional capacity to produce reliable macro-fiscal projections.
- Ex-post forecast evaluation should be given greater emphasis.
 - regular accuracy scorecards, public disclosure, and model upgrades.
- How can countries—especially in emerging economies—build institutional capacity for credible macro-fiscal projections?

Political Incentives and Public Trust

- The effectiveness of FFs ultimately depends on political incentives, enforcement environments, and public buy-in.
 - The public often distrusts rules they don't understand.
 - Fiscal councils often lack power
 - As seen in Korea's case, health financing reforms face intense political resistance. Fiscal discipline can be easily derailed under populist pressure.
- How can countries build credibility and citizen trust in FF?
 - What institutional mechanisms are most effective in ensuring compliance?
 - What strategies can help insulate fiscal frameworks from short-term political pressures