

Moscow Financial Forum
Remarks on Fiscal Rules for the Eurasian Economic Union
Annette Kyobe, Resident Representative for the Russian Federation

1** Current rules draw heavily on Maastricht and aren't well-suited to the Eurasian Economic Union

- Current **rules draw heavily on the Maastricht rules** of the European Monetary Union. As the experience with the EMU has shown, these rules have their own **significant drawbacks**; and **are not particularly well-suited** to the Eurasian Economic Union. Specifically, these rules do not sufficiently allow for cross-country variation in economic characteristics. For example, the **rules do not touch on oil**.
- Recall that the **Maastricht rules are set up to support a monetary union**. And the Eurasian Economic Union is not a monetary union. **Countries have different economic structures**—some are oil exporters and others not; consequently, members will be hit by **asymmetric economic shocks** which won't affect all countries uniformly. Moreover, **few union level fiscal transfers** exist to cushion the effects of these shocks.

2** More transparency on a common fiscal framework is more important than more work on the rules

- One could do **more work on the rules, but it is not clear this is would be helpful**. What would be helpful, however, is more **transparency on a common fiscal framework that reflects international best practices in fiscal accounting and reporting**. Specifically, it would clarify **the measure of government**—is it central or general government and does it include SOEs or the broader public sector?

3**Fiscal policy coordination may or may not be important depending on the definition of coordination

- It's a good question why fiscal policy should be coordinated. The answer in part depends on what we mean by "coordination". **If coordination means fiscal policy should converge to a common fiscal anchor**, then **it's not obvious it should be coordinated in countries that not only have different economic but also fiscal structures** (i.e. a different composition of revenues and expenditures). In this instance, fiscal convergence **can lead to suboptimal outcomes where the common fiscal policy is unsuited to a specific national situation**. Alternatively, **if coordination means allowing for a differentiated fiscal policy response** across countries then coordination could be desirable.

4** If there is going to be more integration, more coordination across other policy areas will be important. Key is to focus on the right issues and sequence properly. There are four priorities: i) tax harmonization of mobile inputs ii) coordination and consensus on external customs tariffs—the starting point of this exercise iii) labor market flexibility for movement

of labor in response to asymmetric shocks iv) financial sector supervision and regulation especially of banks from other countries in the region v) meaningful coordination with a large player

- If there is going to be more integration, **more coordination across other policy areas will be important**. The key is to **focus on the right issues and to sequence properly**. I will mention **four priorities**:
- First, **tax harmonization on mobile inputs** may make sense especially if there is evidence that taxpayers are moving around the Union to avoid taxes. [Admittedly we are a long way from this and even well-established economic unions (such as the United States and the EU) don't have full tax harmonization.]
- Second, on **external customs tariffs—the starting point of this exercise**—it would be important to have cooperation and consensus, especially now given renewed focus on account of the US-China trade wars.
- Third, **flexibility of labor markets is a priority** to encourage labor to move more easily across and within borders in response to asymmetric country-level shocks.
- Fourth, **coordination in the financial sector would be important to effectively supervise financial institutions from other** Eurasian Economic Union countries. For example, Russian banks play a large and important role in Kazakhstan—here regulation, supervision and possible financial support in the event of a crisis should be thought through in advance.
- And as a final point, there is already **lot of coordination around Russia**. **Russia's macroeconomic policies have a substantial impact** on other countries in the Eurasian Economic Union through the ER, tax policies, expenditure policies, and so on. This underscores an important issue to think about: **can there be meaningful coordination if one country is such a large player in the economic union? and should this country have a special obligation to make its policy decisions for the greater good of the union?** This indeed the debate in the EMU about **Germany's fiscal conservatism**. These are interesting but difficult questions for policy makers. Thank you.