EVALUATION OF THE CRITERIA FOR DETERMINING THE MEDIUM-TERM BUDGETARY OBJECTIVE

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Abstract:

The objective of this paper is to evaluate the criteria for determining the medium-term budgetary objective. In this respect, the criteria of institutional, economic and behavioral nature will be evaluated. The association of the criteria with the determinants of the medium-term budgetary objective will be done as follows: the component regarding the cost of population aging over a time horizon, we consider it the determinant of institutional nature; The potential Gross Domestic Product is considered the determining factor of economic nature, this being an important indicator in determining the medium-term budgetary objective - the structural deficit - in determining the production gap, but also with other "responsibilities"; we associate the public debt with the behavioral determinant, which is an indicator in which the historical budgetary behavior of a Member State is observed. Based on the evaluation of these criteria, strengths and vulnerabilities of the framework for determining the medium-term budgetary objective will be presented.

Keywords*: public debt, budget deficit, fiscal consolidation, medium-term budgetary objective*

JEL Classification*: H22, H26, H62*

Introduction

The reform of the Stability and Growth Pact (SGP) of 2005 introduced a number of relevant changes, both in the preventive and corrective components. Thus, in the preventive component, the medium-term budgetary objective has been redefined as a tool for budgetary and economic surveillance, and has been incorporated in the national convergence programs, thus being subjected to the European Commission (EC) evaluation.

By redefining, it has been established that this can be specific to each state, depending on the national financial and macroeconomic conditions and taking into account the risks on the sustainability of public finances in the long term. The general criteria for determining the redefined medium-term budgetary objective were approved by the Council of the European Union (CUE), and were aimed at taking into account public debt, potential output growth and a safety margin with respect to the budget deficit limit of 3% of Gross Domestic Product (GDP). The reform of the SGP did not provide a well-defined rule or methodology for the implementation of the criteria of determination, thus leaving a certain freedom of analysis and interpretation of each Member State in establishing the level of the medium-term budgetary objective, which represented a potential flaw on the general credibility of the fiscal framework of the European Union (EU). Since 2009, the EC and the Member States have developed a code of conduct with specifications on the implementation of the SGP and guides on the format and content of the stability and convergence programs, developing a methodology for calculating the medium-term budgetary objective through which the determination criteria have become operational.

The methodology includes aspects regarding the public debt collection, the potential economic growth and some margins of budgetary security, but also perspectives on (the increase) the expenses with social insurances. Two new features are incorporated in the quantitative determination of the medium-term budgetary objective: an additional effort to reduce public debt specific to Member States whose ratio of public debt / GDP exceeds 60%, which promotes

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convergence towards a prudent ratio of endowment in GDP, and a partial anticipated burden of social insurance costs over a period of time, which aims to partially cover future increases in this category of spending.

Based on this methodology, a number of 15 Member States have calculated and declared their medium-term budgetary objectives, but neither the EC nor the respective countries have released the specific work algorithm for the general calculation.

The effects of the financial and economic crisis were manifested by the deterioration of public finances, their sustainability, in most EU Member States. Against this background, Member States were required to design fiscal strategies to correct the created imbalances, but also to temper the expansive nature of the fiscal policies implemented. In this context, the medium-term budgetary objective plays an important role in supporting the fiscal strategies of the Member States, under the coordination and monitoring of the EC, being a formal and explicit constraint of the fiscal policy regarding the results and the medium-term budgetary perspectives, tempering the character procyclic, improving the aspects related to the high level of indebtedness in correlation with the protection of social insurance expenses.

Evaluation of the criteria for determining the medium-term budgetary objective

In line with the objective assumed for this paper, we will evaluate the criteria for determining the medium-term budgetary objective, respectively of an institutional, economic and behavioral nature, in order to identify possible strengths and the vulnerability of the framework for determining the medium-term budgetary objective.

The criterion of institutional nature

We consider the component regarding the cost of aging of the population over a time horizon, the determinant of institutional nature, to argue this option.

Pensions are the main source of income for the elderly in the EU and they come mainly from public redistributive systems. There are approx. 130 million pensioners and represents a growing group, and the pension systems face a double challenge, namely to maintain their financial sustainability and to be able to ensure adequate incomes.

The main objectives of social insurance policies are: (i) ensuring adequate income; (ii) ensuring financial sustainability; (iii) employment for an extended period of time. The intensification of the aging process of the population over the next 30 to 50 years will amplify the challenge of achieving the three objectives in several major ways, such as:

- Adequacy of pensions, measurable by their ability to prevent poverty; the proportion in which they replace the income from professional activities and the length of the period in which they receive a pension;
- Employment, which can be measured by increasing the employment rate of older workers (55-64 years), which would allow them to maintain themselves easier until they reach retirement age and contribute to achieving the overall employment target. 75% for persons between the ages of 20 and 64, set out in the 2020 Europe Strategy;
- Ensuring the sustainability of the pension systems, measurable through the balance between incomes and obligations (and on the ratio between the number of workers / contributors and the number of pensioners / beneficiaries) within the pension systems. To be sustainable in the long run, public pension systems must be able to absorb the impact of the aging process without destabilizing public finances.

In general, the increasingly pronounced reduction of the financial coverage of the needs of public pension systems, as a result of the implementation of reforms[12], has not been correlated with strategies to promote and achieve additional savings, except in those states where the coverage is wide through the systems tradition implemented (Denmark, Finland, the Netherlands and Sweden).

Therefore, the identification of instruments and levers for achieving these objectives and challenges necessary adjustments to public pension systems, is concerned with the strategic field of regulation, of avoiding cyclical fluctuations of an electoral nature, more precisely, of the

[12] *Reforms to mitigate the effects of the financial crisis and / or electoral reforms.*

institutional domain. Public policies (their mix) represent the main anchors in the adequacy of the strategy in this field, and the instruments of fiscal and para fiscal nature (subsidies, obligatory and / or complementary contributions), constitute an important part of the mix of policies, meant to promote safe and secure means. transparent, to achieve the sustainability of pension systems.

Introducing these costs related to the perspective of the public social insurance system for a period of time, in whole or in part (so-called implicit liabilities), in determining the medium-term budgetary objective, is intended to ensure that a margin of budgetary security is obtained, so that, the projected increases in this category of expenditure can be sustained without altering / imbalancing public finances in perspective.

The current methodology for determining the medium-term budgetary objective opted for the partial pre-loading of the growth expected with the social insurance expenses for a period of time, with the establishment of a minimum degree of calculation (0.33), for all the states, in view elimination of arbitrary elections, with the possibility of revising this minimum value.

The contribution of this criterion to ensuring the sustainability objective of public finances, assumed by the medium-term budgetary objective, consists in ensuring the prevention of deterioration of the budget deficits caused by the increase of the expenses related to the public social insurance systems, induced by demographic trends.

The actual algorithm for calculating the value of this institutional determinant, as it was called in this paper, has not been explicitly presented. However, based on the code of conduct, some official publications of the EC[13], we have collected and identified benchmarks regarding the algorithm specification. Thus, we appreciate that the methodological support of this determinant is found in the sustainability indicator S2[14], which indicates the advance adjustment of the current primary balance (in structural terms) necessary to stabilize the public debt / GDP ratio on a horizon, including financing for the increase of the generated expenses. of the aging of the population. The proportion needed to be charged in the methodology of determining the medium-term budgetary objective is at least 33% of the value of spending growth with population aging (calculated as a weighted average of future increases in this category of expenditure, relative to GDP, compared to the initial moment).

The criterion of economic nature

We consider the economic determinant of potential GDP, this being an important indicator in determining the medium-term budgetary objective - of the structural deficit - in determining the output gap, but also with other "responsibilities" in determining the level (evolution) of public expenditures and of the adjustment needed to maintain or converge to a level of public debt ≤ 60% of GDP.

In our assessment, the attribute of economic nature is justified by the fact that this indicator captures, over long time horizons, factors such as: organization of the economy, its productive capacity determined by technology, demographic and educational factors that affect the labor force, etc. There is a generous literature regarding the definition, methodology and critique of potential GDP[15], but there is also an indirect approach to this indicator, by treating other indicators whose calculation relationship is found. In general, there is a common opinion regarding the definition of this concept, with certain nuances, sometimes uneven.

In the reports and studies of the National Bank of Romania (NBR), potential GDP represents the level of real GDP that can be produced by an economy without generating inflationary pressures, whose growth rate can fluctuate over the medium term by temporarily deviating from the term equilibrium value long.

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[13] European Commission (2013 ÷ 2019) "Vade mecum on the Stability and Growth Pact" European Economy; European Commission (2018) "Ageing Report Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", European Economy, Institutional Papers 079; European Commission and Economic and Financial Affairs (2015) "The 2015 Ageing Report Underlying Assumptions and Projection Methodologies", European Economy;European Commission and Economic and Financial Affairs (2017) "Debt Sustainability Monitor", European Economy, Institutional Papers 071.

[14] The difference in sustainability (S2) is the effort that must be made by a state to adjust the stabilization of the public debt / GDP ratio, after including the long-term costs associated with the expenses for social insurance, in relation to the initial budgetary position.

[15] European Commission / Economic and Financial Affairs (2014) "The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps", European Economy, Economic Papers 535.

The Organization for Economic Cooperation and Development (OECD) defines potential GDP as a perspective of the level of output that an economy can achieve at a constant rate of inflation. An economy may also temporarily produce more than its potential level of output, but this effect is that of rising inflation. The potential output depends on the capital stock, the potential labor force (which depends on demographic factors and participation rates), the inflation rate, the non-acceleration of unemployment and the level of labor efficiency.

The National Commission for Strategy and Prognosis (NCSP) in Romania, through the Economic Programming Council, defines potential GDP as an unevenly defined concept, which it considers more "related" to balance (also called GDP of full employment or and is defined as that level of GDP at which all factors of production are fully utilized, ie the labor market and the capital market are in balance. To attract additional workforce, companies should pay higher wages to employees, which would allow them to increase their output, but at higher wage costs. Eventually, this will generate inflationary pressures in the economy and eventually bring it back to full employment.

Potential GDP (according to E, Dinga, 2018[16]) is the macroeconomic indicator that refers to the maximum potential value of the economic product of a national economy, that is, if the production factors available in that national economy are fully utilized. Of course, under normal conditions, this is not possible, which is why potential GDP is used more as a benchmark for calculating significant macroeconomic indicators, such as structural deficit or inflation gap.

We subscribe to the previous definitions regarding the definition of potential GDP, considering that this indicator explains that economic growth under conditions of relative equilibrium, that is to say without pressure on inflation and employment, being an unobservable size, estimated based on statistical indicators, mostly historical, meaning in The following aspects must be considered: estimates must have minimal procyclicality, and revisions on the historical series should be limited.

Methodological aspects

Being a variable that cannot be observed directly from statistical data, potential GDP is a common theme in economists 'concerns, but especially in economists' concerns.

Existing models used to estimate GDP can be divided into two categories:

- univariate models, based on which only the evolution of the real GDP is analyzed;
- multivariate models, based on which several macroeconomic variables are analyzed simultaneously.

Both categories present some difficulties caused by:

- the small size of the used data sample, being uncertain the complete coverage of an economic cycle;
- the late appearance of official statistical data on GDP, compared to the calendar end of the period to which it refers, being often subject to revisions that generate additional uncertainty about potential GDP and require revision as more statistical data becomes available and final.

Individually, each category has its advantages and disadvantages. The univariate models suppose the decomposition of the real GDP, through a statistical analysis of the historical behavior of the data series, based on some assumptions regarding the dynamics of the trend and the gap. Their advantages are that they are not based on implications of particular economic theories, so that the relevance of the result does not depend on the hypotheses of the theory, and they are easy to implement in practice. The disadvantage derives precisely from their univariate character, the possible interactions with other macroeconomic variables not being considered. In addition, the result obtained does not strictly correspond to a precise economic definition of potential GDP.

Multivariate models involve the breakdown of real GDP and the information provided by the evolution of other macroeconomic variables, by analyzing the interdependencies between them and real GDP. The most used multivariate models are based on the production functions, having the advantage that they use a greater amount of information interpreted through the links between variables suggested by the economic theory and the disadvantage that they require longer data series than the univariate methods.

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[16] In the work THEORY STUDIES AND ECONOMIC MODELING. General methodological elements, published in 2018 at the Romanian Academy Publishing House, p 292.

Potential GDP can be determined by several methods, but three of them are more used and we will present them briefly[17], from a qualitative perspective, below.

a. The Kalman Filter - is an analytical model that performs state estimations of a system based on two elements: the immediate previous state of the system and a new entry into the system. The general characteristics of the Kalman Filter can be systematized as follows:
   - mathematically, it is a stochastic model with finite differences;
   - the model should only store the last state of the system, not needing a history of these states;
   - is an adaptive model: any new entry modifies the previous estimation of the state of the system;
   - is a recursive (iterative) model: any estimated state is taken into account as the starting point for a subsequent estimate;
   - is a linear model, which allows the use of relatively simple algebraic operators (such as matrix calculation);
   - Kalman Filter introduces, in fact, a predictor of type;
   - in fact, the Kalman filter isolates the state variation from the process noise;
   - is a univariate model;
   - can also be used in case of statistical models with non-stationary series (because it is able to "extract" a linear trend from those non-stationary series).

b. The Hodrick-Prescott filter - also called the Hodrick-Prescott decomposition and was introduced by Robert J. Hodrick and Edward C. Prescott in 1997 in Postwar US business cycles: an empirical investigation, published in the Journal of Money, Credit, and Banking ". In fact, the design of the Hodrick-Prescott filter is based on the Kalman filter. The general characteristics of the Hodrick-Prescott filter can be systematized as follows:
   - separates the long-term trends (trend) of the system / process examined from the short-term oscillations (cyclical oscillations);
   - from a technical point of view, the sum of the squares of the differences between the trend and the cyclical oscillations is minimized;
   - minimization occurs through a Lagrange type function, with a single Lagrange multiplier, which functions as a (in fact, a constant) trajectory smoothing operator;
   - the exogenous origin of the Lagrange multiplier has the following meaning: it determines how "smooth" we want to be the trajectory of the system / process concerned after eliminating its cyclic oscillations;
   - the restriction of the Lagrange function is the sum of the squares of the differences between two differences of the successive cyclical oscillations;
   - Is a univariate model;
   - the operation of the Hodrick-Prescott filter is operationally similar to a moving average.

c. The Cobb-Douglas function - conceptually, is a type of production function, respectively an analytical (mathematical) operator that transforms an input (an independent or exogenous variable, which can also be a vector type), into the output (dependent or endogenous variable, which can also be a vector type). It was introduced by Charles W. Cobb and Paul H. Douglas in 1928 through the study A Theory of Production, published in the American Economic Review. The general characteristics of the Cobb-Douglas function can be systematized as follows:
   - usually, only two inputs (capital and labor force) are taken into account, but some more analytical versions also consider technical progress;
   - analytically (mathematically), it is a multiplicative operator with elasticities;
   - depending on an analyst's decision, the model can be with constant returns (the sum of the elasticities associated with the inputs is equal to 1), with increasing returns (this sum is subunit) or with decreasing returns (this sum is subunit);

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[17] *Idem 6, pp 295 – 299*.

- the Cobb-Douglas function can also be used as a utility function;
- from a technical point of view, it is a multivariate model;
- assumes a constant elasticity of substitution between inputs (also called production factors);
- is considered a neoclassical economic model, although it seems that more in-depth logical analysis concludes that the Cobb-Douglas type function is not consistent (ie non-contradictory) with the basic assumptions of the neoclassical economic model;
- is a nonlinear model (more precisely, an algebraic power model);
- in the last period have developed (the inevitable) stochastic versions of the Cobb-Douglas type function; the stochastic character is given by the conception of the inputs as functions of the stochastic type.

The European model for evaluating potential GDP

Potential GDP, as noted, is perhaps the most important element of the toolkit for assessing the cyclical position of the economy and its productive capacity, and for the EU it has become essential in the process of fiscal-budgetary oversight through the SGP and the assessment of structural reforms, through SE. To reduce estimation uncertainties as a result of historical reviews and forecasts, there is an Economic Policy Committee (EPC) at EU level, a dedicated working group, the output-gap Working Group, where representatives from all Member States participate, with regular meetings to discuss operational effectiveness, improvement and homogenization of subsidiary methodology and of potential GDP determination.

The determination of the potential GDP, which can be done by statistical methods or by a method based on econometric analysis, requires a number of arbitrary choices, either at the level of parameters (in statistical methods), or in the theoretical approach and the choice of specifications, data and techniques. estimation (in econometric analysis), a situation in which the selection of a method should aim to better adapt to the problem analyzed, with well-defined limits, with the possibility of its implementation / application in all the Member States and with international comparability.

At EU level, the methodology for the determination of potential GDP, based on a Cobb-Douglas production function, was adopted, being considered a method that offers the possibility of examining some economic factors underlying the observed changes and, therefore, the possibility of establishing a significant link between policy reform measures and outcomes. Another argument is that it is able to highlight the close relationship between potential output and "normal" or equilibrium unemployment rates.

Even if the efficiency of this estimation method seems to exceed the assessment of the effectiveness of policies by statistical methods, there are some difficulties in reaching a consensus among the decision makers on the estimation models to be used.

The main operational requirements for approaching the production function method are the following:

- First, it must be a relatively simple and completely transparent methodology, if the key inputs and outputs are clearly delimited;
- Secondly, it must ensure equal treatment for all EU Member States;
- Thirdly, considering that estimates are used for fiscal-budgetary surveillance purposes, it is important to avoid both false optimism and unjustified pessimism. to obtain prudent and impartial projections.

The model for estimating the potential GDP at EU level is developed by the Directorate General for Economic and Financial Affairs (DG ECFIN) and approved at the methodological level by all the Member States, having the highest degree of transparency and the lowest revisions on the historical series in the report. with other models used by prestigious economic and financial institutions and organizations (IMF, OECD). The general estimation framework is based on the Cobb-Douglas production function (even if the Hodrick-Prescott filter is alternatively used), providing fair treatment for Member States.

The behavioral criterion

We consider the determinant of behavioral nature the public debt, this being an indicator in the dimension of which one observes the historical budgetary behavior of a Member State, and

through the constraints of the SGP, this historical behavior becomes an instrument of orientation (constraint) of the behavior in the medium and long term.

Taking it into consideration in determining the medium-term budgetary objective specific to each Member State raised a number of conceptual and methodological uncertainties. They referred to what public debt indicators should be used (stock - flow) and what definition should be adopted (simpler, more complex[18]).

In order to clarify these issues, technical works have been elaborated so that the objective related to the improvement of fiscal sustainability is fully operational and a manual on public deficit and debt (for the implementation of the 2010 SEC methodology), with a view to using a common methodology.

According to them[19], a complete definition of public debt is "public debt means total gross debt at the outstanding nominal value at the end of the year and consolidated between the sectors of public administration".

Returning to the role of the behavioral determinant in establishing the minimum budgetary objectives - the public debt - this can model both the constraints imposed on the budgetary policies of a Member State by evaluating the past budgetary behavior - materialized in the current public debt - as well as those related to future budgetary behavior, evaluated by the impact of the increase of the social expenses on the debt.

The consideration of the current public debt (by the ratio to the GDP), as a behavioral determinant, implies the evaluation against the convergence criterion on the public debt (60% of the GDP) and a distinction between the states with lower and higher levels of the public debt, compared to by the mentioned criterion, thus allowing a different treatment for both situations.

States with levels of public debt, relative to GDP, less than 60%, have a greater leeway in managing public debt, with the possibility of financing some public investment projects.This situation, as well as a slight tendency to increase the level of debt, do not represent immediate threats to national or cross-border macroeconomic stability.

On the other hand, the states with levels of public debt, related to GDP, greater than 60%, will have more demanding medium-term budgetary objectives, limiting their possibilities of spending for public investments, for the gradual reduction of public debt and limitation, potential threats to national or cross-border macroeconomic stability.

Strengths and possible vulnerabilities of the methodology for determining the medium-term budgetary objective

Strong points

The general criteria for the quantitative determination of the medium-term budgetary objective specific to each Member State came from both the triple objective and the general objectives of the SGP reform. After designing the three criteria, there was no common agreement on the degree of hierarchical exigency of the three criteria in determining the general medium-term objective.

The EC's view was that greater weight should be given to the current level of public debt and potential growth prospects, while the CEU did not make any clarification on the need to determine the value of the medium-term budgetary objective on the basis of granting a increased importance of public debt and potential growth, which should be more demanding than those values that would only cover the margin of budgetary security. Following the negotiations, it was concluded that leaving the Member States' freedom to set the medium-term budgetary objective, with the risk that they cover only the margins of budgetary security could conflict with the purpose of preserving fiscal sustainability and, in addition, could undermine the general credibility of the EU fiscal framework. Thus, on the basis of these arguments, it was agreed, to pay more attention to the criterion related to public debt and potential growth (more relevant) in determining the medium-term budgetary objective**.**

[18] *Including contingent liabilities*

[19] *Treaty on the Functioning of the EU, consolidated version, 2012.*

After a transitional period in addressing the medium-term budgetary objective, the joint efforts of the responsible institutions and of the Member States have resulted in a unanimously agreed methodology, which, in our opinion, has some advantages.

First, the methodology improves the simplicity and political commitment of the procedures for setting the medium-term budgetary objectives. It is obvious that, despite the computing algorithm that has not yet been revealed, the code of conduct provides guidance on efficiently substantiating and implementing several components of the algorithm.

The simplicity of the methodology facilitates the understanding and technical discussions between stakeholders within the EU fiscal framework - in particular, the EC and the Member States engaged in multilateral budgetary oversight and, in general, in evaluating the effectiveness of the SGP.

In addition, fiscal-budgetary prudence is strengthened because the Member States can no longer set medium-term budgetary objectives with too much freedom, but are constrained, based on their historical behavior, in particular regarding public debt, but also with perspective, with regarding the expenses for social insurances, to respect certain fiscal-budgetary rules, by which to ensure the long-term fiscal-budgetary sustainability.

Secondly, the medium-term budgetary objectives are now incorporated in a better defined quantitative framework: for each Member State approximate exact values can be calculated for its minimum reference value; for the budget balance that would stabilize the total public debt / GDP ratio to 60% (depending on the potential long-term growth); for the additional debt reduction effort, specifically for states with a total public debt of more than 60% of GDP, which implies rapid progress towards adjustment; for the cost component with the aging population.

These criteria of the framework for determining the medium-term budgetary objective also contain aspects that can be improved (potential estimation gaps, budgetary sensitivities, methodological improvements), which are still subjects of study, analysis developed jointly by the EC and the Member States, which also ensures the compatibility of the methodology of determination with other formal procedures existing at EU level.

Third, the model of the medium-term budgetary objective pays more attention to the criterion related to public debt, both explicit (present, but incorporating historical behavior) and implicit (related to the outlook and coverage of public spending growth with insurance). social), which ensures a connection between the fiscal-budgetary behavior (past, present and future) and the distribution of the budgetary effort according to this behavior, for constraint in order to bring balance and to temper the pro-cyclical character of the fiscal-budgetary policy.

This situation has advantages for Member States with a present level of public debt relative to GDP, below 60%, benefiting from less constraining levels of medium-term budgetary objectives, with the possibility of higher public spending in the coming period, and disadvantages. for the Member States that register a present level of public debt related to GDP, over 60%, being forced to greater efforts (directly proportional to the distance to this report), in the next period in order to converge to it.

Possible vulnerabilities

From a theoretical point of view, one characteristic of the methodology for determining the medium-term budgetary objective is that it manages to establish a connection between the specific objectives of the fiscal-budgetary policy, taking into account the past, present and future behavior, respectively: the value outstanding public debt; the existence of commitments on social security expenses (so-called implicit debts) and the determination of the freedom to undertake discretionary measures and public investments, in order to ensure long-term fiscal sustainability.

In this context, we are trying to identify whether the specific determinants of the medium-term budgetary objective and the connection between them present certain vulnerabilities regarding the sustainability of public finances and their long-term sustainability as the main purpose of this mechanism.

From the point of view of the methodology for determining the potential GDP and, implicitly, the output gap

Both categories of models presented (univariate and multivariate) present some difficulties generated by: the small size of the sample of data used, the complete coverage of an economic cycle being uncertain; the late appearance of official statistical data on GDP, compared to the

calendar end of the period to which it refers, being subject to revisions that generate additional uncertainty about GDP and require revision as more statistical data becomes available and final.

The disadvantage for the univariate models derives precisely from their univariate character, the possible interactions with other macroeconomic variables are not considered, and the result does not strictly correspond to a precise economic definition of the potential GDP. The multivariate models have the disadvantage that they require longer data sets than the univariate methods.

The Kalman and Hodrick-Prescott filter methods - are univariate and in addition to the mentioned disadvantages, generate discussions about the separation of the tendency from the cyclical oscillations, respectively if this really means the potential value of the system / process concerned, their use during periods of post-shock does not generate relevant results, being recommended only during periods of economic normality.

The method based on the Cobb-Douglas function is, in relation to the other two methods presented, the most suitable for determining the potential GDP, because it is closest to its concept (definition).

There are thus some methodological uncertainties regarding the estimation of the potential GDP, which are transmitted, consequently, also on the output gap and, implicitly, on the size and interpretability of some indicators in determining which potential GDP and the output gap play an important role.

From the point of view of solvency

We refer to the fact that in the situation of a Member State with a public debt over 60%, the reduction efforts are higher, and the partial anticipated pre-loading of the increase of the expenses with social insurance affects the solvency in the medium and long term. Basically, the partial pre-loading of the increase of the expenses with the social insurances implies the preservation of part of the current resources available for future periods, up to 50 years. This situation can affect the sovereignty of a state in this situation in its debt reduction efforts.

From the point of view of inhibiting the economy

Fiscal-budgetary constraints imposed by the medium-term budgetary objective, especially in the case of Member States with public debts that exceed 60% of GDP and have restrictions on the level of growth of public spending, can affect the economic growth, in the sense of entering into a period of negative economic growth, and the possibilities of fiscal-budgetary policy of intervention and stimulation of the economy, in such a situation, become extremely limited, in the short and medium term.

At the same time, there is the possibility that the role of the medium-term budgetary objective described will be affected by the slowdown of the economic growth generated precisely because it is demanding and an excessive adjustment is being tried, limiting the fiscal-budgetary possibilities of stimulating the economy (fiscal space and those of fiscal consolidation, which can affect the credibility of this instrument.

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