



Numerical Fiscal Rules in the EU Member States

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Outline

- *Definition of numerical fiscal rules*
- *European legal provisions*
- *Recent evolution*
- *Types of rules*
- *Coverage of rules*
- *Monitoring role of IFIs*
- *Conclusion*

Definition and rationale

- *Permanent /long-lasting constraint on fiscal policy using numerical limits on budgetary aggregates*
- *Objectives of rules: improve fiscal discipline by*
 - Counteracting deficit bias
 - Promoting anti-cyclical fiscal policy
- *Types of rules*
 - Debt, balanced budget (nominal or structural), expenditure , revenue allocation, etc...

European legal provisions

- *Budgetary Frameworks Directive*
- *Fiscal Compact (automatically concerns only euro area MS, but BG, DK and RO subscribed on voluntary basis)*
- *Two-Pack (concerns only euro area MS)*

Budgetary Frameworks Directive

- Member States should have in place numerical fiscal rules that encompass the general government as a whole and effectively promote:
 - compliance with their EU fiscal obligations (budget balance and debt)
 - adoption of multi-annual fiscal planning horizon
- Definition and scope of the rules should be defined.
- Monitoring of compliance should be based on independent analysis.
- Escape clauses and consequences of non-compliance should be spelled out.
- Annual budgets should reflect the rules in force.⁵

Fiscal Compact

- Budgetary position should be balanced or in surplus (min. structural balance of -0.5% of GDP or -1% if public debt significantly below 60% of GDP).
- Based on national provisions of binding force and permanent character (preferably constitutional)
- Correction mechanism should be triggered automatically.
- Escape clauses should be clearly defined.
- Independent monitoring institution should be in place.

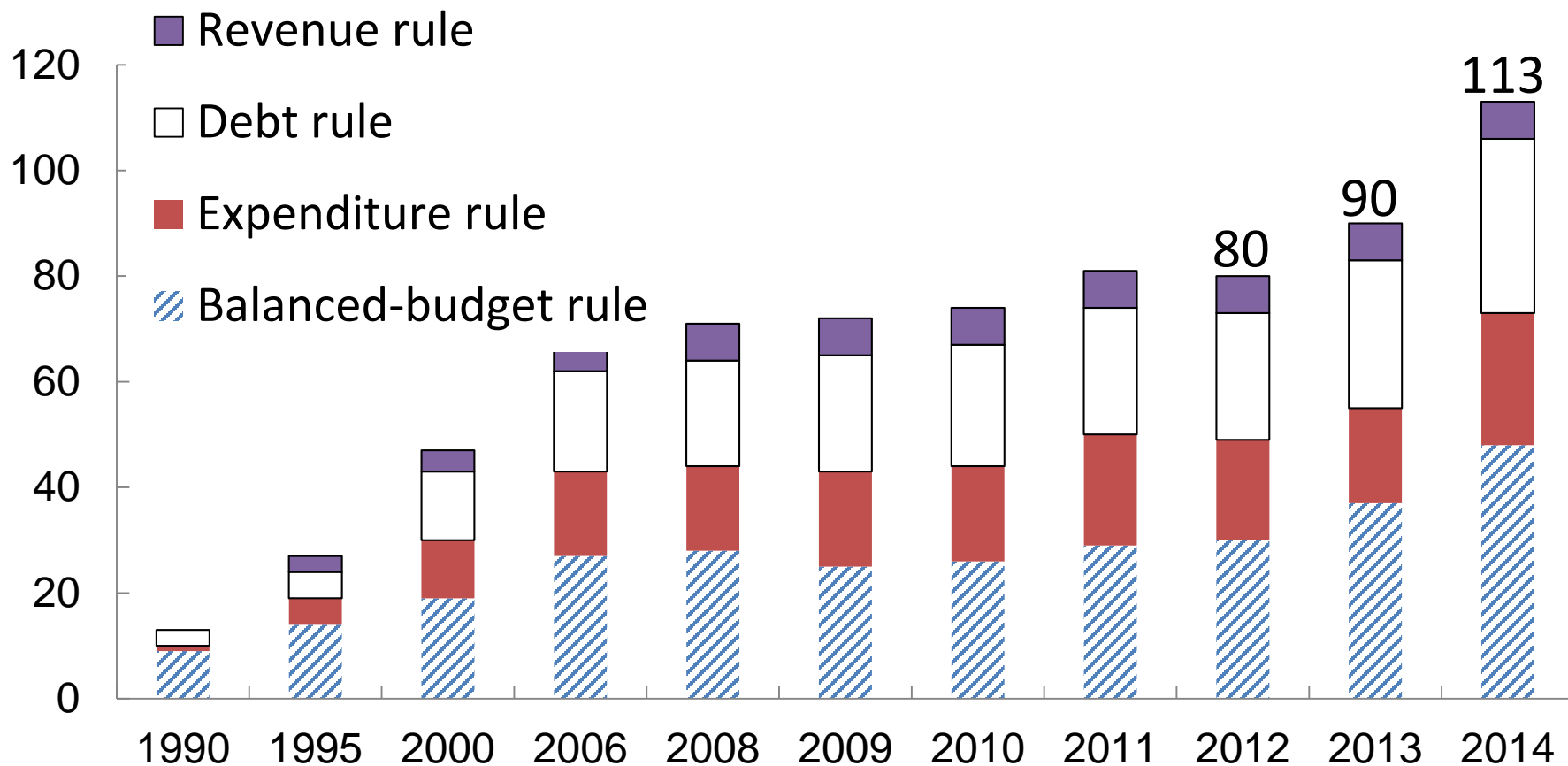
Two-Pack

- Compliance with all numerical fiscal rules should be monitored by independent bodies.
- These bodies should provide public assessments with respect to national fiscal rules.

Evolution in the numerical fiscal rules

- *Clear upward trend in the number of national numerical fiscal rules in response to legislation at European level*
- *Some Member States decided to introduce rules closely mimicking the EU fiscal rules (e.g. Ireland, Italy, the Netherlands).*
- *Other Member States developed tailor-made country-specific rules which nevertheless are "compatible" with the EU rules.*

Numerical fiscal rules (EU-28)



Expenditure rules

- *Focus on Expenditure Rules*
 - Expenditure = aggregate most directly under the control of government
 - Evidence to support expenditure-based consolidation
- *Particularly efficient within a medium-term perspective*
- *Central part of best-practice frameworks (e.g. Denmark, Sweden and the Netherlands)*

Balanced budget rules

- *In response to Fiscal Compact all of euro area Member States plus Bulgaria, Denmark and Romania have now in place a structural balanced budget rule.*
- *Same objective but no one-size-fits-all design; they are tailor-made and differ in their formulation of the target, correction mechanism, type of monitoring, etc.*

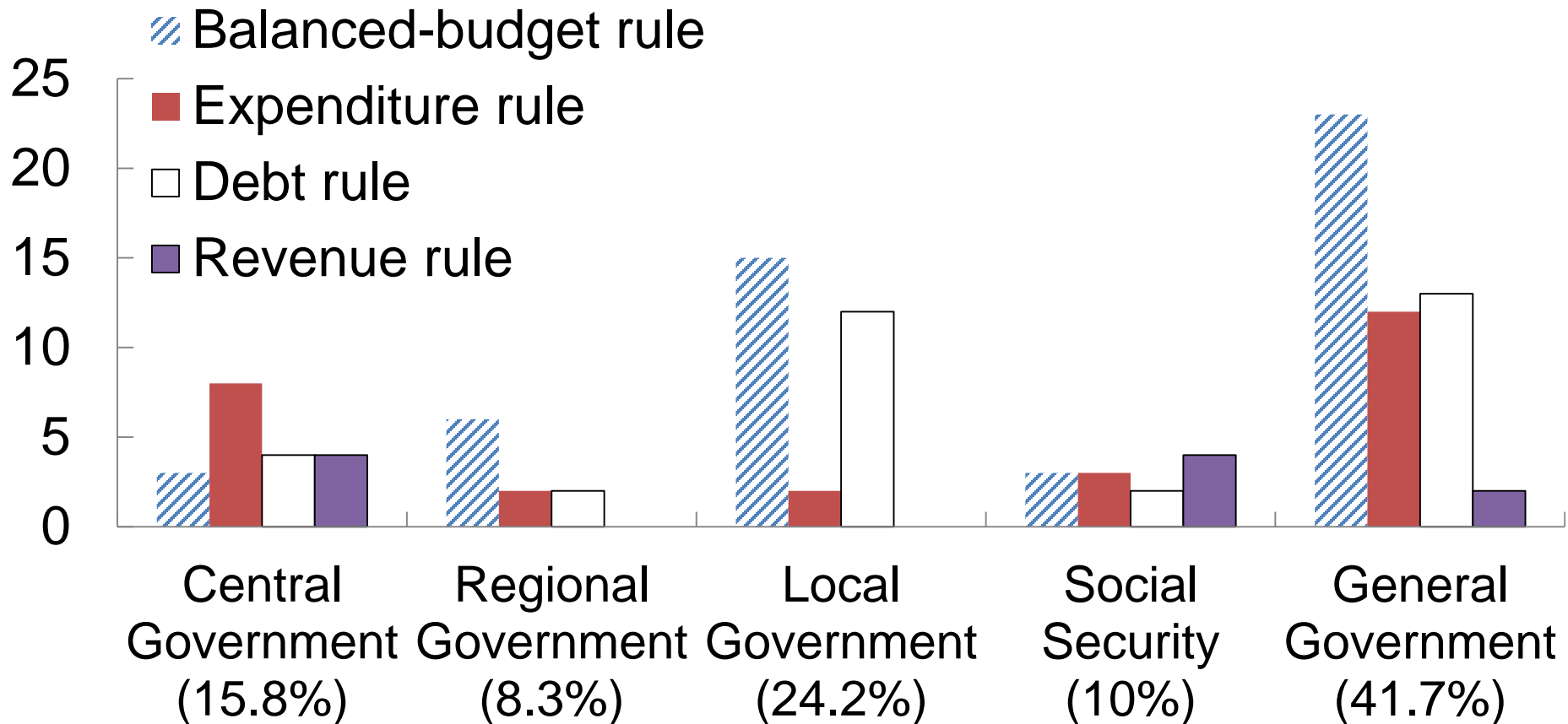
Debt rules

- *Formulation of debt rules differs between Member States (depends mainly on the initial level of debt):*
 - Set of thresholds of debt as percentage of GDP triggering certain sanctions (e.g. Poland, Romania and Slovakia)
 - Formulation similar to that in the EU legislation: gradual sustained reduction of debt surpassing 60% of GDP (e.g. Austria, Malta)

Coverage

- *The Directive calls for a set of national numerical fiscal rules encompassing the general government as a whole.*
- *The coverage of general government sectors under various types of rules differs between Member States.*

Numerical fiscal rules 2014: Type and sectors of government



Role of IFI in regard to fiscal rules

- *The BF Directive, Two-Pack and Fiscal Compact assign the task of monitoring the compliance with fiscal rules to IFIs.*
- *Such monitoring consists of elements like:*
 - Assessment of the necessity of triggering a correction mechanism in case of deviation from the rule
 - Assessment if the correction is proceeding according to plans
 - Assessment of appropriateness of applying escape clauses.
- *IFIs have potential to enhance respect of fiscal rules by governments because of reputational costs involved.*

Conclusions

- *Proliferation of numerical fiscal rules in the EU prompted by the crisis and the related strengthening of EU fiscal governance.*
- *The Directive sets general guidelines for numerical fiscal rules but leaves ample scope for adjustment to country-specific needs.*
- *As a result, the combination of rules and their coverage differ from country to country. However, there is a clear predominance of balanced budget rules.*



Thank you