Institute for International Integration Studies

IIIS Discussion Paper

No.315 / February 2010

A New Fiscal Framework for Ireland

Philip R. Lane
IIIS, Trinity College Dublin and CEPR

IIIS Discussion Paper No. 315

A New Fiscal Framework for Ireland

Philip R. Lane
IIIS, Trinity College Dublin and CEPR

Disclaimer
Any opinions expressed here are those of the author(s) and not those of the IIIS.
All works posted here are owned and copyrighted by the author(s).
Papers may only be downloaded for personal use only.

A New Fiscal Framework for Ireland

Philip R. Lane*
IIIS, Trinity College Dublin and CEPR

February 2010

Abstract

Pro-cyclicality in Irish fiscal policy has contributed to macroeconomic volatility over recent decades. Accordingly, this paper seeks to identify institutional mechanisms that can improve the performance of fiscal policy in macroeconomic stabilisation in Ireland. We propose a new fiscal framework for Ireland that combines the adoption of a rules-based approach to budgetary policy with the appointment of an independent fiscal policy council that will be formally involved in the fiscal process. Finally, we also advocate a set of ancillary reforms that will further improve the coherence of Irish fiscal policy with membership of European Monetary Union.

*Prepared for the Statistical and Social Inquiry Society of Ireland (February 11th 2010). This paper is part of an IRCHSS-funded research project "Analysis of Irish Macroeconomic Policy under EMU." I thank Donal Mullins for helpful research assistance. Email: plane@tcd.ie. Tel: +353 1 896 2259. Postal Address: Economics Department, Trinity College Dublin, Dublin 2, Ireland.

1 Introduction

A central feature of the current Irish economic crisis is that the government has been compelled to undertake a sizeable fiscal correction in the midst of a severe recession. While this route may well have been conditionally optimal given the situation faced by the government, it begs the question of whether a different path for fiscal policy during the pre-crisis period may have permitted a less onerous fiscal response to the crisis.

This debate about the cyclical behaviour of fiscal policy is especially important in view of Ireland's membership of European Monetary Union (EMU). As a member of EMU, Ireland shares a common monetary policy with the other member countries of the euro area. Accordingly, fiscal policy is the main macroeconomic instrument available to deal with country-specific shocks. However, the indicative evidence is that the pattern of Irish fiscal policy has not been a force for cyclical stabilisation.

The goal of this paper is to assess whether a new fiscal framework could deliver a superior cyclical pattern for Irish fiscal policy. If a new fiscal institutional setup could enhance macroeconomic stability for Ireland, it would improve the policy coherence of EMU membership and generate substantial benefits to Irish workers, households and firms in terms of less volatile employment and income levels.

Moreover, the establishment of a improved fiscal framework should also deliver short-run benefits. To the extent that a new fiscal framework improves the prospects for long-term fiscal sustainability, it should also improve Ireland's reputation in international debt markets, helping to reduce the currently-high spreads on Irish sovereign debt.

In terms of timing, it is widely appreciated that crisis periods can often foster institutional innovation, since the inertial forces that preserve the incumbent institutional structures are weakened by large, disruptive shocks.[1] In relation to the fiscal framework, there is some (qualified) evidence that economic crises raise the likelihood of the reform of budgetary institutions (Fabrizio and Mody 2009).

In designing a fiscal framework, there are two primary components. First, a fiscal framework may include the codification of a set of fiscal rules that would impose restrictions on annual budgetary choices.[2] Second, a fiscal framework may involve the establishment

[1] The importance of designing a fiscal process that guards against procyclicality was also highlighted in an earlier wave of research (see, amongst others, Lane 1998a, 1999, 2000 and Fitzgerald 2001a, 2001b). However, the boom conditions during that period overshadowed the need for a structural re-design.

[2] There is also a considerable literature that focuses on budgetary procedures (see, amongst others,

of an independent fiscal policy council that would take a formal role in the formulation and assessment of budgetary policies and monitors compliance with the set of fiscal rules. In general, both components may have a useful role in improving the conduct of fiscal policy.

Finally, it is important to appreciate that a domestic fiscal framework is complementary to the EU-level system of fiscal restraints, as expressed in the Stability and Growth Pact (SGP). The main focus of the SGP is in the avoidance and resolution of excessive deficits and debt levels, since the primary cross-border risk spillovers relate to these factors. However, in the event that fiscal adjustment is required (whether the correction of an excessive deficit or the accumulation of larger surpluses during boom times), the domestic ownership of the adjustment process is enhanced if the guiding fiscal framework is domestic in origin rather than conducted from Brussels. Moreover, the EU system of fiscal surveillance is essentially a "second read" of nationally-developed fiscal plans, such that it is inevitably weaker than a domestic fiscal framework that continuously guides the formulation of the domestic fiscal strategy from the point of inception.

The structure of the rest of the paper is as follows. In Section 2, we outline the theoretical debate concerning fiscal cyclicality. We review the cyclical pattern in Irish fiscal policy and provide a selective comparative review with the fiscal experience elsewhere in Section 3. In Section 4, we describe the fiscal rules and fiscal institutions that have been adopted in other EU countries and selected countries elsewhere. In Section 5, we outline some proposals for a new fiscal framework in Ireland. We make some supplementary recommendations for reform in Section 6. Finally, some concluding remarks are offered in Section 7.

2 Fiscal Cyclicality

In order to contribute to macroeconomic stability, it is desirable that fiscal policy moves in a counter-cyclical pattern. During boom periods, fiscal surpluses are accumulated which in turn enables the running of fiscal deficits during downturns without threatening long-term fiscal sustainability.

Behind the overall fiscal balance, this requires that the non-cyclical steady-state com-

Fabrizio and Mody 2006). In this research, the processes by which the budget is prepared, authorised and implemented are evaluated according to whether the fiscal "common pool" problem is controlled. I do not explicitly discuss such procedural rules in what follows.

ponents of government spending grow at rate of trend income growth, such that the ratio of public spending to income falls during booms and increases during recessions. (Unemployment benefit payments are mechanically cyclical in nature but most other components of public spending do not have a direct cyclical component.) By the same token, the non-cyclical steady-state components of revenue should grow at the same rate as trend incomes. However, since there is a substantial cyclical component in tax revenues, such revenues should grow relative to incomes during expansions and fall during contractionary episodes.

Such principles are easy to state. However, their application is not so straightforward. In particular, decisions about the appropriate stance for fiscal policy must be taken in a fog of uncertainty. First, it is non-trivial to decompose output between cyclical and trend components. Second, prudent policy must take into account the distribution of risks around the central forecast, rather than focusing exclusively on the expected path for output. Third, risks to the fiscal position do not only arise from developments in aggregate output but also are connected to the emergence of sectoral imbalances and mis-pricing in asset markets.

In relation to the first point, the identification of the trend output path for a small and highly open economy is bound to carry a large standard error band. The high mobility of capital and labour in and out of Ireland means that the potential level of production can shift quite rapidly. In particular, international factor mobility means that persistent positive shocks are likely to endogenously increase the productive capacity of the economy, while persistent negative shocks will induce a downward shift in potential output. In related fashion, permanent trend shocks have an amplified impact through the endogenous movement of capital and labour across borders.

Such trend volatility combines with cyclical fluctuations. Cyclical shocks can be driven by temporary production or demand shocks. In addition, the impact effect of current or anticipated trend shocks is also to induce cyclical fluctuations since the associated inter-sectoral or international resource reallocations do not occur instantaneously. Regardless of their source, cyclical shocks generate temporary shifts in wages, prices and employment levels that may depart from efficient levels due to a variety of nominal and real rigidities.

Accordingly, it is extremely challenging to obtain a precise estimate of the relative contributions of cyclical and trend factors in determining macroeconomic outcomes in a given period. Still, the joint analysis of a variety of wage, price and activity indicators may

provide a reasonable projection of the cylical condition of the economy.

However, in relation to policymaking, it is essential to incorporate the distribution of risks around such a central forecast. In particular, a macro-prudential approach to setting fiscal policy would recognise the importance of providing insurance against downside risks.

One particular type of risk relates to cyclical drivers that are prone to "sudden stops." Most obviously, activity levels that are driven by a combination of rising asset prices and a credit boom are typically characterised by a boom-bust cycle in which rising collateral values stimulate new credit-financed investment projects that deliver a sustained expansion phase until a trigger event lead to a revision in expectations and a sustained decline in investment that is amplified by a fall in collateral values and an increase in the cost of credit (see, amongst others, Geanakoplos 2009). During the expansion phase, the reversal risk may be low for a given planning period but is cumulatively large over a longer horizon. For this reason, the fiscal strategy should take into account macroeconomic risks over a range of horizons, not just vis-a-vis the next annual budget cycle.

However, beyond the technical difficulties in correctly assessing the cyclical state of the economy and the distribution of fiscal risks, it is apparent that the discretionary components of fiscal policy have a procyclical bias in many countries (see, amongst others, Lane 2003 and Agnello and Cimadomo 2009). Accordingly, even if the government is fully aware of the current cyclical position, political economy factors may induce it to act in a pro-cyclical manner.

There are two main types of explanation for fiscal procyclicality. One line of research highlights that the cost of public debt may co-vary negatively with the state of the business cycle - under these conditions, a government may be compelled by conditions in the capital market to tighten fiscal policy during a recession. A second series of contributions has focused on distortions in the political system that may generate a procyclical pattern in the fiscal position.

Regarding the former mechanism, researchers have largely focused on developing countries that may periodically suffer sovereign debt crises. However, the current financial crisis has underlined that funding costs and funding risks may also increase during recessionary periods even for high-income countries. A fundamental weakness with the funding hypothesis is that a far-sighted government would run sufficiently-large surpluses during good times in order to avoid reliance on issuing debt during downturns.

Accordingly, more weight is placed on theories that focus on distortions in the political

system as the source of fiscal procyclicality. Tornell and Lane (1999) highlight the "voracity effect" mechanism. In a political system with fragmented political power, a positive income shock leads to more intense lobbying by each powerful group. Since any individual group does not internalise the impact of its spending/tax demands on the overall fiscal situation, the collective outcome is that spending patterns are procyclical - an X percent increase in resources leads to a greater than X percent increase in spending. In contrast, a coordinated fiscal system does not exhibit such a procyclical pattern and spending is less volatile than income under this first-best benchmark.

Talvi and Vegh (2005) provide a complementary explanation. In their model, a budget surplus unleashes intense lobbying pressures to increase public spending or raise taxes. Facing such pressures, the government chooses to raise spending and cut taxes. In contrast, the lower level of lobbying during deficit periods means that the government restores fiscal health by cutting spending and raising taxes. Overall, the fiscal position exhibits a procyclical pattern.

Whereas Talvi and Vegh (2005) model the political distortion as exogenous, Alesina et al (2008) provide a theoretical model that explains the existence of this distortion. These authors identify an agency problem by which the electorate knows that governments like to divert resources towards politically-favoured elites or 'rents' for politicians but cannot observe the true level of government borrowing (for instance, the government may hide liabilities in off balance sheet entitites). Accordingly, voters require the government to cut taxes or raise spending on public goods during booms, in order to constrain the political temptation to divert boom-year revenues towards transfers for politically-favoured elites or 'rents' for politicians. In this way, the solution to the agency problem is for voters to call for a procyclical pattern in fiscal policy. While this is suboptimal in terms of the volatility of consumption, it is efficient in terms of limiting the waste of public resources on socially-useless political rents.

A feature of these political economy models, is that the procyclicality bias tends to be more severe, the greater is the level of macroeconomic volatility. In a relatively-stable economy, the amplitude of the business cycle may be sufficiently low that it is sufficient to run a surplus in the low single digits during boom periods. However, in a more volatile economy, the higher amplitude of the cycle may call for substantially larger surpluses during expansion phases. Macroeconomic volatility tends to be higher in smaller, more globalised economies due to the limited level of domestic diversification and the elasticity

of international factor flows. Accordingly, procyclicality bias is a more serious problem for a country such as Ireland relative to larger, more diversified economies.

Across the research contributions on fiscal procyclicality, a common refrain is that such political distortions can be mitigated by the existence of effective fiscal rules and fiscal institutions. If fiscal policy is determined in an institutional environment that insulates the common interest from the adverse impact of sectoral lobbying or political rent seeking, such distortions can be neutralised and an optimally counter-cyclical fiscal policy can be implemented. Indeed, the empirical evidence is that fiscal procyclicality is less pronounced in countries with stronger institutions (Woo 2003, Alesina et al 2008). More generally, many countries have taken purposeful steps in order to develop fiscal rules and fiscal institutions that are designed to improve the cyclical behaviour of fiscal policy. We turn to these initiatives in Sections 4 and 5. However, we first briefly review the pattern of fiscal cyclicality in Ireland during recent years.

3 Fiscal Cyclicality in Ireland: Recent Experience

Our focus in this section is on the cyclical conduct of Irish fiscal policy in the period since Ireland joined EMU in 1999.[3] While EMU marked a fundamental shift in the macroeconomic policy environment, it is also important to appreciate that the late 1990s was a remarkable period in Irish economic history, with very rapid output growth far in excess of historical averages and the attainment of effective full employment. Moreover, there were further important structural shifts in the nature of the Irish economy, most notably associated with the increased integration of the European labour market with the EU accession of the ten Central and Eastern European new member states in 2004. In common with other countries, the structure of the Irish economy has also been altered over the last decade through the increasing economic role of the emerging market economies and the growth in international financial flows.

For these reasons, the accurate assessment of the cyclical state of the Irish economy has not been an easy task over this period. However, by the same token, these structural factors also raised the level of uncertainty about the appropriate cycle-trend decomposition, which reinforced the importance of adopting a prudent fiscal stance. This consideration is

[3] See Lane (1998a) and Hunt (2005) for econometric studies of fiscal cyclicality in Ireland over longer sample periods.

especially relevant in assessing fiscal policy during the 2003-2006 credit and housing boom, in view of the historical frequency of credit/housing booms being succeeded by severe recessions.

ESRI (2009) have provided a set of estimates for the fiscal stance. This approach follows the method described in Kearney et al (2000) and compares the actual budget balance in each year to the budget balance that would have transpired under a simple indexation rule by which the previous year's expenditure and revenue plans are passively updated by assuming that revenues and cyclical expenditure items will grow in line with actual output growth while non-cyclical expenditure items will grow in line with trend output growth. The difference between the actual and indexed balances captures the discretionary change in the fiscal position. By this method, it is calculated there were substantial pro-cyclical fiscal expansions during the 1999-2002 and 2003-2008 periods of relatively-high output growth.

Another perspective is obtained by conducting an ex-post review of the cyclicality of fiscal policy, using the current European Commission estimates of the output gap during these years. Over the 2001-2007 period, the average value of the general government surplus was just one percent of GDP despite an average GDP growth rate of 5.6 percent and an average positive output gap of 2.1 percent. The failure to run larger surpluses during this period meant that the sizeable swing in the fiscal position in 2008-2009 drove the overall fiscal balance into a deep deficit position.

In turn, the average cyclically-adjusted budget balance was approximately zero during this period. Moreover, the standard OECD method to calculate the cyclical component of the budget balance is narrowly defined to just refer to those revenue and expenditure items that systematically vary with aggregate GDP.

In particular, it does not take into account revenue windfalls that are attributable to asset price booms or sectorally-concentrated output expansions (such as a construction boom). That the normal cyclical adjustment is misleading under such conditions has been well established for some time (Eschenbach and Schuknecht 2004, Girouard and Price 2004). Accordingly, the true state of the structural budget balance was worse than reported under the standard methodology.

Moreover, taking the reported structural balance at face value, the inherent potential volatility of the Irish economy plus the well-documented risks associated with rapid expansion in credit and housing prices meant that a target of substantially positive structural

balance during expansionary periods would have been more prudent in order to allow for greater flexibility in the event of a sharp downturn.

In relation to the structural balance, there are two more factors to consider. In one direction, the relatively-high level of public investment during this period may have justified running a lower structural surplus. However, in the other direction, the predictable future growth in ageing-related public spending calls for the running of larger structural surpluses in order to minimise the distorting impact of a higher future tax burden. Moreover, a detailed assessment of the optimal financing of public investment also requires a quantitative evaluation of the return on the public investment and the economically-relevant split between public capital replacement (due to past depreciation of the existing public capital stock) versus net additions to the public capital stock.

Further insights into the conduct of fiscal policy during this period can be obtained by comparing ex-ante fiscal plans to the ex-post fiscal outcomes, where the ex-ante projections for GDP growth, the output gap and the general government balance can be obtained from each year's budget documents (available from the website of the Department of Finance). The projected and actual values for these variables are shown in Table 1.

One basic problem was the ex-ante projection for the output gap averaged -1.6 percent of potential GDP during 2003-2007, whereas the ex-post retrospective estimate for the average output gap for this period is +2.1 percent. In effect, this over-stated the cyclically-adjusted budget balance by an average of 1.5 percent of potential GDP (based on a 0.4 elasticity of the budget to the cycle under the standard method). (We leave aside the further adjustments that are required on account of the sectorally-unbalanced nature of growth during this period and the boom in asset prices.)

It is useful to examine the co-movement between "growth surprises" and "fiscal balance surprises" where each is defined as the difference between the realised value and ex-ante expected value. These are charted in Figure 1. During 1999-2007, the growth surprise was positive in each year, with the sole exception of 2001. In two of these years (2002 and 2007), the fiscal surprise was negative despite the positive output surprise. Moreover, in 1999, the positive fiscal surprise was mild relative to the strongly positive growth surprise, falling below the level indicated by the standard cyclical adjustment.

However, the fiscal surprise exceeded the growth surprise during 2003-2006, such that the level of surpluses exceeded expectations during this period. These strong fiscal surprises reflect the revenue windfalls collected during this boom phase (see also Addison-Smyth

Table 1: Fiscal Plans and Fiscal Outcomes

	Projected Growth	YGAP	GGB	CAB
1999	6.7	3.7	1.7	0.6
2000	7.4	2.7	3.3	2.6
2001	8.8	5.4	4.3	2.9
2002	3.9	3.0	0.7	-0.1
2003	3.5	-0.9	-0.7	-0.4
2004	3.3	-1.5	-1.1	-0.5
2005	5.1	-1.9	-0.8	0
2006	4.8	-2.3	-0.6	0.1
2007	5.3	-1.5	1.2	1.8
2008	3.0	-1.5	-0.9	-0.3
2009	-0.8	-4.2	-6.5	-4.8
	Actual Growth	**YGAP**	**GGB**	**CAB**
1999	10.8	2.6	2.7	1.5
2000	9.3	3.8	4.7	3.0
2001	5.8	2.3	0.9	-0.2
2002	6.4	2.3	-0.4	-1.5
2003	4.5	1.2	0.4	-0.3
2004	4.7	0.6	1.4	0.9
2005	6.4	1.7	1.7	0.8
2006	5.7	2.5	3.0	1.9
2007	6.0	4.4	0.2	-1.7
2008	-2.0	0.1	-7.3	-7.1
2009	-7.0	-4.5	-11.8	-9.6

YGAP is output gap, GGB is general government balance, CAB is cyclically-adjusted balance.

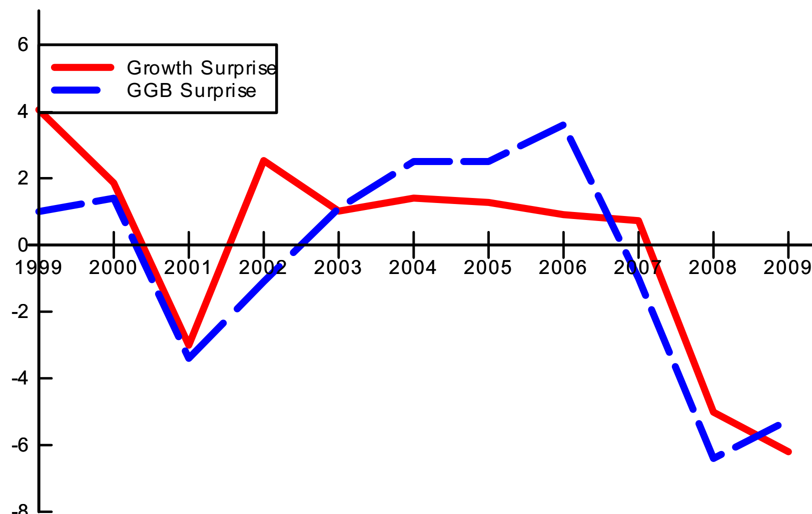


Figure 1: Growth Surprises and GGB Surprises, 1999 to 2009.

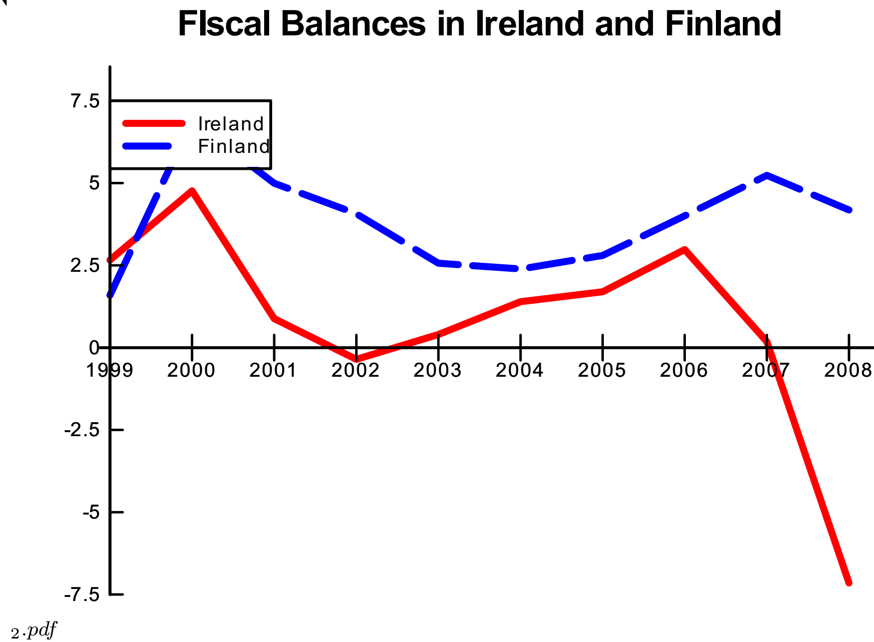
and McQuinn 2009).[4] While these unplanned additional fiscal surpluses narrow the gap between planned and optimal fiscal balances, the low average ex-post surpluses remained insufficient to allow a counter-cyclical discretionary fiscal response to the 2008-2009 (and ongoing) crisis.

Put differently, the ex-ante fiscal plans during 1999-2007 were insufficiently prudent. While the pro-cyclical stance of fiscal policy during 1999-2001 was criticised at the time in the annual European Commission opinion on the Irish stability and convergence programme, it is important to acknowledge that the ex ante fiscal plans were generally well received by Brussels during the 2003-2007 period.[5] However, both sides also routinely acknowledged that the cyclical position of the Irish economy was chronically difficult to ascertain. Under such conditions of uncertainty, the bias in fiscal policy needs to err on the side of caution.

[4]In addition, the 2004 fiscal surprise is in part attributable to the substantial one-off proceeds from Revenue investigations during that year.

[5]The 2001 budget was sufficiently pro-cyclical in its planned stance that the European Commission issued a formal recommendation against Ireland under Article 99.4 of the Maastricht Treaty, to much controversy at the time.

IREFIN



$_2.pdf$

Figure 2: Fiscal Balances in Ireland and Finland

Finally, in terms of comparative performance, it is worth noting that that some other countries during the boom period were able to run larger surpluses, despite having lower growth rates. Drawing on Lane (2010a), Figure 2 shows the budget dynamics for Ireland and Finland and highlights that the level of budget surpluses throughout the cycle were systematically higher in Finland than in Ireland.

4 Fiscal Rules and Fiscal Institutions: International Trends

In this section, we review the international experience with fiscal rules and independent fiscal institutions. While we primarily focus on EU member countries, we also draw on evidence from other countries.

4.1 Fiscal Rules

Appendix I lists the fiscal rules that are currently in operation in EU member countries (based on 2008 data).[6] There is tremendous variety in the types of rules that have been implemented. Some focus on the budget balance, whereas others operate as limits on expenditure growth (there are few revenue-target rules). Moreover, there is substantial variation in terms of the monitoring and enforcement of these rules.

Accordingly, the European Commission has also constructed a numerical fiscal rules index that is intended to capture the strength of each rule. As is described in European Commission (2009), each fiscal rule is evaluated along several dimensions. First, the statutory base of the rule is ranked, with a constitutional base superior to a legal act which in turn is stronger than a non-statutory political commitment.

Second, the capability to revise the rule's objectives is assessed - the smaller the margin for revising the objective, the stronger the rule. Third, the strength of the rule is positively related to the independence of the body in charge of monitoring compliance with the rule. Fourth, a rule is stronger if an independent body is in charge of enforcement of the rule. Fifth, rules are ranked according to the clarity and severity of the sanctions for failure to comply with the rule. Sixth, a rule is stronger if rule observance is closely monitored by the media. The overall index is a weighted average of the scores across the different criteria.

Table 2 shows the 2008 scores for the fiscal rule index (FRI). Among the highest-scoring rules are the rules governing the deficit and debt levels in the United Kingdom and Sweden's structural balance rule. While Ireland's NPRF rule receives a middling grade, the rule governing multi-annual capital spending envelopes receives a very low score, reflecting its marginal status.

The FRI is correlated with fiscal performance. European Commission (2009) reports the following panel estimation results for the cyclically-adjusted primary balance (CAPB)

$$\begin{aligned} CAPB_t &= \underset{(9.6)^{***}}{0.54} * CAPB_{t-1} - \underset{(1.1)}{0.058} * YGAP_{t-1} + \underset{(3.6)^{***}}{0.04} * DY_{t-1} \\ &+ \underset{(2.7)^{**}}{0.48} * FRI_t + \varepsilon_{it} \end{aligned}$$

where $YGAP$ denotes the output gap, DY the debt ratio and FRI is the fiscal rules

[6] We list just the rules that apply at the level of the central government or general government. In fact, rules are more prevalent at the level of regional or local governments, since the central government has strong incentives to limit the fiscal discretion of lower levels of government.

Table 2: Fiscal Rules Index

FR	Country	FRI	FR	Country	FRI
8011	Estonia	8.8	16021	Lithuania	4.7
27021	United Kingdom	8.4	16031	Lithuania	4.7
21021	Portugal 1	8.3	13011	Hungary	4.7
27011	United Kingdom	7.9	14011	Ireland	3.9
10012	Spain	7.6	7022	Denmark	3.6
3011	Bulgaria	7.4	6021	Germany	3.2
20011	Netherlands	6.5	26011	Slovakia	3.05
20021	Netherlands	6.5	12021	France	2.9
3021	Bulgaria	6.5	11012	Finland	2.9
7031	Denmark	6.2	12012	France	2.2
7012	Denmark	5.7	16011	Lithuania	2.0
24032	Sweden	5.6	6011	Germany	1.9
24022	Sweden	5.3	11032	Finland	1.7
25011	Slovenia	5.1	18011	Latvia	1.7
5011	Czech Republic	5.0	14021	Ireland	0.8
17011	Luxembourg	4.9	22011	Portugal	0.6
17021	Luxembourg	4.9	15012	Italy	0.3
1013	Austria	4.8			

FR is fiscal rule number in ECFIN database; FRI is fiscal rule index score. Source: Fiscal Governance database maintained by DG-ECFIN of the European Commission.

index.[7] This regression shows that those countries that adopt stronger fiscal rules are more successful in improving the structural fiscal balance.

A similar result is also obtained by Fabrizio and Mody (2006), using a different index for the strength of budget institutions and a different sample of countries. In related fashion, Beetsma et al (2009) also find that stronger fiscal rules are associated with more positive planned fiscal balances; moreover, these authors find that countries with stronger fiscal rules are also more assiduous in actually implementing fiscal plans.[8]

However, the overview provided by European Commission (2009) also highlights some limitations and some common flaws in the design of fiscal rules. One basic problem is that ex-post independent monitoring of compliance with a rule is rare and there is little by way of sanctions in the event of non-compliance. In relation to central governments, many of the rules focus on expenditure growth, whereas the main cyclical problem in most economies is how to handle unexpected revenue windfalls. Accordingly, the European Commission advocates the adoption of revenue rules that specify how revenue windfalls will be allocated (for example, to debt reduction).

The current crisis has also illustrated the brittle nature of many of these rules, since the specification of the rules typically did not cater for the occurrence of major non-standard shocks. An important lesson is that fiscal rules typically should include escape clauses that make clear the conditions under which the normal operation of a rule is suspended (see also Mody and Stehn 2009). However, it is important that such deviations are only triggered in the event of genuine shocks, in view of the obvious potential for abuse.

In addition to observing fiscal behaviour in other advanced economies, it is also instructive to learn about institutional developments in other small, open economies. Chile provides an especially relevant case study (see, amongst others, Ffrench-Davis 2010). It adopted a new fiscal framework in 2001, which was subsequently codified in the 2006 Fiscal Responsibility Law. Under this framework, the Chilean government must run a structural fiscal surplus. Moreover, the state of the business cycle is evaluated by an expert committee

[7] The absolute values of the t-statistics are in parentheses and ***, ** denote significance at the 1 percent and 5 percent levels respectively. The regression also includes country and time fixed effects; the t-statistics are calculated using heteroskedasticity-robust and clustered standard errors. The sample covers 1990-2008 for the EU27 group of countries.

[8] The empirical work is still far from conclusive. In particular, as is emphasised by Debrun and Kumar (2007), it is difficult to identify the line of causality between good fiscal outcomes and fiscal rules, since the adoption of a rules-based approach may be more likely under a well-behaved fiscal regime.

such that the government must operate under this independently-determined constraint. During 2004-2008, Chile ran a cumulative fiscal surplus of 28.5 percent of GDP, with the Treasury becoming a significant net creditor (fiscal liabilities were small, while the assets accumulated were substantial). By building up a war chest during the boom years, Chile was able to meet the 2009 recession with a vigorous counter-cyclical policy: there was a 14.5 percent real growth in public spending in 2009, despite a 28.5 percent fall in fiscal revenue. (The projected 2009 overall fiscal balance was a 4 percent deficit.)

Finally, it is instructive to note that there is some empirical evidence that a rules-based approach is more effective in controlling the budget balance in countries where fiscal authority is centralised (Debrun and Kumar 2007). This is arguably the case in Ireland, since the Minister of Finance plays the leading role in setting out the aggregate budgetary stance, even if final decisions are ultimately the collective responsibility of the cabinet. Debrun and Kumar (2007) also find that fiscal rules are more effective in more volatile economies - again, this reinforces the relevance of rules for Ireland, in view of the inherent volatility of small, globalised economies.

4.2 Fiscal Institutions

The preceding discussion of fiscal rules has underlined that such rules are more effective if independent agencies play an active role in the fiscal policy process. More generally, the key to insulating the fiscal process from procyclicality pressures is to find institutional devices that enable governments to maintain the cyclically-appropriate fiscal stance.

Appendix II provides a tour of the types of independent bodies that play some kind of role in the fiscal process in many EU member countries. (A striking omission from the list is Ireland.) In the typical case, an independent agency may play an advisory role in the budgetary process. However, at least so far, there are very few cases in which an independent institution has more formal powers to influence the setting of fiscal policy.

It is also common that multiple independent agencies play a role in the fiscal process. It is increasingly standard to have an independent Court of Auditors to measure the integrity and quality of public spending - this role is played in Ireland by the office of the Comptroller and Auditor General. It is also common to incorporate a role for an independent agency in developing the macroeconomic forecasts that guide the setting of fiscal policy – the ESRI may be interpreted as informally fulfilling this role in Ireland, even if there is no statutory

requirement for the government to follow this independent forecast. However, these partial fiscal mandates are not an adequate substitute for a more fully-fledged independent fiscal agency that influences the overall stance of fiscal policy.

As has been highlighted by Wyplosz (2008), there are so far relatively few examples of effective Fiscal Policy Councils. One interpretation is that the concept is relatively new and that such councils will become increasingly prevalent in the coming years, with the rate of adoption stimulated by the current fiscal crises in many countries.

Another is that there may be resistance among lobby groups to the establishment of a Fiscal Policy Council, since a shift towards a more long-sighted fiscal process would limit the access of such groups to debt-financed tax breaks or spending programmes. However, the current crisis presents a window of opportunity to make such institutional reforms, since it has revealed in dramatic fashion the costliness of the discretionary approach to fiscal policy that was practised during the pre-crisis years.

An especially advanced model is provided by Sweden. The Swedish Fiscal Policy Council was established in August 2007 and consists of eight members, which is assisted by a small secretariat.[9] Its mandate is to provide an independent evaluation of the Swedish fiscal policy.

To this end, it evaluates whether the government is achieving its stated fiscal objectives: long-run sustainability; the budget surplus target; the ceiling on central government expenditure; and that fiscal policy is consistent with the cyclical situation of the economy. The council also evaluates whether the development of the economy is in line with healthy long-run growth and sustainable high employment. Additional tasks are to examine the clarity of the Government's budget proposals and to review its economic forecasts and the economic models used to generate them. Finally, the Council seeks to stimulate public debate on economic policy.

The Council publishes an annual report, which is used by the Swedish Parliament in evaluating the Government's fiscal policy. Although the Council is created by the Government, there is an explicit expectation that Parliament (Riksdagen)—and particularly the Standing Committee on Finance—will take an interest in the report.[10] It is also ac-

[9] In terms of membership, it consists of six academics (including two from Denmark) and two former policy officials.

[10] This section draws on the blog post *Sweden's New Fiscal Council – helping assure credible fiscal policy* from the IMF's Public Financial Management Blog (http://blog-pfm.imf.org/pfmblog/2007/10/swedens-

tive in organising conferences and publishing papers on various aspects of fiscal policy. The Council is intended to complement the the existing institutions involved in evaluating macroeconomic and fiscal development.[11]

5 A New Fiscal Framework

The quality of Irish fiscal policy would benefit from the adoption of a new fiscal framework. Such a framework should have two key elements: (a) a set of fiscal rules; and (b) an independent fiscal policy council.

5.1 Fiscal Rules

In relation to the former, the over-riding principle in designing fiscal rules for Ireland should be to preserve medium-term fiscal sustainability. The already-established fiscal rule to pay in one percent of GNP each year into the National Pension Reserve Fund contributes to this goal but there is no rule guiding the evolution of the overall budget balance.

It is appropriate to target an annual surplus in the structural fiscal balance for several reasons. First, Ireland faces the prospect of higher future public spending needs on health-care and pensions due to the ageing of the population, such that the distortions associated with a higher future tax burden can be mitigated by prefunding part of this expenditure growth (the NPRF fund is only designed to make a partial contribution to future pensions spending). Second, the public debt of Ireland will be quite substantial by the end of the current fiscal adjustment process: returning the level of public debt to be below the 60 percent ceiling specified in the SGP will require a sustained period of structural surpluses. Third, the skewness of the fiscal risk distribution means that it is appropriate to target a

new-fis.html

[11] These include: The National Institute for Economic Research (Konjunkturinsitutet)—an independent agency under the Government—publishes macroeconomic forecasts, analyses the cyclical development, and regularly comments on the Government's fiscal policies; The National Financial Management Authority (Ekonomistyrningsverket)—also an agency under the Government—publishes independent medium-term forecasts for central government revenue and expenditure five times per year, which enables a second opinion on the fiscal development and the quality of the Government's official forecasts; The National Audit Office (Riksrevisionen), under Parliament, has recently set up a division for government finances, concentrating on the Government's institutional capacity to pursue sustainable policies, and the transparency of budget reports.

structural surplus during "normal times" in order to provide a buffer against the occurrence of a major negative macroeconomic shock.

In tandem with the last point, the structural balance fiscal rule should contain an escape clause by which a structural fiscal deficit is permitted in the event of a sufficiently large negative shock. Such an escape clause provides the flexibility to address major recessions, which may require extra fiscal measures beyond the automatic stabilisers that are part of the passive cyclical component of the budget. In terms of defining the conditions that would activate the escape clause, this could be delegated to an independent fiscal policy council in order to ensure that it is is only triggered by truly exceptional shocks (see discussion below).

This main fiscal rule could be augmented by some ancillary rules. One candidate ancillary rule could relate to the establishment of a rainy-day fund that could finance a structural deficit under the exceptional circumstances outlined in the previous paragraph.[12] By holding a buffer stock of liquid assets, the financing of exceptional deficits by such a fund could avoid the need to seek fresh borrowing during those periods in which funding costs and funding risk are least favourable. The rainy-day fiscal rule could specify a target steady-state value for the fund (as a ratio to GNP). Moreover, the rule could specify that surprise revenue windfalls should be paid into the fund and surprise revenue shortfalls paid out of the fund. In this way, the rainy day fund could play a leaning against the wind role in dealing with unanticipated revenue fluctuations. Moreover, a rules-based approach to dealing with revenue surprises is strongly advocated by European Commission (2009).

Other ancillary rules could include procedural rules such as a formalisation of the principal role taken by the Minister for Finance in determining the overall budgetary position, even if decisions on the composition of public spending and revenues remain the collective responsibility of the Cabinet (see also Fabrizio and Mody 2006). Through such a clear allocation of responsibility for the overall budgetary strategy, the ability of the Minister for Finance to control the fiscal stance would be enhanced.

[12] While the NPRF has been deployed as a substitute rainy-day fund, this has diverted the NPRF from its long-term investment strategy and the equity-concentrated composition of its portfolio was not designed to fulfill a short-term liquidity function.

5.2 An Irish Fiscal Policy Council

In relation to the latter, the establishment of an independent fiscal council offers a myriad of potential benefits.[13] First, such a council can play a role in identifying the cyclical state of the Irish economy and the distribution of macroeconomic risk factors. Second, given the macroeconomic environment, it could make recommendations concerning the overall budgetary stance that would be consistent with medium-term fiscal sustainability. Third, it could monitor compliance with the specified fiscal rules and make recommendations concerning the appropriate adjustment path in the event of non-compliance. Fourth, in related fashion, it could make an ex-post evaluation of the conduct of fiscal policy over the preceding year.

In addition to these direct budgetary roles, an independent fiscal council could also perform additional roles. It could contribute to the transparency of the fiscal process by acting as an independent monitor of the quality and availablity of the fiscal data; it could conduct or sponsor research on the underlying characteristics of the taxation and expenditure systems and the optimality of the public debt management strategy; and it could promote the level of public debate about fiscal policy through engagement with Oireachtas committees, media and the organisation of policy workshops.

It is important to emphasise that the establishment of a fiscal framework does not constrain the fundamentally political nature of decisions over public spending and taxation. In particular, medium-term fiscal sustainability is consistent with a wide range of public spending levels - it just requires that the trend component of public spending is matched by a corresponding level of trend revenue streams. Accordingly, if the politically-supported ratio of public spending to GDP shifted from one level to another, this can be accomodated by the specification of a transition plan that specifies how revenues will be adjusted to match the new desired level of government expenditure.

In terms of scale, the Swedish Fiscal Policy Council provides a reasonable model – indeed, the membership of the council could be smaller than the eight that are included in the Swedish case. Moreover, it would be desirable to match the Swedish practice by including some non-nationals in the membership of the Irish council, since this expands the range of potential members and provides a mechanism for Ireland to learn from the fiscal

[13] It is helpful to realise that Ireland has already delegated a significant component of national fiscal policy. In many countries, public debt management remains the responsibility of the Treasury; in Ireland, this function has been successfully outsourced to the NTMA over many years.

experience in other countries. In addition, the professional secretariat to the Council could be the natural home for a small number of professional economists that would be focused on research and analysis related to Irish fiscal policy. In this way, the specialist staff of the Council could be complementary to the skills of the generalist/managerial civil servants that mainly populate the Department of Finance.

In terms of setup, it is important that the fiscal policy council is an independent institution, for the same types of reasons that justify the independence of central banks. However, it is also vital that the fiscal policy council is accountable. Accountability can be made effective by a two-track process. First, the members of the fiscal policy council should testify before the relevant Oireachtas committee(s) on a regular basis and explain clearly any errors in the projections made by the council. Second, the technical quality of the work produced by the fiscal council should be audited by regular reviews carried out by an international expert group. In this way, such a group would perform the same type of role as played by the Independent Evaluation Office of the International Monetary Fund.

Finally, it is important to emphasise the complementarity between a rules-based approach to fiscal policy and the role of an independent fiscal policy council, since the latter can play a role in ensuring adherence to the fiscal rules, while the fiscal rules provide an anchor for the work of the fiscal council. Debrun and Kumar (2007) provide some suggestive evidence that fiscal rules are more effective in controlling the budget balance in the presence of independent fiscal institutions.

6 Other Institutional Reforms

While the main focus of this paper is on the core elements of the fiscal framework described in the previous section, it is also important to acknowledge that the adaptation of national fiscal policy to EMU membership also requires further shifts in some fundamental practices. In this section, I briefly outline two important fiscal reforms that would improve the coherence of Ireland's membership of the monetary union.

6.1 Pay Determination in a Monetary Union

For a variety of reasons, there is deep resistance to downward flexibility in nominal wages (see Lane 2009 for a more detailed discussion). However, in the event of a major negative

macroeconomic shock, the absence of the currency devaluation option means that downward flexibility in wages (and prices) is required if the adjustment process is to be timely and avoid persistent increases in unemployment.

However, the establishment of EMU did not lead to any re-design of employment contracts, despite the fundamental shift in the macroeconomic policy environment. In relation to the public sector, the substantial nominal pay reductions that have occurred represent a marked shift from previous pay policies.

Looking to the future, it would be better to adopt an approach to public sector pay determination that explicitly incorporates the risk that pay levels may occasionally need to be reduced in response to macroeconomic events. In particular, a two-part pay scheme may be efficient. Under such a system, part A of a salary would be fully protected against downward adjustments - this component would provide the employee with a level of income insurance for planning purposes. In contrast, part B of a salary would be a state-contingent payment. Under an adverse shock, the part B payment could be reduced or eliminated in response to a set of defined trigger events, such as a contraction in GDP or tax revenues beyond given threshold levels.

A trade off exists. The larger the share of total compensation that is allocated to the part A component, the greater is the stability of nominal incomes but the lower is the degree of nominal flexibility. In exchange for greater stability, the average level of pay should be set at a lower level since the employer is in effect providing income insurance to employees and will need to build up a precautionary reserve fund to smooth out fluctuations. In contrast, average pay can be set at a higher level if the part B component represents a more significant fraction of total compensation, since total pay can be downwardly adjusted in the event of a negative shock.

If such a pay system were introduced for public sector workers, this would make fiscal policy a more effective instrument for macroeconomic stabilisation, in view of the key role for wage adjustment in minimising persistent unemployment. In relation to the private sector, similar multi-part payment contracts may spread in reaction to such an innovation in the public sector or as part of a new type of social partnership agreement. While the prevalence of bonuses and other types of discretionary payments in some private-sector industries means that there is already some scope for downward pay flexibility, these are typically linked to firm- or industry-specific performance indicators rather than to macroeconomic factors. From an economy-wide perspective, a state-contingent component in

private sector pay deals that is linked to national macroeconomic conditions would facilitate macroeconomic adjustment.

6.2 Index-Linked Government Bonds

Under EMU, the medium-term average inflation rate for the aggregate euro area should be close to two percent. However, for an individual member country, the national inflation rate may deviate from this target for substantial periods. In the case of Ireland, inflation was substantially above the euro area average for most of the first decade of the monetary union; it is plausible that we are now undergoing a period of sustained under-shooting in line with the real devaluation process.

One consequence of such fluctuations in inflation is that the inflation-adjusted real interest rate in Ireland has been quite volatile under EMU. The availability of bonds that are indexed to the national price level would allow savers and borrowers to insure against the local component in nominal volatility. Accordingly, it would improve risk management capabilities if such products were issued. While the potential market for such bonds may be limited by liquidity factors, it would be worthwhile from a broad policy perspective to evaluate the benefits and costs of establishing a programme of index-linked bonds or savings products. (Within the euro area, France already issues bonds that are indexed to the French inflation rate.)

7 Conclusions

This paper has argued that the cyclical performance of Irish fiscal policy can be improved by the adoption of a new fiscal framework. The new framework should have two, complementary dimensions: the adoption of fiscal rules that codify the route to fiscal sustainability; and the establishment of an independent fiscal policy council that plays a central role in the determination and enforcement of the appropriate cyclical stance for fiscal policy. In addition, other fiscal reforms have been proposed that relate to the determination of public sector pay and the design of public debt securities. Such a re-design of the fiscal process can provide a mechanism that strengthens the coherence of Ireland's membership of EMU.

The scope of this paper has been necessarily limited to providing a very broad-brush description of this new fiscal framework. A full-scale study would be required to work out

the details of the optimal fiscal rules for Ireland and the optimal design of the independent fiscal policy council. In addition, the adoption of such a framework requires buy in from the political system and the policy officials in the Department of Finance.

Accordingly, this type of institutional transformation is a non-trivial task. However, it offers substantial medium-term benefits by improving Ireland's ability to deal with macroeconomic shocks. Moreover, by improving the foundations of future fiscal policy, it will further help to improve Ireland's current fiscal reputation.

References

Addison-Smyth, Diarmuid and Kieran McQuinn (2009), "Quantifying Revenue Windfalls from the Irish Housing Market," *Research Techical Paper 10/RT/09*, Central Bank and Financial Services Authority of Ireland.

Agnello, Luca and Jacopo Cimadomo (2009), "Discretionary Fiscal Policies over the Cycle," *ECB Working Paper No. 1118.*

Alesina, Alberto, Filipe Campante and Guido Tabellini (2008), "Why is Fiscal Policy Often Procyclical?," *Journal of the European Economic Association* 6(5), 1006-1036.

Baumann, Elke, Elmar Donnebrink and Christian Kastrop (2008), "A Concept for a New Budget Rule for Germany," *CESifo Forum* 2/2008, 37-45.

Beetsma, Roel, Massimo Giuliodori and Peter Wierts (2009), "Budgeting versus Implementing Fiscal Policy in the EU," *Economic Policy*, forthcoming.

Benetrix, Agustin and Philip R. Lane (2009b), "The Impact of Fiscal Shocks on the Irish Economy," *Economic and Social Review*, forthcoming.

Benetrix, Agustin and Philip R. Lane (2009c), "Fiscal Shocks and the Sectoral Composition of Output," *Open Economies Review*, forthcoming.

Benetrix, Agustin and Philip R. Lane (2009d), "Fiscal Cyclicality and EMU," *mimeo*, Trinity College Dublin.

Blanchard, Olivier (2007a), "Current Account Deficits in Rich Countries," *IMF Staff Papers* 54(2), 191-219.

Calmfors, Lars (2003), "Fiscal policy to stabilise the domestic economy in the EMU: What can we learn from monetary policy?," *CESifo Economic Studies* 49 (3), 3-19.

Calmfors, Lars (2008), "Comment on Charles Wyplosz: Fiscal Policy Councils - Unlovable or Just Unloved?," *Swedish Economic Policy Review* 14, 193-197.

Debrun, Xavier and Manmohan S. Kumar (2007), "The Discipline-Enhancing Role of Fiscal Institutions: Theory and Empirical Evidence," *IMF Working Paper No. 07/171.*

De Buitleir, Donal and Don Thornhill (2001), "A Mechanism for Sharing the Fruits of Growth," *ESRI Quarterly Economic Commentary*, March.

Economic and Social Research Institute (2009), *Quarterly Economic Commentary* (Winter).

Eschenbach, Felix and Ludger Schuknecht (2004), "Budgetary risks from real estate and stock markets," *Economic Policy* 39, 313-346.

European Commission (2009), "Fiscal Rules, Independent Institutions and Medium-Term Budgetary Frameworks," in *Public Finances in EMU - 2009*, Chapter 4.

Fabrizio, Stefania and Ashoka Mody (2006), "Can Budget Institutions Counteract Political Indiscipline?," *Economic Policy* 21, 689-739.

Fabrizio, Stefania and Ashoka Mody (2009), "Breaking the Impediments to Budgetary Reforms: Evidence from Europe," *Economics and Politics*, forthcoming.

Fitzgerald, John (2001a), "Managing an Economy under EMU: The Case of Ireland," *The World Economy* 24(10).

Fitzgerald, John (2001b), "Fiscal Policy in a Monetary Union: the Case of Ireland," *ESRI Quarterly Economic Commentary* X.

Ffrench-Davis, Ricardo (2010), "Latin America: The Structural Fiscal Balance Policy in Chile: A Move Towards Counter-Cyclical Macroeconomics," *Journal of Globalization and Development* 1(1), Article 14.

Geanakoplos, John (2009), "The Leverage Cycle," *NBER Macroeconomics Annual*, forthcoming.

Geary, Patrick T. and Patrick Honohan (1997), "Can Better Contracts Help Solve Ireland's Sterling Dilemma?," *Irish Banking Review*, Summer, 30-41.

Girouard, Nathalie and Robert Price (2004), "Asset Price Cycles, "One-Off" Factors and Structural Budget Balances," *OECD Economics Department Working Paper No. 391*.

Honohan, Patrick (2009a), "Resolving the Irish Banking Crisis," *Economic and Social Review* 40(2), 207-232.

Honohan, Patrick (2009b), "Irish Banking Policy during and after the Crisis," *mimeo*, Trinity College Dublin.

Honohan, Patrick (2009b), "Euro Membership and Bank Stability: Friends or Foes?," *mimeo*, Trinity College Dublin.

Honohan, Patrick and Anthony J. Leddin (2006), "Ireland in EMU: More Shocks, Less Insulation?," *Economic and Social Review* 37(2), 263-294.

Hunt, Colin (2005), "Discretion and Cyclicality in Irish Budgetary Management 1969-2003," *Economic and Social Review* 36(3), 295-321.

Kearney, Ide, Daniel McCoy, David Duffy, Michael McMahon, Diarmaid Smyth (2000), "Assessing the Stance of Irish Fiscal Policy,"

Lane, Philip R. (1998a), "On the Cyclicality of Irish Fiscal Policy," *Economic and Social Review* 29, 1-16.

Lane, Philip R. (1998b), "Irish Fiscal Policy under EMU," *Irish Banking Review*, Winter Issue, 2-10.

Lane, Philip R. (1999), "Budgetary Policy in Times of Plenty", in *Budget Perspectives 2000*, Economic and Social Research Institute.

Lane, Philip R. (2000), "What Should We Do With the Surpluses?," *Administration*, Winter 1999/2000.

Lane, Philip R. (2003), "The Cyclicality of Fiscal Policy: Evidence from the OECD," *Journal of Public Economics* 87, 2661-2675.

Lane, Philip R. (2007), "Fiscal Policy for a Slowing Economy," in *Budget Perspectives 2008*, Economic and Social Research Institute.

Lane, Philip R. (2009), "A New Fiscal Strategy for Ireland," *Economic and Social Review* 40(2), 233-253.

Lane, Philip R. (2010a), "European Monetary Union and Macroeconomic Stabilisation Policies in Ireland," *NESC Working Paper* XX, forthcoming.

Lane, Philip R. (2010b), "External Imbalances and Fiscal Policy," *IIIS Discussion Paper No. 314*.

Mody, Ashoka and Sven Jari Stehn (2009), "Germany's New Fiscal Rule: A Responsible Approach to Fiscal Sustainability," *VoxEU*.

Talvi, Ernesto and Carlos A. Vegh (2005), "Tax Base Variability and Procyclical Fiscal Policy in Developing Countries," *Journal of Development Economics* 78, 156-190.

Tornell, Aaron and Philip R. Lane (1999), "The Voracity Effect," *American Economic Review* 89, 22-46.

Woo, Jaejoon (2003), "Economic, Political and Institutional Determinants of Public Deficits," *Journal of Public Economics* 87, 387-426.

Wyplosz, Charles (2008), "Fiscal Policy Councils: Unlovable or Just Unloved?," *Swedish Economic Policy Review* 15, XX-XX.

Appendix I: Fiscal Rules in EU Member Countries

The source for these data is the Fiscal Governance database maintained by the Economics and Financial Affairs Directorate of the European Commission. In turn, these data are collected by surveying the member countries.

- Country: Austria

  Type: Budget balance rule

  Target/constraint: Budget balance as % of GDP.

  Description: Deficit targets for the Central government, Regional government (Länder), and Local government contained in a National Stability Pact within a multiannual budgetary setting.

  Statutory Base: Legal act

  Monitoring body: Governmental structure

  Enforcement body: Governmental structure

  Non-Compliance Actions: Possibility of sanctions

- Country: Bulgaria

  Type: Debt rule

  Target/constraint: Debt/GDP ratio change

  Description: Outstanding portion of the consolidated government debt at the end of each year may not exceed the previous year, as a ratio to the projected GDP.

  Statutory Base: Legal act

  Monitoring body: Ministry of Finance

  Enforcement body: Ministry of finance

  Non-Compliance Actions: Automatic correction mechanism with possible sanctions

- Country: Bulgaria

  Type: Expenditure rule

Target/constraint: Expenditure ceiling as % of GDP

Description: Ceiling on the size of the government sector: 40% of GDP

Statutory Base: Political agreement

Monitoring body: Ministry of Finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined actions

- Country: Czech Republic

  Type: Debt rule

  Target/constraint: Nominal expenditure ceiling

  Description: Inserted in a medium term expenditure framework (MTEF), covers 2 years beyond the budget year. Expenditure limits are set to achieve a pre-defined deficit

  Statutory Base: Legal act

  Monitoring body: Ministry of finance

  Enforcement body: Government

  Non-Compliance Actions: No pre-defined action; government provides explanations in case of non-compliance

- Country: Germany

  Type: Budget balance rule

  Target/constraint: Budget balance in nominal terms

  Description: Golden rule: public borrowing is only allowed if it does not exceed public investment. Exceptions allowed for stabilisation purposes only.

  Statutory Base: Constitution, Legal act

  Monitoring body: Ministry of finance, National parliament

  Enforcement body: - Non-Compliance Actions: No pre-defined action

- Country: Germany

Type: Expenditure rule

Target/constraint: Nominal expenditure growth rate

Description: Maximum expenditure growth of annually 1% on average for federal government and Lander.

Statutory Base: Political agreement (Central government, Regional government)

Monitoring body: Governmental structure

Enforcement body: Financial Planning Council.

Non-Compliance Actions: No pre-defined action

- Country: Denmark

Type: Budget balance rule

Target/constraint: Budget balance as % of GDP in structural terms

Description: Structural budget surpluses in the interval 0.75 - 1.75% of GDP in the years towards 2010, surpluses or at least balance up to 2011-2015.

Statutory Base: Coalition agreement

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Denmark

Type: Expenditure rule

Target/constraint: Public consumption growth rate in real terms

Description: Real public consumption on a national account basis must not increase by more than certain amounts per year. Besides, total ceiling of 26.5% of cyclically adjusted GDP in 2015.

Statutory Base: Political agreement

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Denmark

Type: Revenue rule

Target/constraint: Limits on direct or indirect tax rates

Description: Direct and indirect taxes cannot be raised.

Statutory Base: Political agreement

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Estonia

Type: Budget balance rule

Target/constraint: Budget balance in nominal terms

Description: Balanced budget rule for Central government.

Statutory Base: Coalition agreement

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance, National parliament

Non-Compliance Actions: No pre-defined action; possibility of cuts in expenditure if revenue shortfall

- Country: Spain

Type: Budget balance rule

Target/constraint: Budget balance as % of GDP

Description: The budgetary objectives take into account the economy's cyclical position, allowing budget deficits in periods of slow growth but requiring surpluses in periods of high growth. The overall deficit during downturns must not exceed 1% of GDP. In addition, a deficit of up to 0.5% of GDP is allowed to finance public investment under certain conditions.

Statutory Base: Legal act

Monitoring body: Ministry of finance, National parliament

Enforcement body: Ministry of finance, National parliament, Governmental structure

Non-Compliance Actions: possibility of sanctions

- Country: Finland

  Type: Budget balance rule

  Target/constraint: Budget balance as % of GDP

  Description: Target of structural surplus of 1% by the end of the parliamentary term. Cyclical or other short-term deviations allowed, if they do not jeopardise the reduction of the Central government debt ratio. Central government deficit must not exceed 2.5% of total output.

  Statutory Base: Political agreement

  Monitoring body: Ministry of finance

  Enforcement body: Governmental structure

  Non-Compliance Actions: No pre-defined action; political pressure to ensure compliance

- Country: Finland

  Type: Expenditure rule

  Target/constraint: Real expenditure ceiling

  Description: At the beginning of the electoral period, Central government sets a ceiling for expenditure over this period.

Statutory Base: Political agreement

Monitoring body: Ministry of finance

Enforcement body: Governmental structure

Non-Compliance Actions: Governmental structure proposes corrective measures

- Country: France

  Type: Expenditure rule

  Target/constraint: Real expenditure growth rate

  Description: Targeted increase of Central government expenditure in real terms.

  Statutory Base: Political agreement

  Monitoring body: National parliament, CoA

  Enforcement body:-

  Non-Compliance Actions: no pre-defined action

- Country: France

  Type: Revenue rule

  Target/constraint: Allocation of higher than expected revenues

  Description: Central government to define the allocation of higher than expected tax revenues ex ante.

  Statutory Base: Legal act

  Monitoring body: CoA, National parliament

  Enforcement body: National parliament

  Non-Compliance Actions: No pre-defined action

- Country: Hungary

  Type: Budget balance rule

  Target/constraint: Budget balance

Description: Government presents a budget bill to the National parliament that ensures the primary balance, in the Maastricht sense, being in sufficit.

Statutory Base: Legal act

Monitoring body: Ministry of finance

Enforcement body: -

Non-Compliance Actions: No pre-defined action

- Country: Ireland

  Type: Expenditure rule

  Target/constraint: Allocation of expenditure

  Description: 1% of GNP is set aside from Government expenditure and automatically paid into the National Pension Reserve Fund for investment on behalf of the State. Borderline case.

  Statutory Base: Legal act

  Monitoring body: Ministry of finance

  Enforcement body: Ministry of finance

  Non-Compliance Actions: No pre-defined action

- Country: Ireland

  Type: Expenditure rule

  Target/constraint: Nominal expenditure ceiling

  Description: Rolling 5-year multi-annual capital envelopes set out capital investment (Exchequer and PPP funded) by Ministerial Group for each year in the 5 year period. The envelopes are based on a commitment to keep capital investment around 5% of GNP. Borderline case.

  Statutory Base: Legal act

  Monitoring body: Governmental structure, Ministry of finance

  Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Italy

  Type: Expenditure rule

  Target/constraint: Nominal expenditure ceiling

  Description: Expenditure ceiling for pharmaceutical products: 16.4% (14% territorial, 2.4% hospital) of the financing level for the National Health Service contributed by the State.

  Statutory Base: Legal act

  Monitoring body: Ministry of finance, Governmental structure

  Enforcement body: Governmental structure

  Non-Compliance Actions: Corrective actions

- Country: Lithuania

  Type: Debt rule

  Target/constraint: Ceiling on net borrowing

  Description: Limits set on Central government net borrowing.

  Statutory Base: Legal act

  Monitoring body: National Audit Office

  Enforcement body: Ministry of finance

  Non-Compliance Actions: No pre-defined action

- Country: Lithuania

  Type: Expenditure rule

  Target/constraint: Expenditure growth rate

  Description: If the Central government budgets showed a deficit on average over the past 5 calendar years, then the annual growth rate of the planned State budget appropriations may not exceed 0.5% of the average growth rate of the State budget revenue of those 5 years.

Statutory Base: Legal act

Monitoring body: Ministry of finance, National Audit Office

Enforcement body: Ministry of finance, National parliament

Non-Compliance Actions: Possibility of sanctions and non-approval of the budget

- Country: Lithuania

  Type: Revenue rule

  Target/constraint: Allocation of higher than expected revenues to deficit reduction

  Description: The deficit of the approved State budget shall be reduced by excess revenue of the current year.

  Statutory Base: Legal act

  Monitoring body: Ministry of finance, National Audit Office, National parliament

  Enforcement body: Ministry of finance, National parliament

  Non-Compliance Actions: Possibility of sanctions and non-approval of the budget

- Country: Luxembourg

  Type: Debt rule

  Target/constraint: Debt ceiling in terms of debt/GDP ratio

  Description: Central government maintains public debt at a low level. New public debt can be issued to finance rail infrastructure projects. No formal quantified target, but implicit.

  Statutory Base: Coalition agreement

  Monitoring body: -

  Enforcement body: - Non-Compliance Actions: No pre-defined action

- Country: Luxembourg

  Type: Expenditure rule

  Target/constraint: Nominal expenditure growth rate

Description: In the course of the legislative period, public expenditure growth is maintained at a rate compatible with the medium term economic growth prospects (no formal quantified target, but implicit).

Statutory Base: Coalition agreement

Monitoring body: -

Enforcement body: -

Non-Compliance Actions: No pre-defined action

- Country: Latvia

  Type: Revenue rule

  Target/constraint: Actual revenues must cover special budgets

  Description: The Central government and Social Security budgets are divided into base and special budgets. The latter must be fully financed by earmarked revenues. Special budgets are devoted to social needs, mainly pension payments. Borderline case.

  Statutory Base: Legal act

  Monitoring body: Ministry of finance, Governmental structure

  Enforcement body: Governmental structure

  Non-Compliance Actions: No pre-defined action

- Country: Netherlands

  Type: Expenditure rule

  Target/constraint: Real expenditure ceiling Description: Any setbacks against the expenditure ceilings must be compensated within the sector; windfalls have first to be used to compensate for setbacks within that sector. Windfalls can be used for new expenditure as long as total expenditure is below the ceiling.

  Statutory Base: Coalition agreement

  Monitoring body: Ministry of finance

  Enforcement body: Ministry of finance

Non-Compliance Actions: Ministry of finance proposes corrective measures

- Country: Netherlands

  Type: Revenue rule

  Target/constraint: Allocation of higher-than-expected revenues

  Description: At the beginning of the electoral period, coalition agrees on the desired development of the tax base. This multi-year path is adhered to during the period. Additional tax increases are compensated through tax relief and vice versa. Only changes in statutory tariffs are taken into account. Increases in the tax income due to economic developments are not considered. The rule obliges the government to pre allocate higher than expected revenues.

  Statutory Base: Coalition agreement

  Monitoring body: Ministry of finance

  Enforcement body: Ministry of finance

  Non-Compliance Actions: Ministry of finance proposes corrective measures

- Country: Poland

  Type: Debt rule

  Target/constraint: Debt ceiling in terms of debt/GDP ratio

  Description: Public debt must not exceed 60% of GDP

  Statutory Base: Constitution, Legal act Monitoring body: IND (Supreme Audit Office), National parliament Enforcement body: Government, IND (Supreme Audit Office), National parliament

  Non-Compliance Actions: Government proposes corrective measures

- Country: Portugal

  Type: Budget balance rule

  Target/constraint: Budget balance in nominal terms

Description: Budgets of services with financial and administrative autonomy must be in balance or positive.

Statutory Base: Legal act

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Sweden

  Type: Expenditure rule

  Target/constraint: Nominal expenditure ceiling

  Description: Nominal expenditure ceiling for Central government and extra-budgetary old-age pension system targeted.

  Statutory Base: Parliamentary decision

  Monitoring body: IND (CoA), Government, National parliament, Ministry of finance

  Enforcement body: Government

  Non-Compliance Actions: Obligation to correct by appropriate actions

- Country: Sweden

  Type: Budget balance rule

  Target/constraint: Budget balance as % of GDP in structural terms

  Description: A surplus for the Central government in terms of 1% of GDP over the cycle targeted.

  Statutory Base: Government commitment, endorsed by National parliament Monitoring body: IND (CoA), National parliament, Ministry of finance

  Enforcement body: Fiscal Policy Council

  Non-Compliance Actions: No pre-defined action

- Country: Slovenia

Type: Debt rule

Target/constraint: Debt ceiling in terms of debt/GDP ratio

Description: The debt/GDP ratio of Central government and non-financial public entities (classified outside General Government) cannot exceed 40% of GDP

Statutory Base: Coalition agreement

Monitoring body: Ministry of finance

Enforcement body: Ministry of finance

Non-Compliance Actions: No pre-defined action

- Country: Slovakia

  Type: Expenditure rule

  Target/constraint: Nominal expenditure ceiling

  Description: Expenditure not considered in the State budget law can only be executed if its total amount does not exceed 1% of total expenditure approved in the budget law and the deficit is not increased. Allows increasing expenditure in good times. Initially, the rule set a limit of 15%.

  Statutory Base: Political agreement

  Monitoring body: Supreme Audit Office, Government, National parliament

  Enforcement body: Supreme Audit Office, National parliament

  Non-Compliance Actions: Obligation to take effective measures

- Country: UK

  Type: Budget balance rule

  Target/constraint: Budget balance as % of GDP

  Description: Golden rule: GG borrowing only allowed for investment, not to fund current spending. Performance against the rule is measured by the average surplus on the current budget as % of GDP over the economic cycle.

  Statutory Base: Legal act

Monitoring body: National Audit Office, Ministry of finance, Governmental structure, National parliament

Enforcement body: Ministry of finance

Non-Compliance Actions: Appropriate actions have to be taken

- Country: UK

  Type: Debt rule

  Target/constraint: Debt ceiling as % of GDP

  Description: Sustainable investment rule: public sector net debt as a proportion of GDP will be held at a stable and prudent level over the economic cycle. Other things equal, net debt will be maintained below 40% of GDP over the economic cycle.

  Statutory Base: Legal act

  Monitoring body: National Audit Office, Ministry of finance, Governmental structure, National parliament

  Enforcement body: Ministry of finance

  Non-Compliance Actions: Appropriate actions have to be taken

Appendix II: Fiscal Institutions in EU Member Countries

The source for these data is the Fiscal Governance database maintained by the Economics and Financial Affairs Directorate of the European Commission. In turn, these data are collected by surveying the member countries.

- Country: Austria

  Name: WIFO, Austrian Institute of Economic Research

  Date: 1927

  Mandate beyond FP: yes

Objectives:

Other Tasks: Independent forecasts of macro or/and budgetary assumptions

Role in budgetary process: Generally consulted by GOV during the process; no obligation

Fiscal Council providing independent FP analysis: N/A

Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV balance and debt level, deviations from projections have to be publicly justified, Fiscal Council making normative statements/recommendations: N/A

Fiscal Council composition: Academics, Civil servants, Other

Fiscal Council status: not formally attached to either GOV or NP, Funding by sources other than directly by GOV

- Country: Austria

  Name: IHS, Institute for Advanced Studies

  Date: 1963

  Mandate beyond FP: yes

  Objectives:

  Other Tasks: Independent forecasts of macro or/and budgetary assumptions

  Role in budgetary process: Generally consulted by GOV during the process; no obligation

  Fiscal Council providing independent FP analysis: N/A

  Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV balance and debt level,

  Fiscal Council making normative statements/recommendations: N/A

  Fiscal Council composition: Academics, Other

  Fiscal Council status: Funding by sources other than directly by GOV

- Country: Austria

Name: STA, Government Debt Committee

Date: 2002

Mandate beyond FP: no

Objectives: Ensure that GOV policy is adequate in cyclical conditions, Enhance transparency in the conduct of FP,

Other Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, Normative statements on conduct of FP, Recommendations on FP Role in budgetary process: other Fiscal Council providing independent FP analysis: Analyse the budget.

Fiscal Council providing independent macro and/or budgetary forecasts: N/A

Fiscal Council making normative statements/recommendations: Recommend changes in GOV budgetary plans,

Fiscal Council composition:

Fiscal Council status: Legal act, Mandate explicitly defined in official document

- Country: Belgium

  Name: HRF-CSF, High Council of Finance - Section "Public sector borrowing requirement"

  Date: 1989

  Mandate beyond FP: no

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Ensure that GOV policy is adequate in cyclical conditions, Independent assessment of compliance with national fiscal rules, Independent assessment of compliance with SGP fiscal rules

  Tasks: Independent analysis on FP developments, Normative statements on conduct of FP, Recommendations on FP Role in budgetary process: other

  Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Verify if budgetary plans

- Country: Belgium

Name: NRI-ICN, National Accounts Institute

Date: 1994

Mandate beyond FP: yes

Objectives: Enhance transparency in the conduct of FP, other

Tasks: Independent forecasts of macro or/and budgetary assumptions, other Role in budgetary process: other

Fiscal Council providing independent FP analysis: N/A

Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts,

Fiscal Council making normative statements/recommendations: N/A

Fiscal Council composition: Civil servants, Monetary Policy Committee (Central Bank) members, other

Fiscal Council status: Legal act, Mandate explicitly defined in official document, attached to GOV

- Country: Germany

  Name: WB-BMF, Advisory Board to the Federal Ministry of Finance

  Date: 1950

  Mandate beyond FP: yes

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Independent assessment of compliance with national fiscal rules, Independent assessment of compliance with SGP fiscal rules, Enhance transparency in the conduct of FP, Assess quality of PF, other

  Tasks: Independent analysis on FP developments, Normative statements on conduct of FP, Recommendations on FP, Other

  Role in budgetary process: - Fiscal Council providing independent FP analysis: providing independent FP analysis.

  Fiscal Council providing independent macro and/or budgetary forecasts: N/A

  Fiscal Council making normative statements/recommendations: N/A

Fiscal Council composition: Academics, other

Fiscal Council status: Mandate explicitly defined in official document

- Country: Germany

  Name: PG, Joint Economic Forecast project group

  Date: 1950 Mandate beyond FP: yes

  Objectives: Ensure that GOV policy is adequate in cyclical conditions

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, Recommendations on FP, other

  Role in budgetary process: other

  Fiscal Council providing independent FP analysis: providing independent FP analysis.

  Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV expenditures, GOV revenues, GOV balance and debt level.

  Fiscal Council making normative statements/recommendations: Formulate recommendations if slippage compared to initial plan.

  Fiscal Council composition: Academics, Policy experts

  Fiscal Council status: -

- Country: Germany

  Name: AKS, Working Party on Tax Revenue Forecasting

  Date: 1955 Mandate beyond FP: no

  Objectives: Other

  Tasks: Independent forecasts of macro or/and budgetary assumptions

  Role in budgetary process: Generally consulted by GOV during the process; no obligation, other

  Fiscal Council providing independent FP analysis: N/A

  Fiscal Council providing independent macro and/or budgetary forecasts: GOV revenues,

Fiscal Council making normative statements/recommendations: N/A

Fiscal Council composition: Academics, Civil servants

Fiscal Council status: attached to GOV

- Country: Germany

  Name: SVR, German Council of Economic Experts

  Date: 1963

  Mandate beyond FP: yes

  Objectives: Ensure that GOV policy is adequate in cyclical conditions, Enhance transparency in the conduct of FP

  Tasks: Independent analysis on FP developments

- Country: Denmark

  Name: DOR, Danish Economic Council

  Date: 1962

  Mandate beyond FP: yes

  Objectives: Independent assessment of compliance with national fiscal rules, Independent assessment of compliance with SGP fiscal rules, Enhance transparency in the conduct of FP, Assess quality of PF

- Country: Estonia

  Name: NAO-EE, National Audit Office of Estonia

  Date: 1990 Mandate beyond FP: yes

  Objectives: Ensure consistency of GOV policy with sustainability of PF, other

  Tasks: Normative statements on conduct of FP, Recommendations on FP

  Role in budgetary process: other

  Fiscal Council providing independent FP analysis: N/A

  Fiscal Council providing independent macro and/or budgetary forecasts: N/A

Fiscal Council making normative statements/recommendations: Judgement on implementation and/or respect of FP rules, Alert function, signal possible deviation from initial plans, Formulate recommendations if slippage compared to initial plan.

Fiscal Council composition: Civil servants

Fiscal Council status: Constitution status, Mandate explicitly defined in official document,

- Country: Greece

  Name: KEPE, Centre for Planning and Economic Research

  Date: 1959

  Mandate beyond FP: yes

  Objectives: Assess quality of PF

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions,

  Role in budgetary process:- Fiscal Council providing independent FP analysis: yes.

  Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV expenditures, GOV revenues.

  Fiscal Council making normative statements/recommendations: N/A

  Fiscal Council composition: other

  Fiscal Council status: Mandate explicitly defined in official document, attached to GOV

- Country: Spain

  Name: CA, Court of Auditors

  Date: 1978

  Mandate beyond FP: yes

  Objectives: Independent assessment of compliance with national fiscal rules, Assess quality of PF, other

Tasks: Independent analysis on FP developments, Recommendations on FP, other

Role in budgetary process: examines general accounts of the state

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Verify if budgetary plans

- Country: Spain

  Name: CNAL, National Committee of Local Administration

  Date: 1985

  Mandate beyond FP: yes

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Enhance transparency in the conduct of FP, Assess quality of PF

  Tasks: Recommendations on FP

  Role in budgetary process: GOV has to consult FC during the budgetary process

  Fiscal Council providing independent FP analysis: N/A

  Fiscal Council providing independent macro and/or budgetary forecasts: N/A

  Fiscal Council making normative statements/recommendations: Assess draft budget; formulate opinion.

  Fiscal Council composition: Civil servants, Politicians

  Fiscal Council status: Legal act, Mandate explicitly defined in official document, attached to GOV

- Country: France

  Name: CC-FR, Court of Accounts

  Date: 1807

  Mandate beyond FP: yes

  Objectives: other

  Tasks: Independent analysis on FP developments, Normative statements on conduct of FP, Recommendations on FP Role in budgetary process: other

Fiscal Council providing independent FP analysis: Monitor the implementation of budget plans.

Fiscal Council providing independent macro and/or budgetary forecasts: N/A

Fiscal Council making normative statements/recommendations: Judgement on implementation and/or respect of FP rules.

Fiscal Council composition: Civil servants

Fiscal Council status: Legal act, Mandate explicitly defined in official document

- Country: France

  Name: CEN, Commission Economique de la Nation Date: 1952

  Mandate beyond FP: yes

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Ensure that GOV policy is adequate in cyclical conditions, Enhance transparency in the conduct of FP

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions,

  Role in budgetary process: GOV has to consult FC during the budgetary process

  Fiscal Council providing independent FP analysis: Analyse the budget.

  Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV balance and debt level.

  Fiscal Council making normative statements/recommendations: N/A

  Fiscal Council composition: Academics, Policy experts, Monetary Policy Committee (Central Bank) members, Trade union representatives, other

  Fiscal Council status: legal act, Mandate explicitly defined in official document

- Country: Hungary

  Name: ASZ, State Audit Office

  Date: 1989

  Mandate beyond FP: yes

Objectives: Enhance transparency in the conduct of FP, Assess quality of PF

Tasks: Independent analysis on FP developments, normative statements on conduct of FP,

Recommendations on FP Role in budgetary process: GOV has to consult FC during the budgetary process, NP has to audition FC during the budgetary process

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Verify if budgetary plans

- Country: Italy

  Name: ISAE, Institute for Studies and Economic Analyses

  Date: 1999

  Mandate beyond FP: yes

  Objectives: other Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, other

  Role in budgetary process: Generally consulted by GOV during the process; no obligation

  Fiscal Council providing independent FP analysis: providing independent FP analysis.

  Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV expenditures, GOV balance and debt level.

  Fiscal Council making normative statements/recommendations: N/A

  Fiscal Council composition: Academics, Policy experts, Civil servants, Monetary Policy Committee (Central Bank) members

  Fiscal Council status: Legal act, funding by sources other than directly by GOV

- Country: Lithuania

  Name: NAOL, National Audit Office of Lithuania

  Date: 1990

  Mandate beyond FP: no

Objectives: Enhance transparency in the conduct of FP, Assess quality of PF, other

Tasks: Independent analysis on FP developments, Recommendations on FP, other Role in budgetary process: other

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Verify if budgetary plans

- Country: Luxembourg

  Name: CC-LU, Court of Auditors

  Date: 1999

  Mandate beyond FP: no

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Independent assessment of compliance with national fiscal rules, Enhance transparency in the conduct of FP, Assess quality of PF

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions,

  Recommendations on FP Role in budgetary process: NP has to audition FC during the budgetary process

  Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans,

  Fiscal Council providing independent macro and/or budgetary forecasts: GOV revenues

  Fiscal Council making normative statements/recommendations: Assess draft budget; formulate opinion, Alert function, signal possible deviation from initial plans, Formulate recommendations if slippage compared to initial plan

  Fiscal Council composition: Policy experts

  Fiscal Council status: Constitutional and legal status, Mandate explicitly defined in official document

- Country: Netherlands

  Name: CPB, Netherlands Bureau for Economic Policy Analysis

Date: 1945

Mandate beyond FP: yes

Objectives: Independent assessment of compliance with national fiscal rules, Independent assessment of compliance with SGP fiscal rules, Enhance transparency in the conduct of FP

Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions

Role in budgetary process: Generally consulted by GOV during the process; no obligation, other

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Quantify short and long-term effects of measures and reforms, Verify if budgetary plans

- Country: Portugal

  Name: TC, Court of Auditors

  Date: 1990

  Mandate beyond FP: no

  Objectives: Independent assessment of compliance with national fiscal rules, other

  Tasks: Independent analysis on FP developments

  Role in budgetary process: other

  Fiscal Council providing independent FP analysis: Monitor the implementation of budget plans

  Fiscal Council providing independent macro and/or budgetary forecasts: N/A

  Fiscal Council making normative statements/recommendations: Judgement on implementation and/or respect of FP rules

  Fiscal Council composition: Academics, Policy experts, Civil servants

  Fiscal Council status: Constitutional status, Mandate explicitly defined in official document, Funding by sources other than directly by GOV

- Country: Portugal

Name: UTAO, Unidade Técnica de Apoio Orçamental

Date: 2006

Mandate beyond FP: no

Objectives: Enhance transparency in the conduct of FP

Tasks: Independent analysis on FP developments

Role in budgetary process: Generally auditioned by NP during the process; no obligation

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, not explicitly in charge of above tasks, but fulfils some

Fiscal Council providing independent macro and/or budgetary forecasts: no

Fiscal Council making normative statements/recommendations: Assess draft budget; formulate opinion

Fiscal Council composition: Academics, Civil servants

Fiscal Council status: Mandate explicitly defined in official document, attached to national parliament

- Country: Sweden

  Name: KI, National Institute of Economic Research

  Date: 1937

  Mandate beyond FP: yes

  Objectives: Independent assessment of compliance with national fiscal rules

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, Normative statements on conduct of FP,

  Recommendations on FP Role in budgetary process: -

  Fiscal Council providing independent FP analysis: providing independent FP analysis

Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts, GOV expenditures, GOV revenues, GOV balance and debt level, Long-term PF projections

Fiscal Council making normative statements/recommendations: Normative judgement on budgetary plans and respect of FP rules, Judgement on implementation and/or respect of FP rules

Fiscal Council composition: other

Fiscal Council status: Mandate explicitly defined in official document, attached to GOV, Funding by sources other than directly by GOV

- Country: Sweden

  Name: FR, Swedish Fiscal Policy Council

  Date: 2007

  Mandate beyond FP: no

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Ensure that GOV policy is adequate in cyclical conditions, Independent assessment of compliance with national fiscal rules, Enhance transparency in the conduct of FP, Assess quality of PF

  Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, Recommendations on FP Role in budgetary process: other

  Fiscal Council providing independent FP analysis: Analyse the budget, Quantify short and long-term effects of measures and reforms, Verify if budgetary plans

- Country: Slovenia

  Name: IMAD, Institute of Macroeconomic Analysis and Development

  Date: 1991

  Mandate beyond FP: yes

  Objectives: Ensure consistency of GOV policy with sustainability of PF, Ensure that GOV policy is adequate in cyclical conditions, Enhance transparency in the conduct of FP, Assess quality of PF

Tasks: Independent analysis on FP developments, Independent forecasts of macro or/and budgetary assumptions, Recommendations on FP Role in budgetary process: Generally consulted by GOV during the process; no obligation

Fiscal Council providing independent FP analysis: Analyse the budget, Monitor the implementation of budget plans, Quantify short and long-term effects of measures and reforms

Fiscal Council providing independent macro and/or budgetary forecasts: Macro forecasts

Fiscal Council making normative statements/recommendations: -

Fiscal Council composition: Civil servants

Fiscal Council status: Legal act, Mandate explicitly defined in official document, attached to GOV, Funding by sources other than directly by GOV

- Country: United Kingdom

  Name: NAO, National Audit office

  Date: 1983

  Mandate beyond FP: no

  Objectives: Enhance transparency in the conduct of FP

  Tasks: Normative statements on conduct of FP, Recommendations on FP Role in budgetary process: GOV has to consult FC during the budgetary process

  Fiscal Council providing independent FP analysis: no

  Fiscal Council providing independent macro and/or budgetary forecasts: no Fiscal Council making normative statements/recommendations: no

  Fiscal Council composition: Full independence

  Fiscal Council status: Legal act, Mandate explicitly defined in official document

Institute for International Integration Studies
The Sutherland Centre, Trinity College Dublin, Dublin 2, Ireland