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PRESS RELEASE

The use and effectiveness of fiscal rules and independent fiscal institutions

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Fiscal rules and independent fiscal institutions can be extremely useful in regard to a sound fiscal policy. The principal arguments presented by the literature in favour of fiscal rules and independent fiscal institutions concern the tendency of governments to build up excessive public deficits (deficit bias) and the characteristics of a monetary union. Such rules and institutions can restore the balance in the factors motivating politicians, impose limits on the fiscal policy pursued and introduce fiscal coordination mechanisms. Finally, at the time of the reform of the stability and growth pact the March 2005 European Council stressed that national fiscal rules should supplement the undertakings given by the Member States under the stability and growth pact, and that national institutions could play a more prominent role in budgetary surveillance.

Fiscal rules are permanent constraints imposed on fiscal policy in the form of numerical targets or limits for key aggregates of public finances, such as the budget balance, public revenue and expenditure, and the debt level. There are strong indications that fiscal rules make it easier to maintain budget discipline and to implement any necessary consolidation efforts. However, to achieve that aim it is vital for fiscal rules to conform to most of the characteristics of good rules, such as transparency, simplicity, flexibility and enforceability. That is not always a simple matter, since it is not easy for all the requirements of good fiscal rules to be combined in a single rule.

In Belgium, some of the fiscal rules are very well respected, whereas in other cases there is hardly any connection between the targets and the actual figures; there is therefore room for improvement in some of the Belgian fiscal rules. Belgium generally complies satisfactorily with the target for the general government fiscal balance, though in recent years it has taken one-off measures worth fairly large amounts to achieve that target, and the 2007 target was not met. On the spending targets the picture is less favourable, since federal government expenditure – and especially the expenditure on health care – bears little if any relation to those targets. Conversely, the targets for the communities and regions that are incorporated in cooperation agreements concluded between the federal government and the governments of the communities and regions have been fairly well respected. However, transparency of the fiscal rules of the communities and regions could be improved. Finally, the balanced budget principle applicable to local authorities has yielded the desired results in that the accounts of this government subsector have almost always been balanced, more or less, in the past twenty years.

Independent fiscal institutions can also play an important role in fiscal policy. Delegating the macroeconomic forecasts which form the basis of the government budgets seems to be an efficient way of avoiding an optimistic bias in the growth estimate. It is also felt that, in the countries where they exist, institutions issuing normative fiscal recommendations have helped to promote budget discipline.

The Belgian independent fiscal institutions – in this case the National Accounts Institute for the preparation of the economic budget and the “Public Sector Borrowing Requirements” Section of the High Council of Finance – are often cited as good examples, particularly by the European Commission and the IMF. These institutions do indeed enjoy a good reputation, but it must also be borne in mind that their credibility depends largely on the degree to which the decision-making bodies take account of their findings.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
BE-1000 BRUSSELS
phone + 32 2 221 46 28
www.nbb.be
VAT BE 203 201 340