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The Fiscal Councils – Independent Fiscal Institutions for Ensuring Fiscal Discipline

Comăniciu Carmen
"Lucian Blaga" University of Sibiu
carmen.comaniciu@ulbsibiu.ro

Abstract

Ensuring the sustainability of public finances can only be achieved through substantial and relevant analysis and evaluation of the problems faced by the fiscal and budgetary fields. Thus, through independent tax institutions, based on opinions and recommendations issued, can be identified those decisions designed to ensure a responsible fiscal and budgetary policy. Without claiming an exhaustive approach, through this article we will identify basic principles of Fiscal Councils, the main features of the Fiscal Councils from the IMF member states and we will try to highlight the best practices. By identifying best practices, we will highlight the role of Fiscal Councils in the prudent management of public financial resources and fiscal and budgetary risks.

Key words: fiscal council, fiscal discipline, fiscal performance, fiscal rules
J.E.L. classification: E02, E61, H11, H68

1. Introduction

Fiscal Councils are independent fiscal institutions with the aim of preparing macroeconomic forecasts for drafting the public budget, monitoring of fiscal performance and issuing opinions on fiscal and budgetary area (European Commission, 2017). Although these institutions are not decision-making authorities, the opinions offered and the evidence provided gives them a very important role in development of fiscal and budgetary policies and in ensuring the sustainability of public finances (Kopits, 2011).

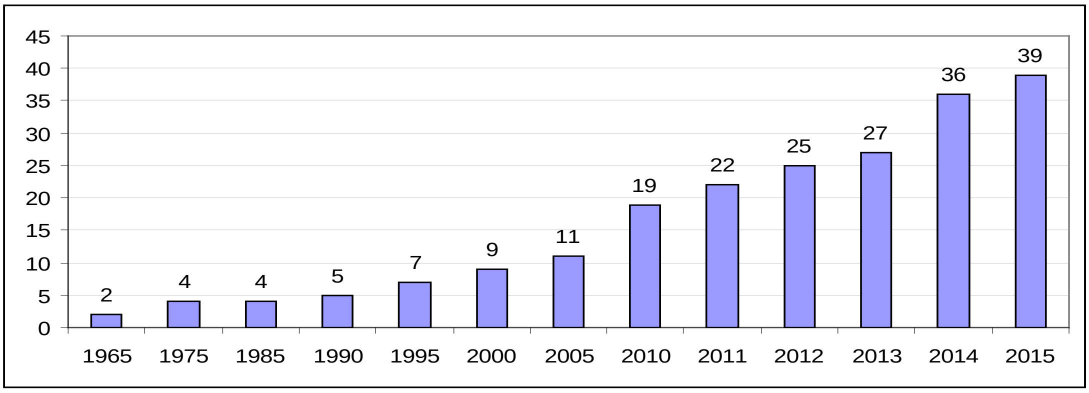
The specialized literature offers a number of studies and research that highlight the importance of Fiscal Councils and their best practices, taking into account the achieved actions. In this regard, the following are noteworthy: also called fiscal watchdogs, the Fiscal Councils contribute significantly to strengthening fiscal discipline and to the flexibility of tax policies based on numerical rules (Calmfors and Wren-Lewis, 2011, p. 649); the way of operation and organization, tasks and duties regulated by law, as well as own-initiative actions are the main coordinates of Fiscal Councils, with a significant impact on fiscal discipline, since they can function as both commitment devices and signaling tools (Debrun and Kumar, 2007, p. 479); the effectiveness of actions taken by Fiscal Councils is demonstrated by increased the fiscal performance and the predictability of macroeconomic and budgetary forecasts (Debrun and Kinda, 2016); without having a direct leverage in managing fiscal and budgetary policy, Fiscal Councils can help strengthen the relationship between the state and taxpayers by explaining how fiscal and budgetary macro decisions work and what is their impact on the short, medium and long term (Beetsma and Debrun, 2016); the constant monitoring of numerical tax rules by Fiscal Councils contributes significantly to identifying the determinants of the budget balance, so that the efficiency and effectiveness of each tax rule can be quantified (Maltritz and Wüste, 2015, p. 222); transparency, responsibility, professionalism and resistance to political change are the key elements for the efficiency and effectiveness of a Fiscal Council (Beetsma, Debrun and Sloof, 2017); the impact of the recent economic crisis on fiscal and budgetary field has led many states to consider as a major priority for an effective governance the creating a framework of fiscal responsibility and fiscal discipline, in which the Fiscal Councils have the fundamental purpose to reduce the risk of irresponsible fiscal policies (Dziemianowicz, 2014, p. 59).

Analysis of budgetary and fiscal status of each state and identifying the factors of influence, implies the existence of bodies meant to contribute to the consolidation of the fiscal-budgetary performance, the improvement of the macroeconomic indicators. In this regard, independent tax institutions have an important role to play, implicitly the Fiscal Councils.

2. Basic principles of Fiscal Councils

Since numerical fiscal rules and Fiscal Councils are institutional solutions to a credible fiscal policy (Debrun and Kinda, 2016), the number of Fiscal Councils has increased significantly over the last period, as can be seen from Fig. no. 1 (IMF, 2017).

Figure no. 1. Evolution of the number of Fiscal Councils for IMF Member States



Source: (IMF, 2017)

Effectiveness of the functions and attributions of independent fiscal institutions can be achieved by observing basic principles. Thus, relying on critical observations and analysis, on examples of good practice, The Council of the Organization for Economic Cooperation and Development adopted on February 13, 2014 a number of 22 principles for independent fiscal institutions, grouped in 9 categories, respectively: local ownership, independence and non-partisanship, mandate, resources, relationship with the legislature, access to information, transparency, communications, external evaluation (OECD, 2014).

Based on the information provided by the IMF Fiscal Council Dataset (IMF, 2017), it is noted that all IMF member states' Fiscal Councils respect these principles, but there are significant differences in the implementation of the principles, taking into account, on the one hand, the local and national dimension of public finances, and on the other hand, the economic, social and fiscal factors that influence fiscal and budgetary policy.

Without presenting all the principles on which the organization and functioning of the Fiscal Councils should be based, we consider the following to be worthwhile (OECD, 2014):

- The efficiency and stability of an independent tax institution requires consensus across the political spectrum of the state in which it operates, and the actions taken must be based on national economic and social conditions, as well as on factors of influence of these conditions, without copying models from other countries. The role, structure, basic features, constraints and specific protection for the independent fiscal institution must be set according to the legal framework, the political system, the fiscal and budgetary system and the culture of the state in which it operates.
- The premises for the success of an independent fiscal institution are independence and non-partisanship, so that opinions issued to be characterized by objectivity and professional excellence. In order to choose the members of an independent fiscal institution, professional merits, academic experience and proven skills in public finance should always be taken into account without reference to political affiliation.
- Specific legislation must refer the mandate of an independent fiscal institution, as well as the elements regarding to the reports and analyzes produced (type, application form, deadline for elaboration). In accordance with its mandate, independent fiscal institution should prepare reports

and analyzes on its own initiative, and on the basis of autonomy, can set its work schedule. Tasks of an independent tax institution during his term of office must provide clear links to the budgetary process, including: short, medium and long-term economic and fiscal projections; analyzes of the executive budget; monitoring compliance with tax rules and rules; analyzes of the impact of legislative measures; analytical studies on fiscal and budgetary issues, etc.

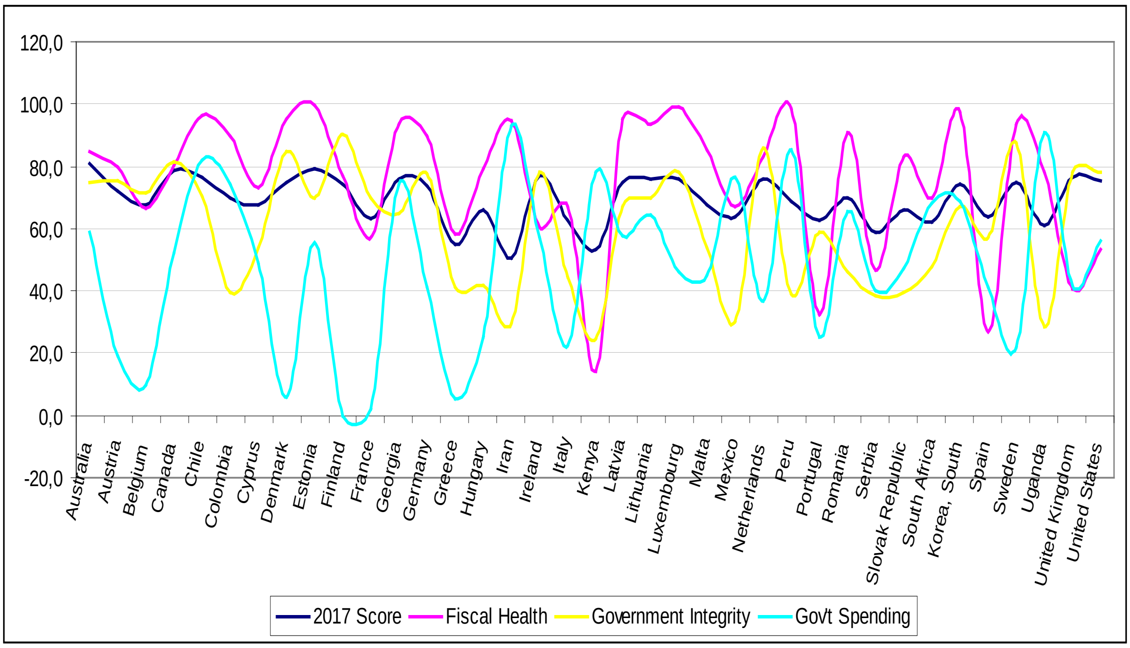
- Because, the legislatures fulfill critical functions on responsibility in the budget process, the calendar of the budgetary procedure must allow for the independent fiscal institution enough time to perform the analysis necessary for parliamentary activity. Responsibility of the institution is reflected by: presenting timely reports so that they can be taken into account in parliamentary debates; the participation of the institution's management in the budget committee to provide pertinent answers to the issues raised by committee members; the parliamentary control of the institution's budget; the involvement of the budget committee in the appointment of the members of the institution.
- Promoting transparency in public finance must be the key objective of the independent fiscal institution, transparency of all actions taken thus increasing credibility. The studies and the reports issued by the independent fiscal institution, including the data and methodology used, must be made available to the public. The data used in the reports and analyzes of the independent tax institution must be formally established in order to ensure consistency with government reports and analyzes. The independent fiscal institution should issue analyzes, reports and opinions on economic, fiscal and budgetary issues, during his tenure, in own name.

3. Essential characteristics of the Fiscal Councils from the IMF member states

The level of macroeconomic indicators that characterize the sustainability of public finances and fiscal discipline in each IMF Member State varies considerably from one country to another, which requires substantial and pertinent analyzes to improve these indicators.

As can be seen from Fig. no. 2, if the economic freedom index (Heritage, 2017) has in most IMF Member States values over 60 (except Iran, Kenya, Greece, Serbia), which shows that 89.15% of states are in positive areas (40.54 % - moderately free; 45.95% - mostly free; 2.7% - free), the fiscal and budgetary components of this index vary greatly from one state to another.

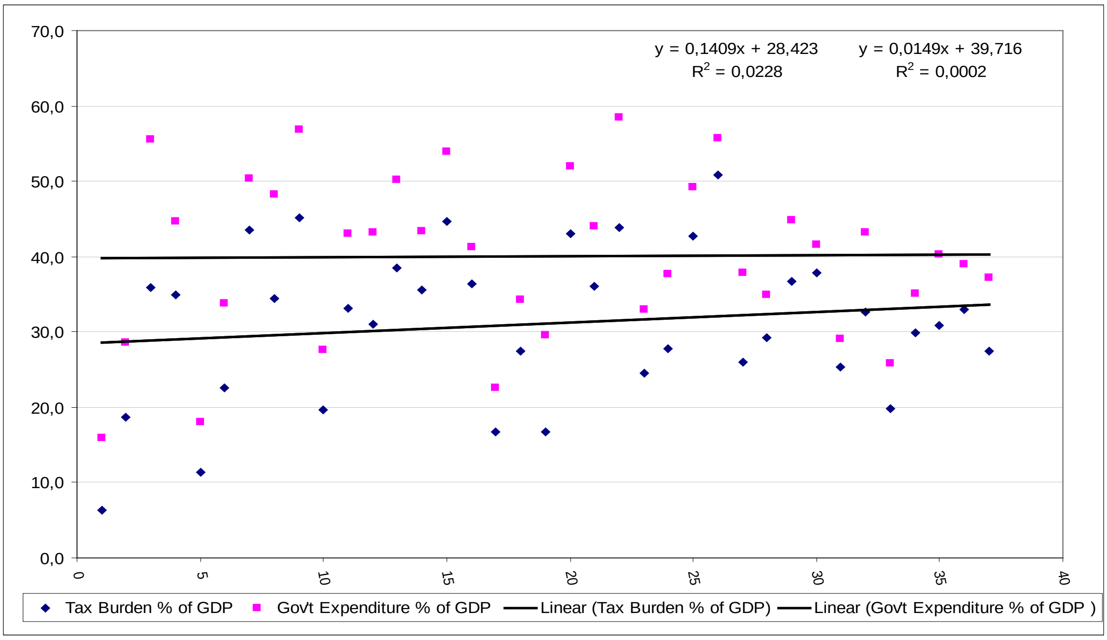
Figure no. 2. 2017 Index of Economic Freedom in the IMF Member States



Source: (Heritage, 2017)

Significant differences between IMF member states also exist from the perspective of the relationship between the fiscal burden as% of GDP and government expenditure as% of GDP (Heritage, 2017), as can be seen from Fig. no. 3.

Figure no. 3. The relationship between the fiscal burden as % of GDP and government expenditure as % of GDP in the IMF Member States



Source: (Heritage, 2017)

All these variations of fiscal and budgetary indicators, requires analyzes made by the Fiscal Councils and issuing opinions, worthy of consideration for a prudent management of fiscal and budgetary policy.

So, according to The IMF Fiscal Council Dataset (IMF, 2017) regarding to Fiscal Councils, the following are observed:

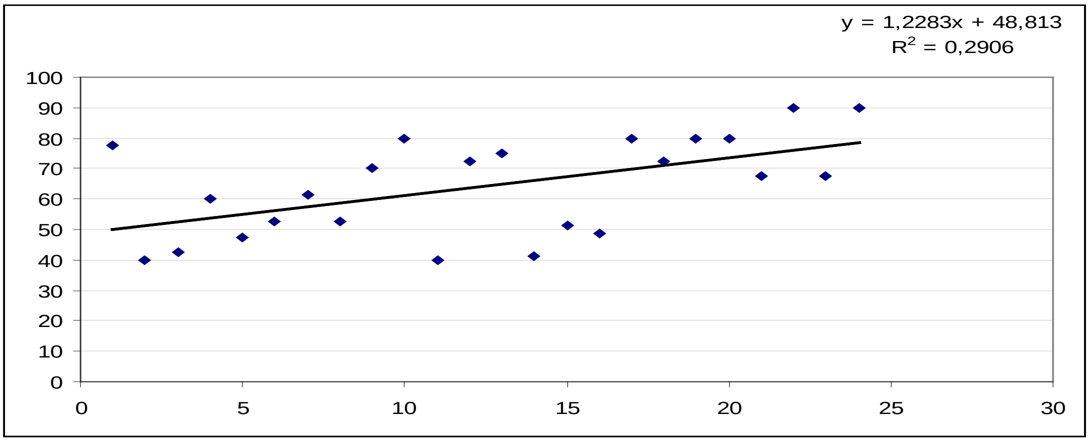
- At the end of 2016, there are 39 institutions identified as Fiscal Councils among the IMF member states, the oldest being in Netherlands (1945), Denmark (1962), Austria (1970) and United States (1974), and the most recent in Lithuania, Malta and Peru (2015).
- In most IMF Member States there is only one Fiscal Council, except Belgium (High Council of Finance - the Public Sector Borrowing Section and Federal Planning Bureau) and the Netherlands (Netherlands Bureau for Economic Policy Analysis and Raad van State).
- For most Fiscal Councils, the coverage of the actions undertaken is represented by general government, with the exception of the Australia, Chile, Colombia, Georgia, Kenya, Mexico and United States Tax Councils, where the area of coverage is represented by the central government and the Portuguese Tax Council, where the area of coverage is represented by general government, state companies, concessions and purchasing power parity.
- All Fiscal Councils carry out positive analyzes and only 18 perform normative analyzes.
- The concern of the Fiscal Councils for ex-ante analyzes is found in all IMF Member States, with reference to: forecast assessment, recommendations, long-term sustainability, consistency with objectives (beyond fiscal rules), costing of measures, monitoring of fiscal rules. Most ex-ante analyzes are carried out for: consistency with objectives (beyond fiscal rules) - 79% of the Fiscal Councils carry out such analyzes; forecast assessment – 77% of the Fiscal Councils carry out such analyzes; monitoring of Fiscal Rules – 72% of the Fiscal Councils carry out such analyzes.
- Ex-post analysis is often found in most Fiscal Councils, with the exception of the Chile, Luxembourg, Mexico, Romania, South Africa and Uganda Fiscal Councils.
- Austria's Fiscal Advisory Council and High Council of Finance - Public Sector Borrowing Section from Belgium are the only Fiscal Councils which have attributions for fiscal policy coordination.

- In Belgium, Denmark, Finland, Georgia, Greece, Mexico, Netherlands and Romania, Fiscal councils have a mandate beyond fiscal policy.
- The Federal Planning Bureau of Belgium and the Netherlands Bureau for Economic Policy Analysis are the only institutions required to make forecasts on fiscal and budgetary indicators, these forecasts being used in the budgetary process.
- Legislation from Belgium, Cyprus, Estonia, Finland, Latvia, Portugal, Spain and United Kingdom provides or the government's obligation to use the Fiscal Council's forecasts in the budget process, or the justification of deviations from the Fiscal Council's forecasts when the government uses its own forecasts in the budget process.
- The importance attached to the opinions of the Fiscal Council is visible through the official obligation of the governments of Austria, Cyprus, Finland, France, Georgia, Hungary, Iran, Italy, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, Portugal, Romania, Serbia, Spain and the United Kingdom to consult the Fiscal Councils during the budget process.
- The Hungarian Fiscal Council is the only institution that can block the budget process.

At EU level, based on information provided by independent fiscal institutions, regarding the organization, the executed works and the good practices, is determined the Scope Index of Fiscal Institutions - SIFI, taking into account: the attributions of the fiscal institutions and the way of completion of each assignment (monitoring of fiscal policy and rules, macroeconomic/budgetary forecasting, policy costing, analysis of long-run sustainability of public finances, promotion of fiscal transparency, normative recommendations on fiscal policy; the coefficient of legal effect (the attribution is stipulated in the legal provisions; the attribution is the own initiative of the fiscal institution and is exercised regularly; the attribution is the own initiative of the fiscal institution and is exercised sporadically); the share associated with each assignment (European Commission, 2015).

As can be seen from Fig. no. 4, for the Fiscal Councils of the EU and the IMF Member States, at the level of 2015, the Scope Index of Fiscal Institutions – SIFI has registered values between 40 - High Council of Finance - Public Sector of Belgium; Fiscal Council of Hungary and 90 - Independent Authority of Fiscal Responsibility of Spain; Office for Budget Responsibility of United Kingdom.

Figure no. 4. The distribution of the Scope Index of Fiscal Institutions in EU and IMF Member States in 2015



Source: (European Commission, 2015).

The success of any independent tax institution can be found, insofar as its actions aim at collaborating with other specialized institutions. Thus, the exchange of information on good practice (Comaniciu, 2014, p.14) should focus on elements such as: clear specification of the mission and objectives (what forecasts are produced, how the forecasts are used to judge the performance of the government, how the long-term performance of public finances is assessed); clear definition of the areas and sub-domains of analysis and research (e.g. macroeconomics, labor market, social policies, international competition, structural changes); presentation of research results by types of reports and areas of interest (annual reports, expert reports, special reports);

making special forecasts (e.g. medium term forecasts at the beginning of each election cycle).

4. Conclusions

In all studies performed, Fiscal Councils must take into account that tax analysis can no longer be carried out in isolation, and the modalities must always be adapted to the progress made in all areas, because taxation is the key element for global development, mobilization of internal resources and good financial governance (OECD, 2014).

Ensuring fiscal and budgetary performance can only be achieved if the performance of each component of this field is ensured, and if all those involved in the adoption and implementation of fiscal and budgetary decisions will take into account efficiency, effectiveness, transparency and prudence.

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