NUMERICAL FISCAL RULES – ESSENTIAL INSTRUMENTS IN ENSURING BUDGETARY DISCIPLINE

Carmen Comaniciu
Prof., PhD, "Lucian Blaga" University of Sibiu

Abstract: Public finances fulfill their economic and social mission through the functions they perform, namely the distribution function and the control function. The proper action of these functions from the perspective of fiscal and budgetary policy requires clearly defined principles and rules, based on transparency, predictability, stability, prudence, equity and efficiency. In this context, to ensure medium- and long-term sustainability of public finances, a particularly important role is played by numerical fiscal rules, instruments through which numerical targets are set for budgetary aggregates. Without claiming an exhaustive approach, through this article we will try to identify the main coordinates of the numerical fiscal rules, namely: the effects of applying numerical fiscal rules on the fiscal and budgetary policy objectives; the impact of numerical fiscal rules on macroeconomic stability; the numerical fiscal rules strength; best practices through the application of numerical fiscal rules.

Keywords: fiscal rules, sustainability, strength of fiscal rules, the fiscal rule index

1. Introduction

Whereas is universally recognized by researchers and specialists the fact that fiscal and budgetary policy is the one that can create an environment for strengthening growth and economic development, the concern of each state is to find the tools that can have a positive impact on how to create and use public financial resources. In this regard, alongside clear identification of fiscal and budgetary policy objectives and compliance with the basic principles of fiscal-budgetary responsibility it is necessary to apply some rules designed to quantify how fiscal and budgetary discipline can be strengthened.

The concern of each country for tax adjustments to reduce the budget deficit, to reduce tax vulnerability, to ensure a proper structure of public debt, to reduce fiscal rigidity, to allow for the adaptability of fiscal and budgetary policy to changes at international level, to ensure an anti-cyclical fiscal policy and to reduce imbalances in the external current account (Daniel at al., 2006) highlights the role of numerical fiscal rules.

Thus, through this article, along with the identification of the basic coordinates of the numerical fiscal rules, we will present the characteristics of the numerical fiscal rules applied at the level of the EU Member States, in order to emphasize that they are essential instruments in ensuring fiscal and budgetary discipline.

2. Necessity of numerical fiscal rules

What are the numerical fiscal rules? What are the interdependencies between the numerical fiscal rules and the fiscal and budgetary policy elements? What are the determinants of numerical fiscal rules? What is the impact of numerical fiscal rules on tax and budget policy objectives? How to measure the effectiveness of numerical fiscal rules? … There it is some of the questions that, through the answers provided, can underline the necessity for numerical fiscal rules.

Thus, without claiming an exhaustive approach, from studies and research in the specialty literature related to numerical fiscal rules, the following are highlighted:

- In the last period, in developing countries there is a significant increase in the number of existing numerical tax rules, especially for
strengthening the fiscal framework (Reuter, 2016) as a result of the effects of the economic crisis or political change, sometimes with little impact on the pro-cyclicality of fiscal policy (Bova, Carcenac and Guerguil, 2014).

- A very important role for fiscal policy is the level of trust in the government and how it can manage tax adjustments from the perspective of their determinants and the implementation period (Bursian, Weichenrieder and Zimmer, 2015).

- The application or non-application of numerical fiscal rules by the states of the world depends very much on the determining factors, namely: state of democracy, government stability, balance of the public budget, fiscal and budgetary policy conditions, public debt structure, dependence ratio, fiscal policy pro-cyclicality, inflation rate and inflation target, monetary regime; currency exchange regime, financial market development, economic growth (Elbadawi, Schmidt-Hebbel and Soto, 2015).

- The application of numerical fiscal rules has a negative impact on the ratio of social transfers to government consumption, especially in countries where social rights have low legal protection (Dahan and Strawczynski, 2013).

- Success of applying a numerical fiscal rule in ensuring budgetary discipline is visible to the extent that there is proper monitoring of it by independent fiscal institutions (Hallerberg, Strauch and Von Hagen, 2007) and the government takes into account the pertinent views issued by these institutions (Gilbert and de Jong, 2017).

- Based on econometric modeling is provided evidence that the numerical fiscal rules improve fiscal behavior (Debrun et al., 2008), make more accurate the projections for budget deficit (Luechinger and Schaltegger, 2013), becoming more effective in unitary countries (Foremny, 2014), can influence the optimal level of discretion in the process of fiscal and budgetary policy development (Halac and Yared, 2014), influences the relationship between discretionary fiscal policy and output volatility (Sacchi and Salotti, 2015), reduce the cost of public debt (Thornton and Vasilakis, 2017).

### 3. Characteristics of numerical fiscal rules in the European Union

At the level of the EU Member States, clarifications on numerical tax rules are found in the content of Council Directive 2011/85/EU where it is specified that, the fiscal rules with national specific that each Member State may decide must promote, on the one hand, compliance of the reference values established by the Treaty on the Functioning of the European Union on budgeted deficit and public debt, and, on the other hand, the adoption of a multiannual budget planning. Thus, for all national numerical fiscal rules must be specified: the objectives and the scope of the rules, the independent institution that monitors compliance with the rules, the consequences in case of non-compliance (Council Directive, 2011).

The analysis of information contained in the EU database on numerical fiscal rules in force from 1990 to 2015 and which have entered/will enter into force after 31 December 2015, highlights the following (European Commission, 2017):

- The importance attached to the fiscal rules is visible in all Member States, both by their number and by their age (according to the correlation shown in figure no. 1), the oldest rule being applied in France since 1983, also called the golden rule, which provides that ex post deficits may not exceed 5% of current revenues, or 10% for small municipalities.
During the analyzed period are found a total of 249 numerical fiscal rules, the most in Bulgaria - 24 fiscal rules, and the least in Croatia, Greece and Malta - 2 fiscal rules. After December 31, 2015 there are 115 numerical fiscal rules in place, respectively 46.10%, the most in Bulgaria - 11 fiscal rules, and the least in Croatia, Greece and Slovenia - 1 fiscal rule. Their situation is shown in figure no. 2. All tax rules in force after December 31, 2015 provide 100% coverage of the general government (includes central government, regional government, local government, social security).

The numerical tax rules in force in the EU Member States refer to: budget balance rule (budget balance as % of GDP; budget balance as % of GDP in structural terms; budget balance in absolute terms; budget balance in nominal terms; central government deficit; general government structural balance as % of GDP; nominal balance in % of GDP; nominal balance in absolute terms); debt rule (ceiling in nominal terms; ceiling on net borrowing;
contain social security debt; debt as % of current revenue; debt as % of GDP; debt ceiling; debt ceiling and limit on repayment as % current of revenue in previous budget year in nominal terms; debt ceiling as % of budgeted revenues; debt ceiling as % of current revenue; debt ceiling in nominal terms; debt ceiling in terms of debt/GDP ratio; debt service ratio; debt to GDP ratio; decline of debt to GDP ratio; indicator of total liquidity; nominal debt; nominal debt in absolute terms); expenditure rule (expenditure ceiling as % of GDP; expenditure growth in real terms; expenditure growth rate in nominal terms; expenditure growth rate in terms of GDP; nominal expenditure ceiling; nominal expenditure in absolute terms; nominal growth of local expenditure; real and nominal growth rate of central government expenditure; real expenditure ceiling; real expenditure growth rate); revenue rule (allocation of higher than expected revenues; allocation of revenue surpluses; earmarking the surplus, in % of GDP; limits on burden of social charges, in nominal terms; minimum impact of new measures affecting revenues). The structure of these rules is shown in figure no. 3.

Figure no. 3 Structure of the numerical fiscal rules in force after 31 December 2015 in the EU Member States
(Source: European Commission, 2017 - author processing)

- As can be seen from table no. 1, the structure of numerical tax rules is very different across EU Member States. Thus, with the exception of the Czech Republic and Croatia, all Member States apply the budget balance rule (BBR); 64.20% of the Member States apply the debt rule (DR); 75% of Member States apply the expenditure rule (ER); only Finland, France, Lithuania and the Netherlands apply the revenue rule (RR).

Table no. 1 Status of the numerical fiscal rules in force in the EU Member States after 31 December 2015

|       | A | T | B | E | G | C | Z | E | D | K | E | L | S | I | F | R | H | U | I | E | T | L | U | L | M | N | P | R | S | I | S | K | U |
| B     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| B     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| R     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| D     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| R     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| E     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| R     |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |

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The institutional framework of budgetary policy confers a series of features of numerical fiscal rules, so that fiscal discipline and budgetary discipline can be ensured through their compliance. The legal basis, the binding character, the monitoring and enforcement institutions, the correction mechanisms and the shock resistance are the basic characteristics of the numerical rules, basis of which is building an index of strength of fiscal rules.

Summing all fiscal rule strength indices of tax rules, considering weighting according to the coverage of general government finances of each rule, it was built the fiscal rule index for each EU member state. As can be seen from Figure no. 4 in 1990, most Member States recorded a negative value for the fiscal rule index, with the exception of Germany (the fiscal rule index was 0.33) and in 2015, with the exception of Slovenia (the fiscal rule index was -0.96), the other Member States have registered a fiscal rule index with positive values.

At the level of the European Union, the application of these numerical fiscal rules is intended to comply with the provisions of the Stability and Growth Pact, which aims to ensure sound public finances. Thus, a substantial and pertinent analysis of the macroeconomic indicators that characterize the sustainability of public finances will allow each country to apply the mandatory fiscal rules in line with the provisions of the international treaties, corroborated with the social, economic and political conditions at national level.

According to the laws on fiscal-budgetary responsibility, to ensure fiscal and budgetary discipline, each EU member state sets its own ceilings for certain indicators specified in the fiscal-budgetary framework. For example, Romania set ceilings for 2017...
(Law 5, 2017) for the following indicators: general government balance, % of GDP (-2.96%); staffing expenditure of the general consolidated budget, % of GDP (7.8%); public debt, % of GDP (40.0%); reimbursable financing contracted by the administrative-territorial units (ROL 1,200.0 million each); issuance of guarantees by the Government and by the administrative-territorial units (ROL 8,000.0 million); primary balance of the consolidated general government (ROL -13,915.0 million).

4. Conclusion

Selected and applied appropriately, even if they sometimes run counter to the preferences of political decision-makers or voters, the numerical fiscal rules prescribe a balance between budget revenue and expenditure policies, determine fiscal performance, ensure budgetary transparency, strengthen fiscal and budgetary discipline, and achieve economic growth targets.

BIBLIOGRAPHY


