

Design of fiscal frameworks and compliance with fiscal rules in CESEE

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This paper analyzes the fiscal frameworks (i.e. the fiscal rules, fiscal councils and medium-term budgetary frameworks) in place in the 11 Central, Eastern and Southeastern European (CESEE) countries among the 28 EU Member States (EU-28). In recent years especially, these countries have significantly expanded and strengthened their fiscal frameworks, relying mostly on debt and expenditure rules with quite strong medium-term budgetary frameworks (MTBFs). The 11 CESEE EU countries adhered to their own fiscal rules in approximately 65% of the years between 1995 and 2015, mainly due to their very high compliance with debt and expenditure rules. While average compliance is currently higher in the CESEE EU countries than in the EU-28, it is actually decreasing over time, while increasing in the EU-28 sample.

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A wide range of theoretical and empirical literature recommends the introduction of stringent fiscal frameworks as a way to increase the sustainability of public finances (see Heinemann et al., 2016, for a meta-analysis). Furthermore, empirical research has shown that strong fiscal frameworks can, inter alia, reduce output volatility (Fatas and Mihov, 2006), increase fiscal space (Nerlich and Reuter, 2015) and reduce government bond interest rate spreads (Iara and Wolff, 2014). The introduction of fiscal (expenditure) rules has been recommended specifically for Central, Eastern and Southeastern European (CESEE) countries, e.g. at the OeNB Workshop on Limited Fiscal Space in CESEE (OeNB, 2011), in order to contain public expenditure growth in good economic times especially. Generally, the main rationale for introducing strong fiscal frameworks is based on the theory of the deficit bias of politicians and governments (see Wyplosz, 2012, or Debrun et al., 2008, for a survey of the literature).

Another argument for introducing strong fiscal frameworks has been put forward in the literature regarding fiscal and monetary policy coordination. Strict rules are supposed to prevent the emergence of externalities of fiscal policy that influence the optimal conduct of monetary policy (see Niemann and Von Hagen, 2008, or Combes et al., 2014, for a survey of the literature). Examples of such externalities could be the need for high inflation rates to cope with mounting debt levels, or high inflation rates induced by excessive government spending.

This article presents the recent developments with respect to national fiscal frameworks in the 11 CESEE countries² which are also members of the EU-28. As such, they are also subject to the EU's supranational fiscal framework (although the non-euro area countries are theoretically subject to less severe sanction possibilities), which has also undergone major changes in recent years. Nevertheless, this article

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² The study concentrates on the following 11 CESEE EU countries: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

concentrates purely on the national frameworks, as the focus is to identify differences in the design, development and possible outcomes of fiscal frameworks. On the one hand, the article highlights the heterogeneous introduction and design of fiscal rules, fiscal councils and medium-term budgetary frameworks in the CESEE EU countries. On the other hand, a country's compliance with its own fiscal rules is analyzed and compared with the institutional setting, as well as with a larger set of countries.

This paper is structured as follows: Section 1 discusses the data used for analysis purposes. In section 2, the fiscal frameworks of the 11 countries studied in this paper are described in detail. Section 3 presents stylized facts about the compliance of those countries with their national fiscal rules and section 4 sets out the conclusion.

1 Data

The European Commission provides three datasets describing the main elements of fiscal frameworks: (1) a dataset on national numerical fiscal rules (European Commission, 2014a), covering national government budget balance, expenditure, debt and revenue rules; (2) a dataset on national fiscal institutions (European Commission, 2014b), covering fiscal councils, audit and budget offices and research institutions; and (3) a dataset on medium-term budgetary frameworks (European Commission, 2014c). The analysis in this study is based on these datasets, supported by the fiscal rules dataset of the IMF (2015), the legal texts collected in Reuter (2015) and the data analyzed in Nerlich and Reuter (2013).

The information in the main datasets by the European Commission (2014a, 2014b, 2014c) and the IMF (2015) is based on questionnaires sent to members of ministries of the EU countries and publicly available information. Some of the individual observations in those official datasets have been criticized in the literature for being imprecise. Among others, there is often a difference between the legal rules and their actual implementation, while different responses to fiscal rules surveys (e.g. from the ministry of finance or the national central banks) sometimes identify different characteristics of fiscal rules whose specific details sometimes remain vague even in legal documents. Nevertheless, the data give a good overall picture of the developments of fiscal frameworks from 1980 to 2015. Reuter (2015) tries to verify the data in the datasets by looking into the original legal documents setting out the fiscal rules. While some discrepancies are found, the overall picture remains valid. Thus the following analysis is conducted using the data available, but bearing in mind that some observations might be biased.

With respect to the CESEE EU countries, the observations concerning the fiscal rules dataset start in 1994, and all 11 countries in the sample of this article are covered by the European Commission dataset (2014a).³ Data on fiscal councils start in Slovenia in 1991, while data on medium-term budgetary frameworks can be analyzed for the full set of countries from 2008 onward.

³ The IMF (2015) covers Kosovo, Montenegro and Serbia additionally to the CESEE countries in European Commission (2014a).

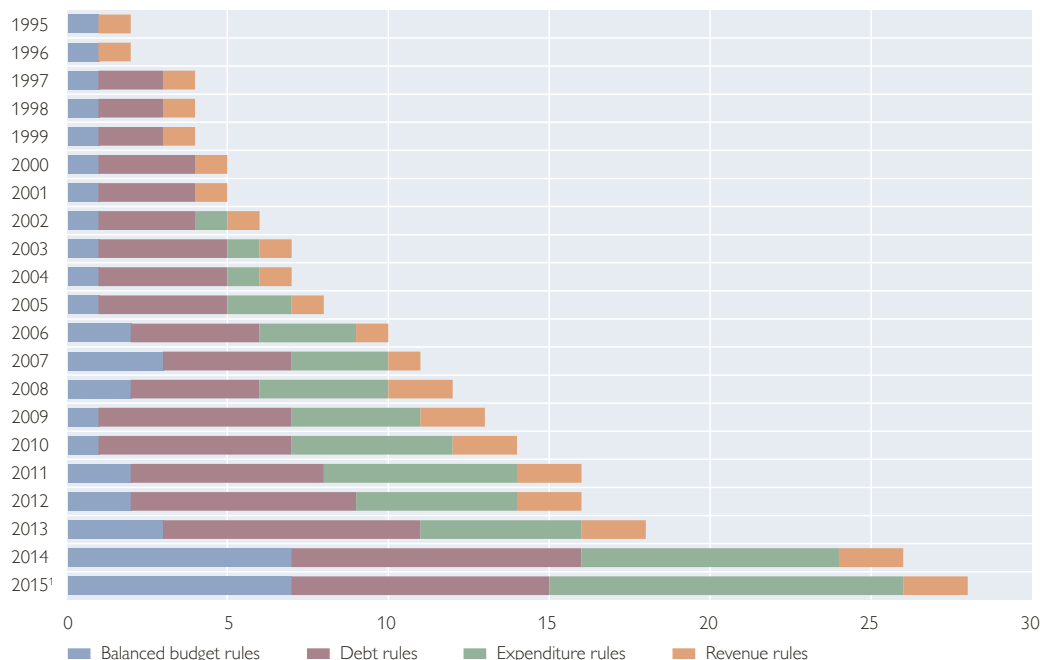
2 Fiscal frameworks

The fiscal frameworks in the countries studied in this article have changed significantly over the past 20 years. As shown in chart 1, the number of national numerical fiscal rules increased from just 2 in 1995 to 28 in 2015. While debt rules were the predominant type of fiscal rules in the 1990s and in the early 2000s, this has since changed: today expenditure rules predominate. The heavy reliance on debt rules distinguishes the CESEE and former transition economies from the western European countries, which have mainly introduced balanced budget rules.

One general reason why fiscal rules increased toward the end of the sample period are changes in the supranational fiscal framework at EU level. Especially the new EU legislation in the aftermath of the sovereign debt crisis, the “six-pack”⁴ and “two-pack”,⁵ as well as the fiscal compact,⁶ prescribe the adoption of a balanced budget rule in national law (formulated in structural terms and including an automatic correction mechanism in case of deviation) and the establishment of a national fiscal council. According to the European Commission (2014a) dataset, only five of the CESEE EU countries (Bulgaria, Latvia, Lithuania, Romania and Slovakia) had implemented the national, structural budget balance rule prescribed in the Fiscal Compact up to 2015 and only Latvia, Romania and Slovakia had

Chart 1

Number of national numerical fiscal rules in CESEE EU countries



Source: European Commission (2014a).

¹ For 2015: only rules which were already set out in a legal document in 2014, but came into force only in 2015.

⁴ EU Regulations 1173/2011 to 1176/2011, EU Directive 2011/85/EU.

⁵ EU Regulations 472/2013 and 473/2013.

⁶ Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

adopted such a national rule and set up a national fiscal council (as recommended in the EU two-pack regulations).

Despite the substantial overall increase in fiscal rules, the distribution across countries – especially when looking at the rules based on statutory or constitutional law – is quite heterogeneous. While Lithuania and Latvia had all four types of fiscal rules enshrined in legal documents in 2015, most of the countries combined at least two types: seven countries had at least a debt and an expenditure rule, and seven countries had at least a debt and a balanced budget rule. The Czech Republic was the only country with just one rule, while Slovenia had no national numerical fiscal rule in place based on statutory or constitutional law in 2015.⁷

Over the same time period, i.e. from 1995 to 2014, the European Commission (2014b) dataset shows that the number of independent fiscal councils increased from only one in Slovenia to six (although several fiscal councils were in the course of establishment). This number is still quite low, despite the recommendation in the new EU two-pack and six-pack to set up such independent fiscal watchdogs. Some countries have already had national audit offices in place for several decades but they are not counted as independent fiscal councils as they only provide an ex post evaluation of fiscal policy and also follow a mostly legal approach, as opposed to economic analysis.⁸ Looking more closely at the fiscal councils in place in 2015, three of them (in Hungary, Latvia and Slovenia) also concentrate on topics beyond fiscal policy, while those in Croatia, Latvia and Slovenia also provide (or endorse) independent macroeconomic or budgetary forecasts. All fiscal councils, except for those in Latvia and Slovenia, perform an independent analysis of fiscal policy and all, except for Hungary and Romania, issue normative statements or recommendations. The independence of all these fiscal councils is laid down in legal acts. All fiscal councils covered in this study operate on the basis of a written mandate; they publish regular public reports on the budget and have at least privileged access to government information. Furthermore, in all countries except Hungary, the members of the fiscal council are not allowed to hold political posts and, except for Hungary and Slovenia, the fiscal councils are not formally attached to the government or national parliament. More information on fiscal councils worldwide is provided in Beetsma and Debrun (2016).

Medium-term budgetary frameworks (MTBFs) are another important element of strong national fiscal frameworks. Typically, MTBFs combine the top-down approach of fiscal rules with a bottom-up approach, where individual expenditure programs have a medium-term perspective and are in accordance with the overall fiscal rules. Latvia and Romania had two of the MTBFs with the highest combined score according to the European Commission database (2014c) even in the EU-28, whereas Hungary and Poland had those with the lowest scores in 2014. All CESEE EU countries sampled in this paper have MTBFs that cover the general government or large parts of it (except for the Czech Republic, whose MTBF only covers the central government). They also have some monitoring and enforcement procedures in place to support achievement of their multi-annual tar-

⁷ While not having rules based on statutory law or a constitution, Slovenia does have two fiscal rules (on debt and expenditure) which are based on coalition agreements.

⁸ One exception is the *Cour des comptes* in France, which regularly ventured into prospective assessments with some economic content until a fiscal council linked to the *Cour des comptes* was created in 2012.

gets, but no well-defined actions for addressing deviations. The exceptions are the Czech Republic and Romania (which both have defined clear actions and regularly monitor target achievement) and Croatia (which lacks clearly defined monitoring or enforcement procedures). In five CESEE EU countries (Croatia, Czech Republic, Latvia, Romania, Slovakia) the national parliament votes on the MTBF targets, in four (Bulgaria, Estonia, Lithuania, Slovenia), there is at least a formal presentation in the national parliament and in two (Hungary and Poland) there is no formal presentation or vote. In Bulgaria, Estonia, Croatia, Lithuania and Poland the national budget is prepared based on the targets set out in the MTBF, and in the Czech Republic, Hungary, Latvia, Romania, Slovenia and Slovakia there is even a fixed framework defining how the targets are included in the national budgets, generally without deviations over time.

Chart 1 also shows large differences as to when the national fiscal frameworks were rolled out. Table 1 provides an overview of the dates when the fiscal institutions were first embodied in statutory law or the constitution in the countries under review. Some countries, like Lithuania or Poland, have already had fiscal rules since the 1990s. Other countries, like Romania or Latvia, began to establish fiscal institutions only very recently. As already mentioned above, debt rules were the first elements introduced before the year 2000, while balanced budget rules came into force only very recently.

Table 1

Introduction dates of fiscal institutions

Country	Balanced budget rule	Debt rule	Expenditure rule	Revenue rule	Fiscal council
BG	2012 ¹	2003	2012 ¹	..	..
CZ	..	..	2005	..	..
EE	.. ²	2010	..	..	..⁵
HU	2007–2008	2009	..	..	2008
LT	2015	1997	2008	2008	.. ⁶
LV	2013	2013	2014	1994	2013
HR	..	2009	2011	..	2011
PL	.. ³	1997	2015	..	..⁷
RO	2014	2014	2014	..	2010
SI	..	..⁴	.. ⁴	..	1991
SK	2014	2012	2002	..	2012

Source: European Commission (2014a, 2014b, 2014c).

¹ Bulgaria already had an expenditure rule from 2006 to 2012 and a balanced budget rule from 2011 to 2012, but only as a political commitment.

² Estonia has had a balanced budget rule since 1993 as part of a coalition agreement.

³ Poland had a balanced budget rule from 2006 to 2007 as a political commitment.

⁴ Slovenia had a debt rule from 2000 to 2009 and an expenditure rule from 2010 to 2011 as part of a coalition agreement.

⁵ Estonia has had a national audit office since 1990.

⁶ Lithuania has had a national audit office since 1990.

⁷ Poland has had an audit office since 1919.

Note: Incorporation into statutory law or the constitution; databases as of 2014.

The various elements of fiscal frameworks can be designed very differently, such that only looking at the introduction of a fiscal rule, for example, might be misleading with respect to its policy impact. Table 2 illustrates how the strength of the three elements of fiscal frameworks evolved, as calculated by the European Commission (2014a, 2014c) and Nerlich and Reuter (2013). The general observa-

tion that fiscal frameworks have been strengthened over the past years is also confirmed when looking at these indices of strength. The only decrease from 2004 to 2014 is found for the fiscal rules of Slovenia and Estonia, and the medium-term budgetary framework of Hungary. The strongest increase in the strength of the fiscal framework can be observed for Bulgaria and Latvia, followed by Slovakia, Romania and Croatia.

Table 2

Indices of strength of fiscal institutions

Country	Fiscal rules			Fiscal council		MTBF	
	2004	2009	2014	2004	2014	2009	2014
BG	0.63	1.16	3.55	0.00	0.00	0.80	1.40
CZ	-0.46	-0.13	-0.13	0.00	0.00	1.40	1.40
EE	0.78	0.78	0.76	0.00	0.00	1.00	1.40
HU	-0.80	0.06	0.78	0.00	1.00	1.40	1.00
LT	-0.10	0.54	0.56	0.00	0.00	1.00	1.40
LV	-0.07	-0.07	2.84	0.00	1.00	1.00	1.80
HR	-1.01	0.12	1.62	0.00	1.00	1.40	1.40
PL	0.91	1.31	1.76	0.00	0.00	0.80	1.00
RO	-0.62	-0.62	2.07	0.00	1.00	0.80	1.80
SI	0.24	0.24	-0.82	1.00	1.00	1.40	1.60
SK	0.11	0.09	2.95	0.00	1.00	1.40	1.60
EU-15 average	0.54	0.43	1.98	0.47	0.87	1.20	1.70
EU-28 average	0.20	0.28	1.70	0.29	0.64	1.20	1.60

Source: European Commission (2014a, 2014c), Nerlich and Reuter (2013).

Note: MTBF stands for medium-term budgetary framework; Fiscal rule index by the European Commission (2014a), range: [-1.01 to 3.55]; Fiscal council dummy by Nerlich and Reuter (2013), range: [0 to 1]; MTBF index by the European Commission (2014c), range: [0 to 2].

When combining the (normalized) strength of all three elements of fiscal frameworks, the strongest combination in 2014 can be found in Latvia, Slovakia and Romania, and the weakest in the Czech Republic, Lithuania and Estonia. But it has to be noted that for Slovenia and Hungary the mere existence of a fiscal council (the quality of the fiscal council is not assessed here⁹) has a significant quantitative impact on the combined score, i.e. it would be among the lowest combined scores when ignoring the fiscal council columns.

3 Compliance with national numerical fiscal rules

While there is a wide range of studies analyzing the impact of fiscal rules on various policy variables, this has almost always been done without looking at actual compliance with the fiscal rules. The two exceptions are Cordes et al. (2015), who look specifically at compliance with expenditure rules, and Frankel and Schreger (2013), who analyze the compliance of countries with the supranational rules of the Stability and Growth Pact. Nevertheless, looking at the compliance of countries with their fiscal rules can shed light on the optimal design of fiscal frameworks and enrich the analysis of the effects of fiscal rules. With respect to the credibility of policymakers, for example, one can think of cases where it would be better to have no fiscal rule at all rather than rules that are continuously not

⁹ Beetsma and Debrun (2016) also provide an index of the strength of fiscal councils but do not include all fiscal councils presented in table 2.

complied with. On the other hand, high compliance rates with a poorly designed fiscal framework may not bring much credibility either. Furthermore, fiscal rules generally (even if the rules are not complied with on a regular basis) increase transparency and monitoring of fiscal policy and thus also public awareness, which can have an impact itself, independently of actual compliance.

The two databases on fiscal rules by the European Commission (2014a) and the IMF (2015) provide short descriptions of the actual rules enforced in the respective legal or coalition documents. Together with the documentation in Reuter (2015), these descriptions can be translated into mathematical inequalities, which indicate whether a fiscal rule is complied with or broken. Subsequently, the numerical limit set out in the fiscal rule as well as the constrained variable can be

Table 3

Variables set out in national numerical fiscal rules

Country	Type	Constrained variable	Limit	Condition
Rules covering general government				
BG	BBR	Budget balance (cash basis)	$\geq -2\%$	
BG	DR	Gross debt	\leq Gross debt (-1)	If gross debt (-1) > 60%
BG	ER	Expenditures (ratio to GDP)	$\leq 40\%$	
EE	BBR	Budget balance	≥ 0	
EE	BBR	Structural balance	≥ 0	
HR	ER	Growth of expenditures	$\leq -1\%$	If primary balance (-1) < 0
		Cyclically adjusted primary balance	≥ 0	If primary balance (-1) ≥ 0
HU	BBR	Primary balance	> 0	
HU	BBR	Budget balance	$>$ Budget balance (-1)	
HU	DR	Gross debt	\leq Gross debt (-1)	If gross debt (-1) > 50%
HU	ER	Growth of real primary expenditures	$\leq 1/2$ growth real GDP	
LV	BBR	Structural balance	$\geq -0.5\%$	If structural balance (-1) > -1%
		Structural balance	\geq Structural balance (-1) + 0.5%	If structural balance (-1) < -1%
LV	DR	Gross debt	$\leq 60\%$	
PL	DR	Budget balance / revenues	\geq Budget balance (-1) / revenues (-1)	If gross debt (-1) > 50%
		Gross debt	\leq Gross debt (-1)	If gross debt (-1) > 55%
RO	DR	Gross debt	$\leq 60\%$	
RO	ER	Growth of expenditures	\leq Average (3-year) growth GDP	If budget balance (-1) ≤ 0
SI	DR	Gross debt	$\leq 40\%$	
SK	BBR	Structural balance	$\geq -0.5\%$	If gross debt (-1) > 60%
		Structural balance	$\geq -1\%$	If gross debt (-1) $\leq 60\%$
Rules covering central government				
HR	DR	Difference gross debt	$\leq 0\%$	If gross debt (-1) > 60%
HU	BBR	Primary balance	$\geq 0\%$	
HU	DR	Difference gross debt	$\leq 0\%$	
LT	ER	Growth of expenditures	\leq Average (5-year) growth revenues + 0.5%	If avg. (5 yrs) budget balance ≤ 0
PL	ER	Growth of cyclically adjusted real expenditures	$\leq 1\%$	
PL	BBR	Budget balance	\leq PLN 30 trillion	

Source: European Commission (2014a), IMF (2015), Reuter (2015).

Note: Only rules which were already in force before 2014 and rules with quantifiable limits, all variables (except expenditure, revenue and growth variables, if not stated otherwise) are in percentage of GDP and on an accrual basis (if not stated otherwise). BBR stands for balanced budget rule, DR for debt rule, ER for expenditure rule; the expenditure rule in CZ is not included as it is more of an MTBF and does not set out fixed, but changing, limits for fiscal variables.

calculated for each year the rule has been in force. If the characteristics of a rule are changed, it is treated as a different (new) rule in this setting. Table 3 presents those limits and constrained variables for the fiscal rules which cover the central or general government (but not regional or local governments, due to lack of data) in the sample of countries studied in this paper.

Based on the descriptions shown in table 3, the annual compliance of a country with its fiscal rules can be calculated as follows:

$$c_{i,j,t} = \begin{cases} 1 & \text{if } V_{i,j,t} \leq L_{i,j,t} \\ 0 & \text{otherwise} \end{cases} \quad (1)$$

where $V_{i,j,t}$ is the variable constrained by fiscal rule j in country i in year t , $L_{i,j,t}$ the numerical limit set out by the same rule for year t and $c_{i,j,t}$ the binary variable being one if country i complied with its fiscal rule j in year t .

The calculation of $V_{i,j,t}$ and $L_{i,j,t}$ is based on data from Eurostat's Government Finance Statistics dataset and Eurostat's AMECO database. Contrary to the usual evaluation of the national rules with national data, the compliance assessed in this paper is actually based on EU-level data.¹⁰ While the EU-level data (especially ex ante data) might be more resilient to a potential reporting bias induced by national authorities, a national government might base its fiscal decisions on national data and thus the resulting compliance might differ from the actual compliance observed nationally. Nevertheless, robustness checks adding 10% (for variables not in percentage of GDP terms), 0.5 percentage points of GDP or one standard deviation (over the period in which the respective fiscal rule was in force) to the constrained variable respectively, did not significantly change the qualitative results of the analysis.

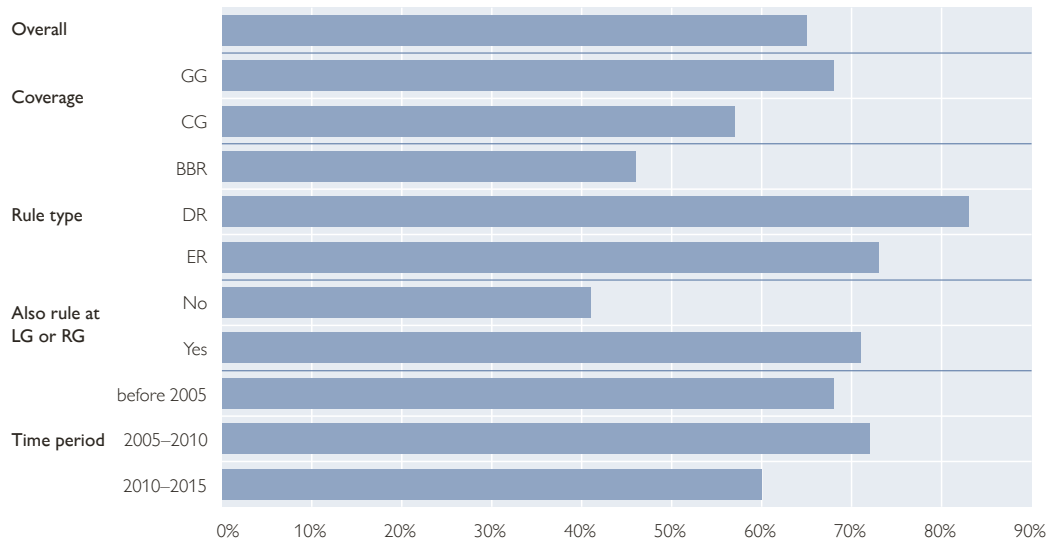
Chart 2 shows the average compliance calculated using equation 1 for various subgroups of fiscal rules. Overall compliance with national fiscal rules is quite high in the CESEE EU countries, which complied with their fiscal rules in 65% of the years. Some interesting observations emerge when splitting the sample of fiscal rules into subgroups according to central features of the rules. For example, rules covering the general government seem to be complied with slightly more often (68% vs. 57%) than rules covering only the central government. One reason for this difference becomes apparent when comparing compliance with various types of fiscal rules, as debt rules are more often used to constrain the general government rather than the central government.

Debt and expenditure rules (83% and 73%) were complied with much more often in the countries sampled in this paper than balanced budget rules (46%). This is partly because debt and expenditure rules more often constrain stock(-like) rather than flow variables. Furthermore, some of the countries introduced debt and expenditure rules with limits which were far above the current level of the debt variable, for example – i.e. rules which were not binding for many years. The limits set by balanced budget rules, on the other hand, were almost always close to the constrained variable.

¹⁰ Generally, the variables are used as stated in the text of the fiscal rules. For instance, if the rule constrains cash variables, the calculations are also based on variables in cash terms.

Chart 2

Average compliance with subsamples of national fiscal rules in CESEE EU countries



Source: Author's calculations.

Note: GG stands for general government, CG for central government, RG for regional government, LG for local government, BBR for balanced budget rules, DR for debt rules, ER for expenditure rules.

Although this paper is not able to look at compliance with fiscal rules at the regional or local level, the figures show that compliance with the rules at the central or general government level was generally higher (71% vs. 41%) if there were also fiscal rules in force constraining local or regional government. Some of the countries use local or regional fiscal rules to enforce the rules constraining general government variables, which seems to be an effective approach to increasing overall compliance.

Interestingly, no major differences can be observed when comparing compliance with fiscal rules for the CESEE EU countries over time. Generally speaking, compliance was highest between 2005 and 2010 (72%), but was around the same level (68%) even before 2005. Only in recent years did compliance drop slightly to 60%, mostly because the stock variables (e.g. general government debt-to-GDP levels) caught up with their previously distant limits. Nevertheless, it remains interesting that general compliance does not seem to be strongly influenced by different time periods.

3.1 Comparison with compliance figures for the EU-28

Reuter (2016) also calculates compliance with national numerical fiscal rules for the larger sample of all EU-28 Member States. The paper shows that across the EU-28 compliance is generally higher in countries with independent and strong monitoring and enforcement bodies, as well as in larger countries with lower government debt and fragmentation. Furthermore, the paper shows that governments tend to comply less with fiscal rules introduced by their predecessors and that forecast errors generally do not influence average compliance.

When comparing the descriptive statistics of Reuter (2016) with the sample of the CESEE countries in this paper (table 4), it becomes apparent that compliance

Table 4

Comparison of compliance statistics: CESEE EU vs. EU-28

	EU-28	CESEE EU sample		EU-28	CESEE EU sample
	<i>Number of fiscal rules</i>			<i>Compliance</i>	
Balanced budget rules	24	7	Overall (1995–2014)	52%	65%
Debt rules	15	9	Balanced budget rules	37%	46%
Expenditure rules	20	8	Debt rules	88%	83%
Revenue rules	4	2	Expenditure rules	48%	73%
			Before 2005	48%	68%
			After 2005	55%	66%

Source: Author's calculations and Reuter (2016).

Note: Compliance values refer to the percentage of years the countries on average complied with the fiscal rules included in the sample.

in the CESEE EU countries is much higher than in the EU-28 as a whole, where it is only 52%. As already mentioned, this is mainly due to the strong reliance on the much more closely observed debt rules in the CESEE EU countries. Furthermore, expenditure rules also seem to be complied with significantly more often in the CESEE EU countries than in the overall sample (73% vs. 48%).

Overall compliance with fiscal rules in the EU-28 has increased steadily over time and has peaked during the last five years. There could be two possible explanations for this. On the one hand, governments could have weakened their fiscal rules and abolished strict ones, which would facilitate compliance. On the other hand, the monitoring and enforcement of the rules could have been increased over time, thereby improving compliance. Both explanations are possible, but in the case of the EU-28 over the past years the second explanation might be more likely, as the indices of the strength of fiscal rules (European Commission, 2014a) have improved significantly over time. The general increase in compliance in the EU-28 contrasts with a recent fall in compliance in the CESEE EU countries. As pointed out above, this is chiefly due to the fact that stock variables, which were mainly constrained by the fiscal rules in the CESEE EU countries, caught up with their numerical limits and thus became binding. In the EU-28, on the other hand, the most common rule type is the balanced budget rule, which explains the lower overall compliance figures. However, this rule type usually constrains a flow variable, and rules targeting flow variables are more often binding than rules constraining stock variables (as compliance with the latter depends on the initial distance between the constrained variable and the numerical limit).

Many other observations are similar for the CESEE EU countries and the full sample of EU-28 countries. For example, compliance with rules covering the general government which are combined with local or regional rules is high for both CESEE EU countries and the EU-28 sample.

A more detailed econometric analysis of the determinants of compliance with fiscal rules is not possible in the CESEE EU sample due to the small number of observations and low variance within each country. For example, some of the CESEE EU countries could not be used for an econometric exercise, as they always – or at the other extreme never – complied with their fiscal rules. In the much larger EU-28 sample, the number of remaining observations is sufficient. Another main concern which could significantly bias the econometric results in such a setting is endogeneity, as some fiscal rules and the average compliance with these

rules might both be determined by the same omitted variable for voter preferences. In the EU-28 sample, i.e. with a larger amount of observations, various control variables can be added to reduce the omitted variable bias. The set of variables includes those related to the fiscal tastes of voters, like the ideology or fragmentation of government, (lagged) debt to GDP ratio, decentralization of public finances, indicators of upcoming elections, but also variables of the wider economic environment, like the past output gap, country size, inflation or exchange rate.

4 Conclusions

This article highlights the development of fiscal frameworks in the CESEE countries of the EU-28 countries. The development and type of institutions introduced in the various countries is very heterogeneous and the design differs strongly, but an overall trend can be observed toward more and stricter elements of fiscal frameworks. When looking at the average compliance with national fiscal rules, it is striking that compliance with debt rules, which were a very popular type of fiscal rule in the CESEE EU countries, was much higher than compliance with expenditure or (even more so) balanced budget rules. One reason was that for some years the constrained policy variables in the CESEE EU countries were far below the limit set out in the debt (and expenditure) rules, which were thus quite loose and almost always complied with.

Several changes in the fiscal frameworks would support an increase in the compliance with fiscal rules in the future: First, many of the CESEE EU countries do not yet have fiscal councils, or those established are not strong enough. But, as shown in Reuter (2016), independent monitoring and enforcement bodies significantly increase the probability of compliance with fiscal rules. Second, only two of the CESEE EU countries had already implemented the balanced budget rule stipulated in the fiscal compact before 2014. The new rules coming in force now and in the future will strengthen the existing fiscal frameworks.

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