

# Fiscal Councils: A Brief Introduction

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# Outline

**1. What are Fiscal Councils? What are Their Channels of Influence?**

**2. Trends in the Development of Fiscal Councils**

**3. The Impact of Fiscal Councils**

**4. Drawing Lessons for AIReF : Some Ground Rules**

**1. What are Fiscal  
Councils? What are  
Their Channels of  
Influence?**

# 1. What are Fiscal Councils?

- *A fiscal council is a **permanent** agency with a statutory or executive **mandate to assess publicly and independently from partisan influence** government's fiscal policies, plans and performance against macroeconomic objectives related to the long-term **sustainability** of public finances, short-medium-term macroeconomic **stability**, and other **official** objectives.*
- *In addition, a fiscal council can perform one or several of the following functions:*
  - *(i) contribute to the use of unbiased macroeconomic and budgetary **forecasts** in budget preparation (through forecasting or proposing prudent levels for key parameters),*
  - *(ii) identify sensible fiscal policy options, and possibly, formulating **recommendations**, and*
  - *(iii) monitor the implementation of **fiscal policy rules**.*
  - *(iv) cost new policy initiatives.*

# 1. What a Fiscal Council is not?

- **An Independent Fiscal Authority**

- Central bank: Authority over Monetary Policy.
- Fiscal Council: No Authority over fiscal policy.

But mandate to **influence** and **persuade**

**Public analyses** → higher reputational/electoral cost of unsound policies

- **An Audit Agency**

- Audit agency : legal/ more micro-economic approach; ex-post evaluations.
- Fiscal council : macro-economic approach; ex-ante policy formulation.

**Inputs budget planning (e.g. forecasting, costing), execution (e.g. fiscal targets)** → closing technical loopholes that ensure numerical fiscal rules are not circumvented.

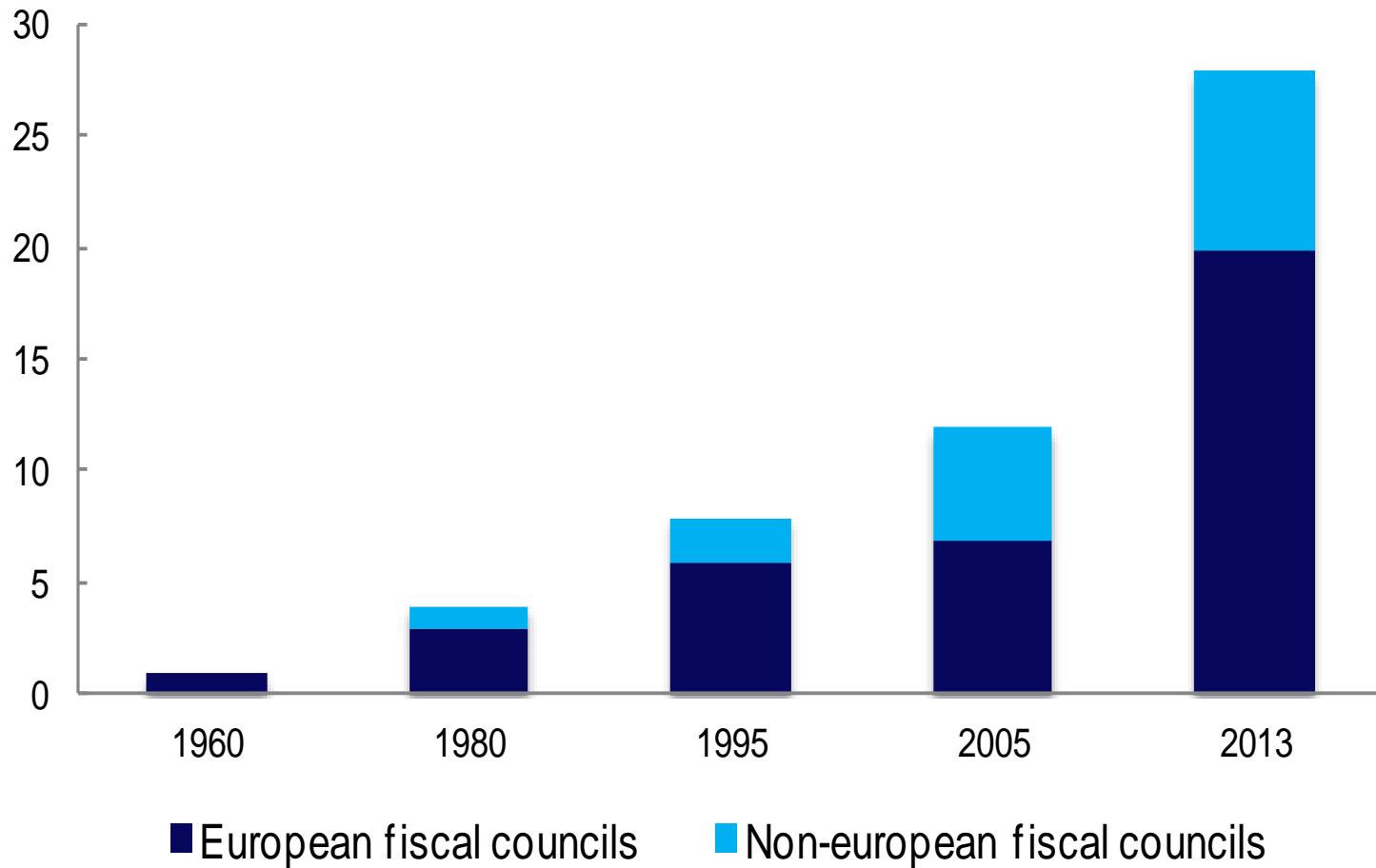
- **Another Independent Fiscal Watchdog**

- Mandate to benchmark against stated government objectives.

**Specific mandate from government** → **accountability/ownership.**

## **2. Trends in the Development of Fiscal Councils**

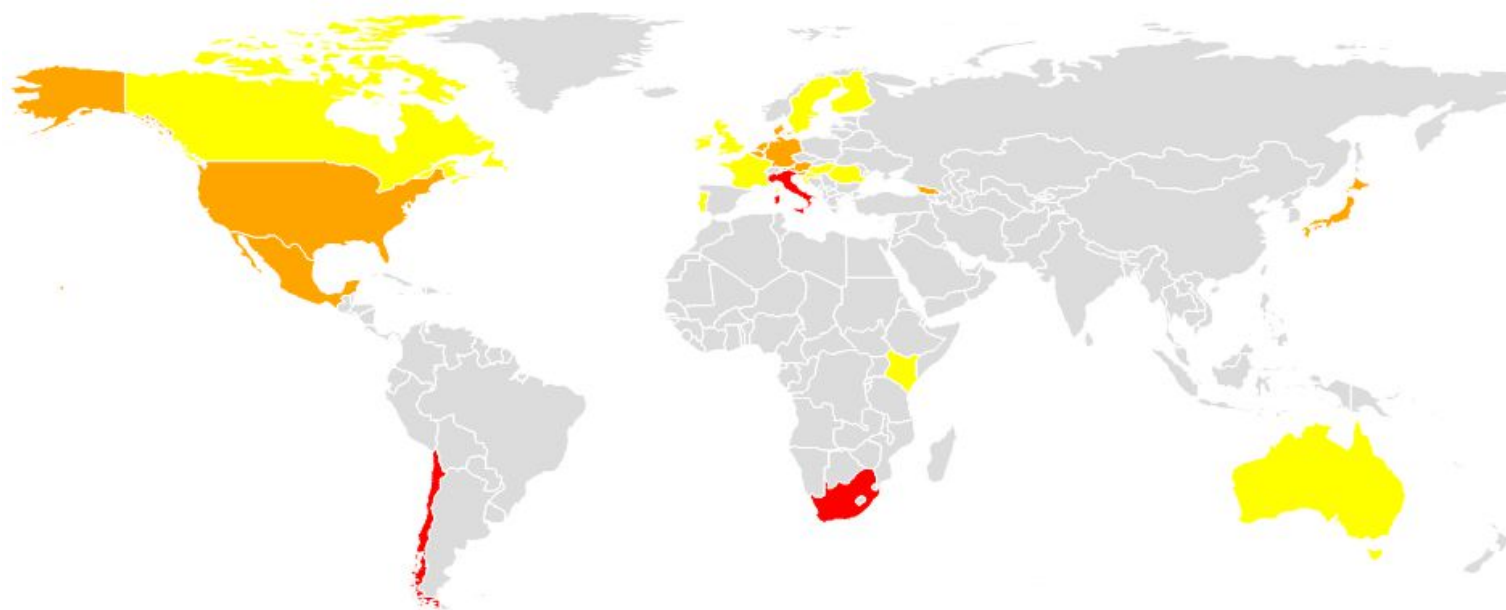
## 2. Recent surge in number of FCs



Source: IMF Fiscal council dataset.

## 2. Fiscal Councils in 2013

### Countries with Fiscal Councils, 2013

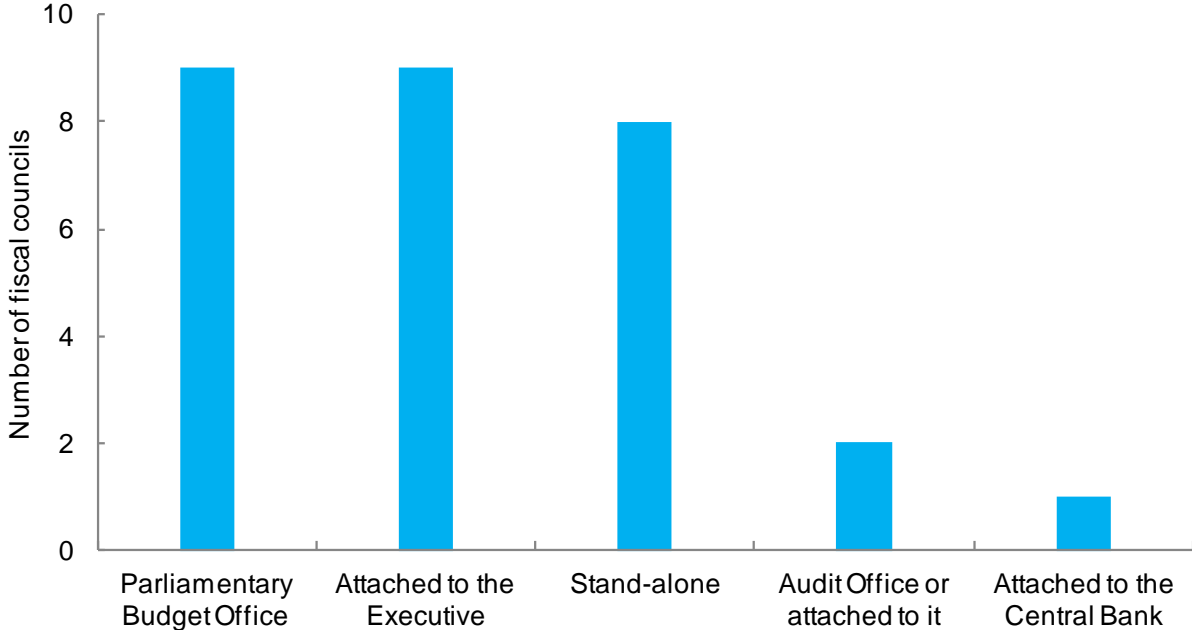


<http://www.imf.org/external/np/fad/council/>



# 2. Institutional Models

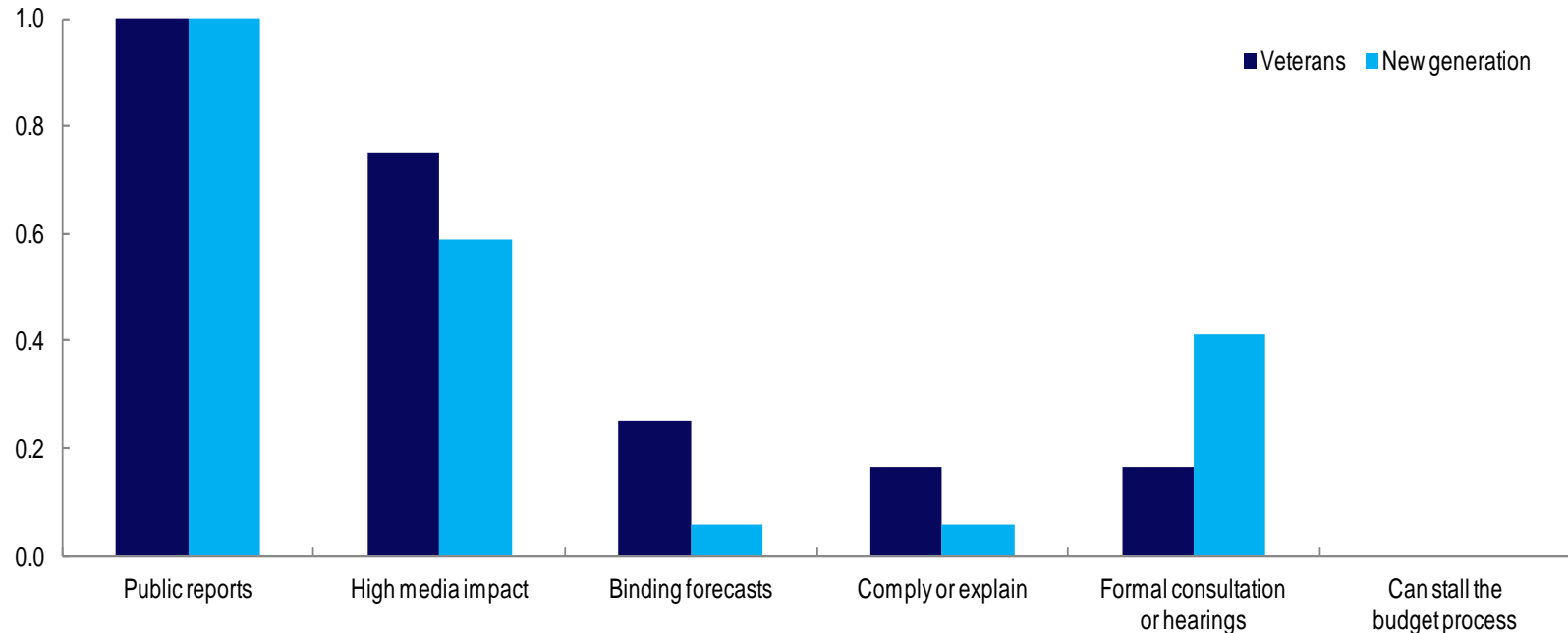
Large variety of institutional models among existing fiscal councils



Source: FAD Fiscal Council Dataset.

## 2. Tasks of Fiscal Councils

- **Preparing public reports to influence the public debate is the main task.**
- **Formal consultations with decision-makers are a more recent feature.**

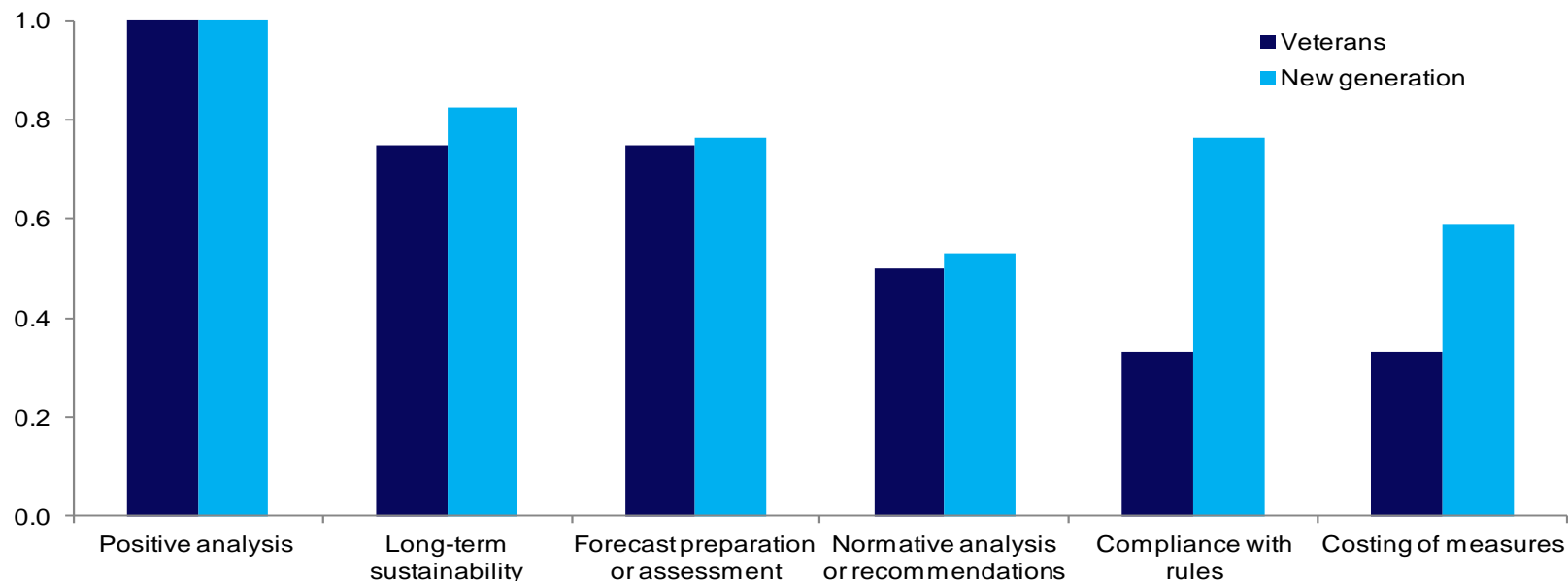


Source: IMF Fiscal council dataset.

## 2. Remit of Fiscal Councils

**Positive analysis, long-term sustainability assessments and forecasting (assessment or production) are the most frequent missions of fiscal councils.**

**Evaluating compliance with fiscal rules is a feature of more recently established councils.**



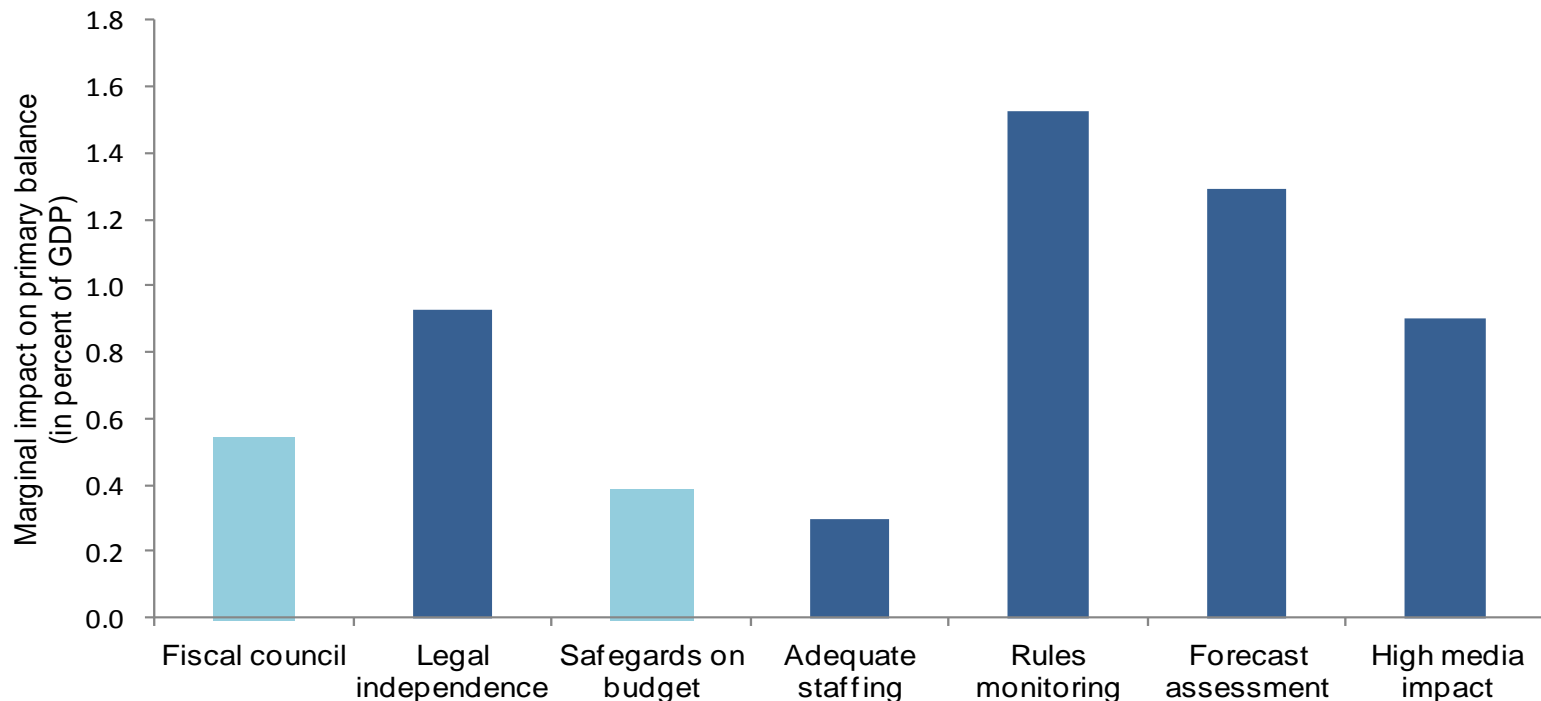
Source: IMF Fiscal Council dataset.

## **3.The Impact of Fiscal Councils**

### 3. Impact on Fiscal Discipline

- Countries with FCs appear to behave differently → stronger primary balances after conditioning for: persistence, public debt, output gap, national fiscal rules, and fixed-effects.

Marginal impact of FC with a given characteristic on average primary balances (estimated, dynamic LSDVC panel model, 1990-2011)

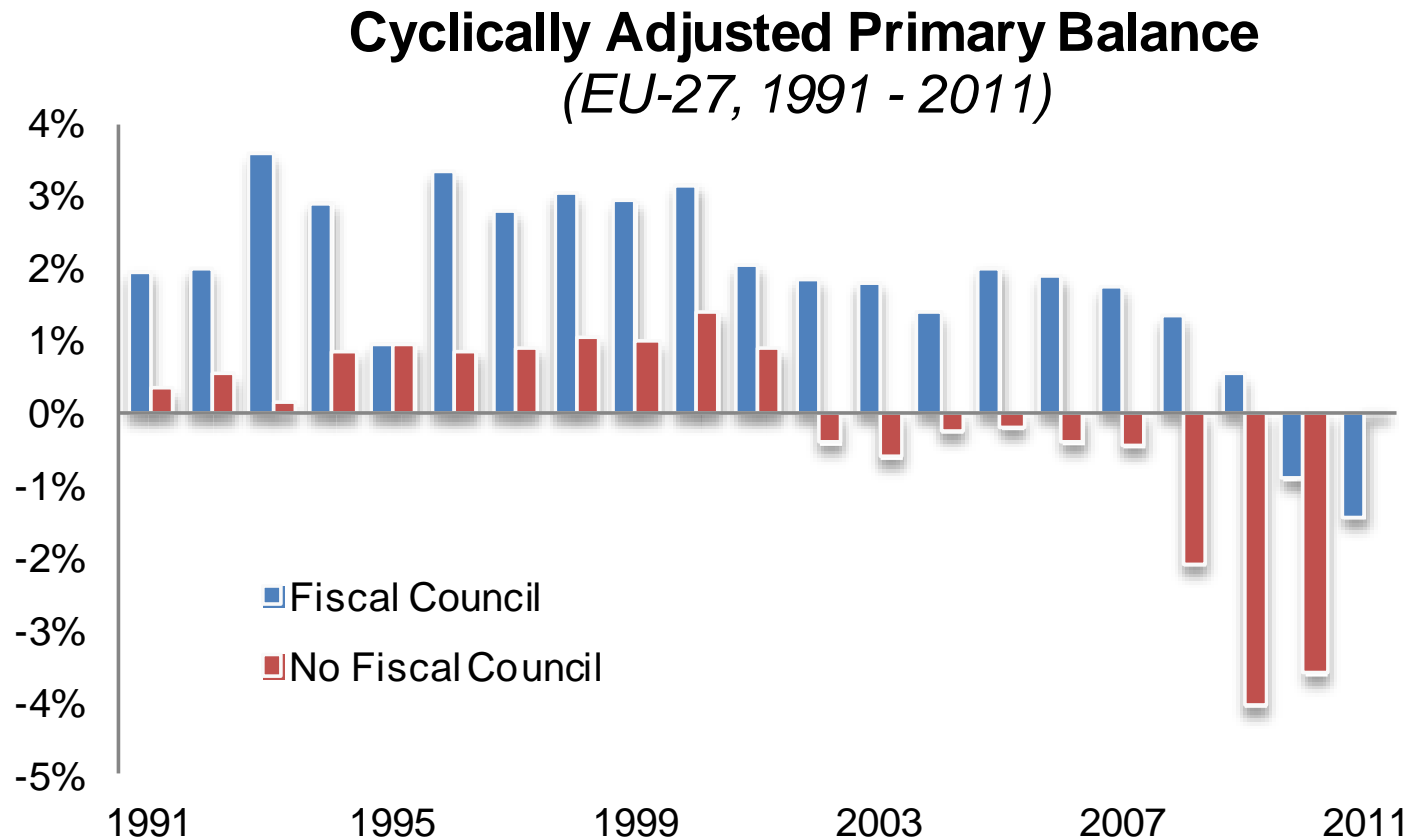


Source: IMF staff estimates.

Note: light-colored bars indicate that the estimated marginal impact of the binary variable is not statistically different from zero.

## 3. Impact on Macroeconomic Stabilization

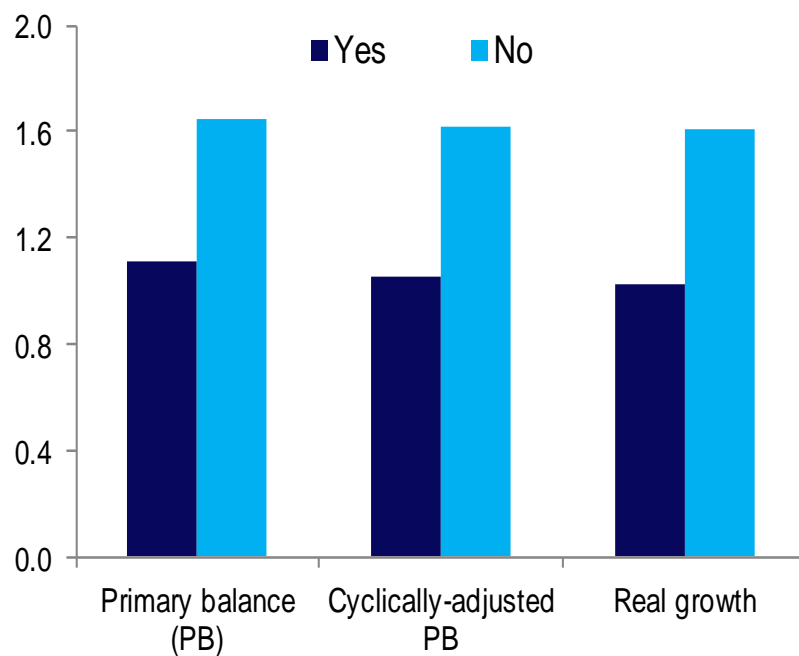
- In the EU, countries with FCs appear to behave differently  
→ stronger and less procyclical fiscal positions.



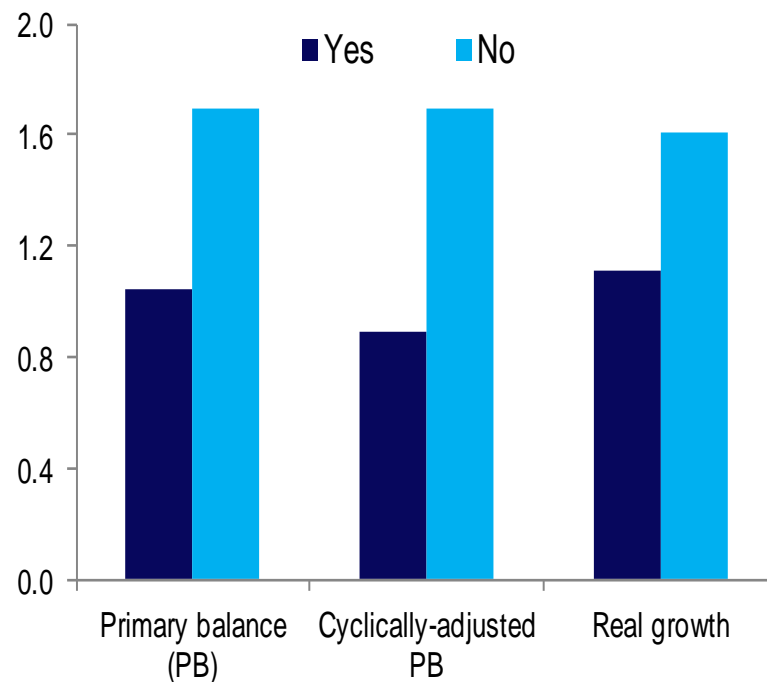
## 3. Impact of Fiscal Forecasts: Accuracy

- Countries with fiscal councils have more accurate forecasts.

**Absolute forecast error: FCs that provide or assess forecasts**



**Absolute forecast error: FCs with high media impact**



Source: IMF staff estimates.

## **4. Drawing Lessons for AIReF**



## 4. Areas

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- (i) Governance
- (ii) Analytical Outputs
- (iii) Fiscal Council in Federations
- (iv) Relations with other agencies
- (v) Communication Strategy

## 4. Rules of Engagement

- **Presentations followed by Group Discussions;**
- **Clarification questions only during presentations;**
- **Active/focused engagement during Group Discussions;**
  - ✓ Active : Speakers and Other Participants;
  - ✓ Focused : Related to Topics, AIReF relevant questions and issues;
- **Wrap up Session : Take-aways**
  - Preliminary Lessons
  - Follow up: Areas/Issues where additional discussion necessary;

**Thank You!**