

Fiscal Councils: A Brief Introduction

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Presentation to AIReF Workshop

Madrid

December 2, 2014



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.

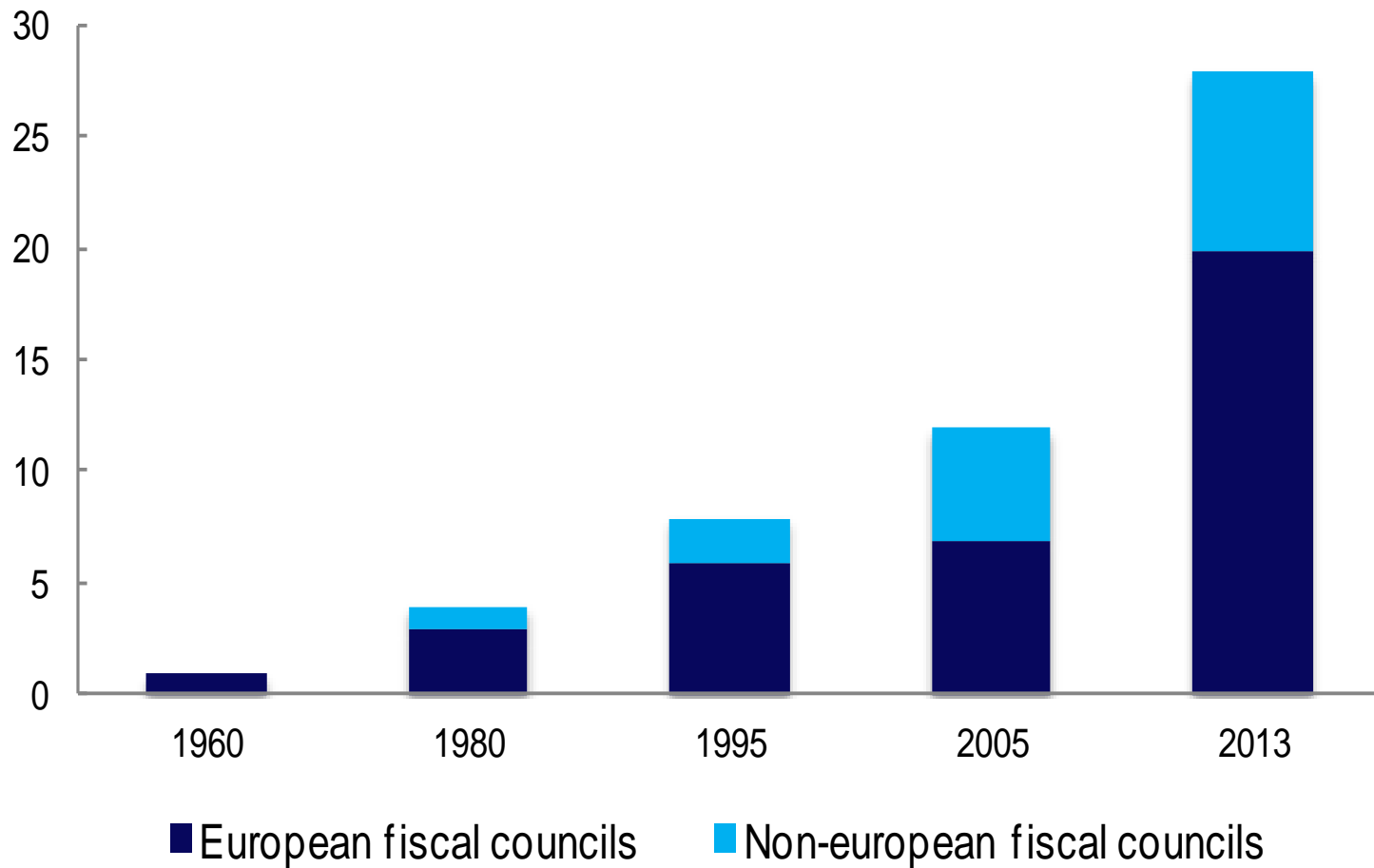
- **Another Independent Fiscal Watchdog**

- Mandate to benchmark against stated government objectives.

Specific mandate from government → accountability/ownership.

2. Trends in the Development of Fiscal Councils

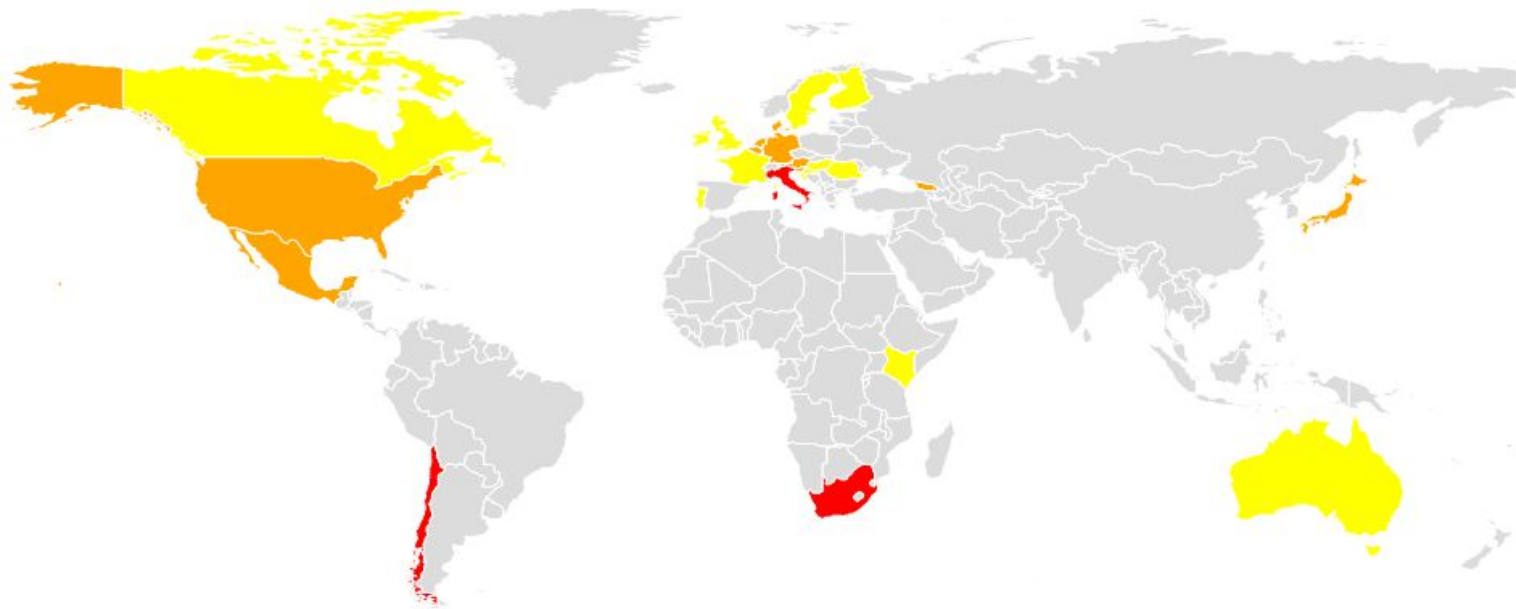
2. Recent surge in number of FCs



Source: IMF Fiscal council dataset.

2. Fiscal Councils in 2013

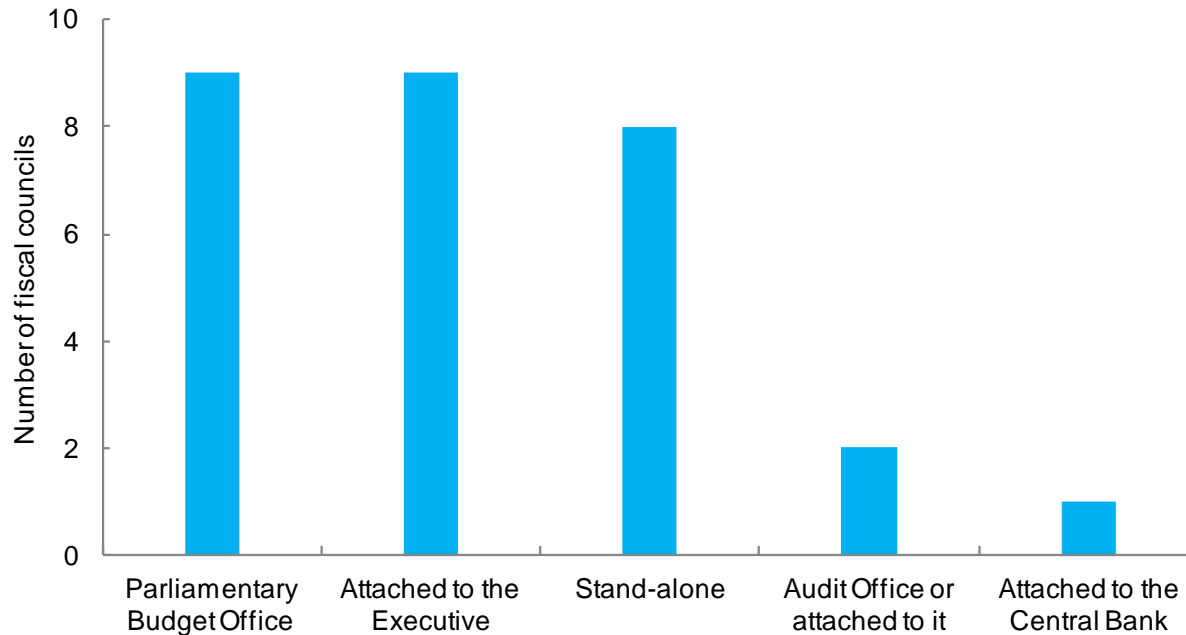
Countries with Fiscal Councils, 2013



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

2. Institutional Models

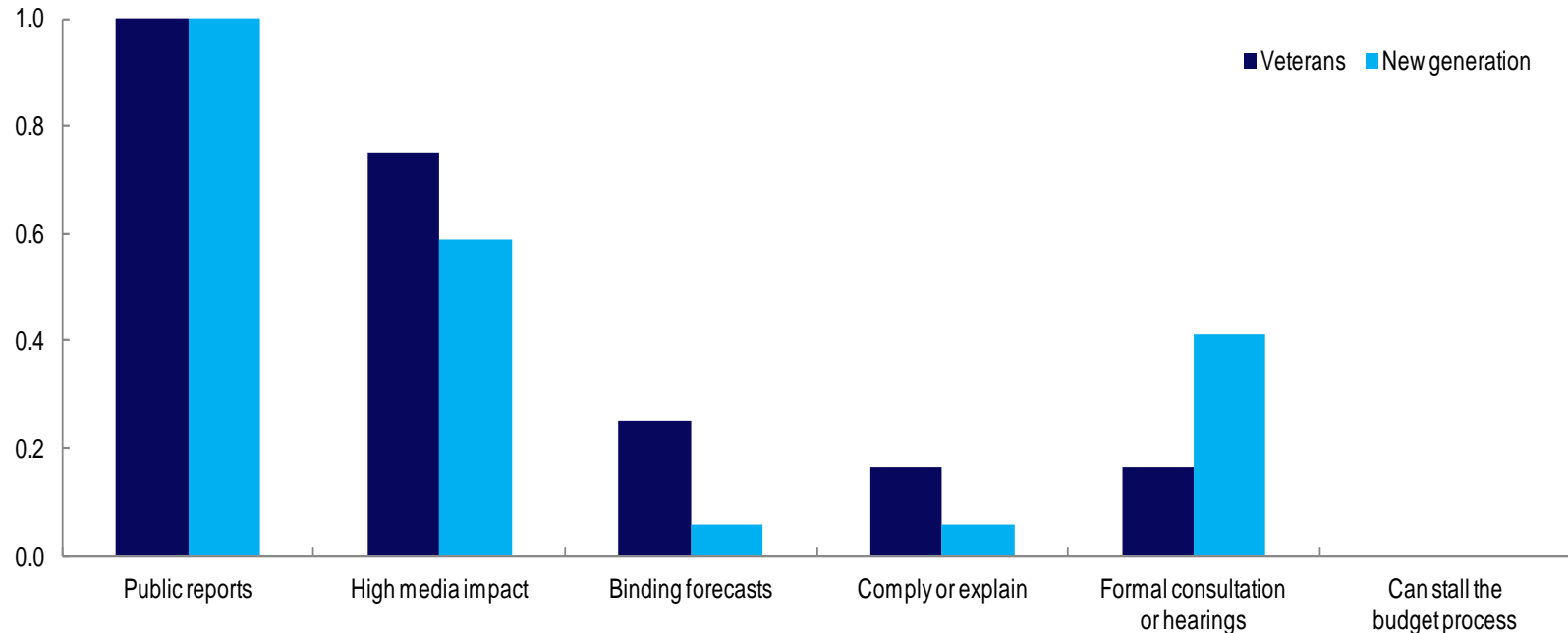
Large variety of institutional models among existing fiscal councils



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.**

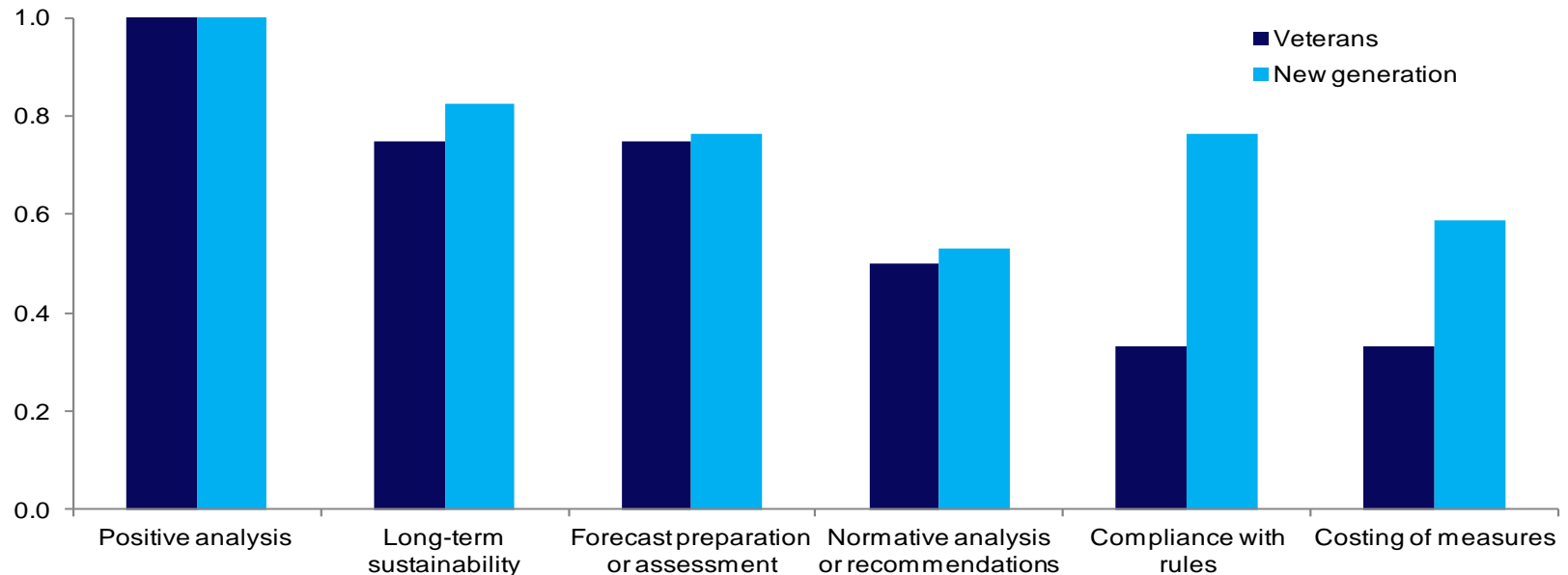


Source: IMF Fiscal council dataset.

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.



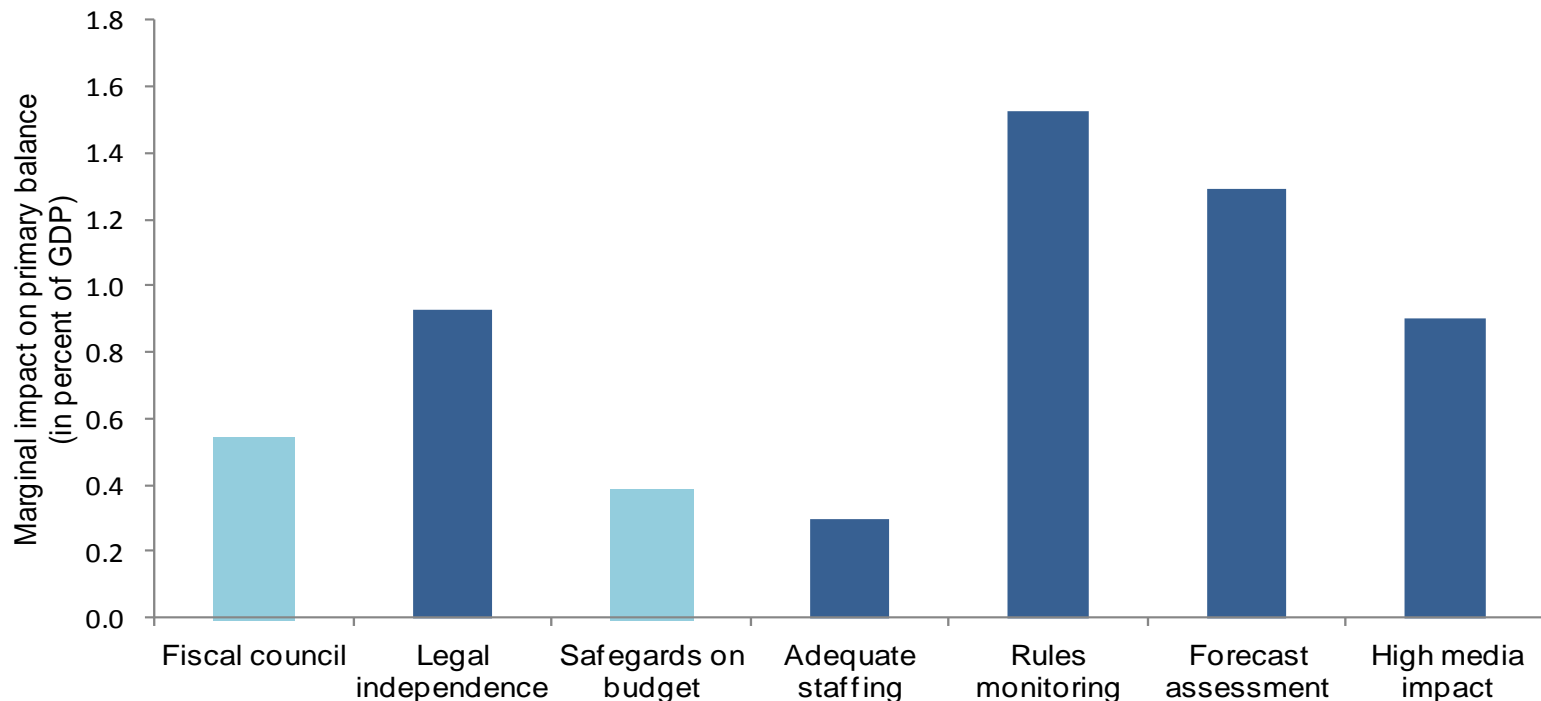
Source: IMF Fiscal Council dataset.

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)

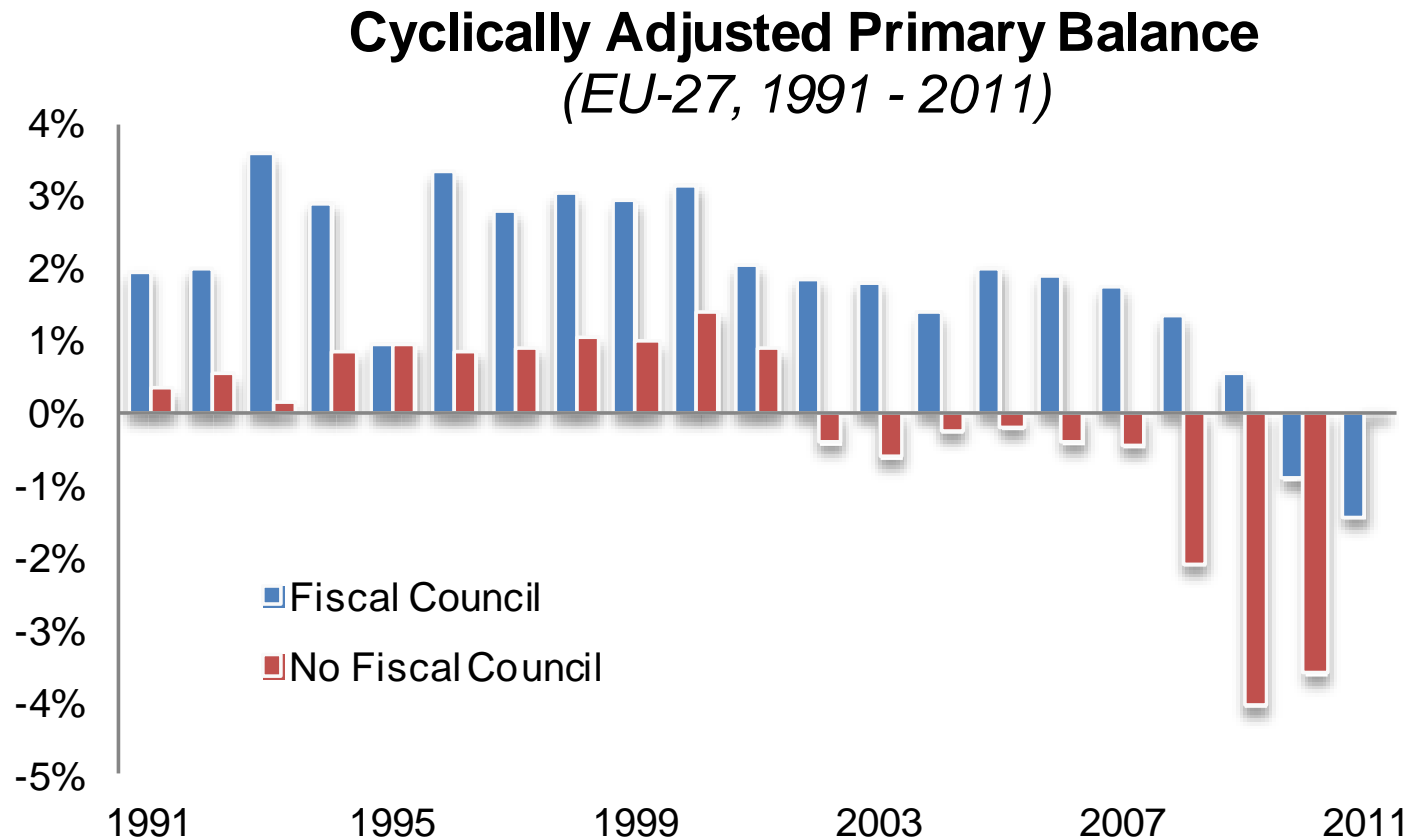


Source: IMF staff estimates.

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

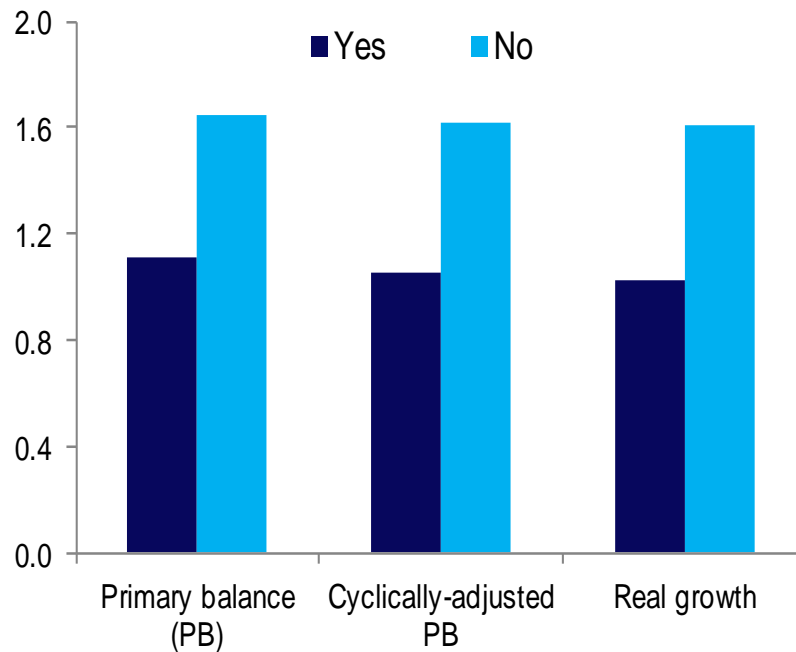
- In the EU, countries with FCs appear to behave differently
→ stronger and less procyclical fiscal positions.



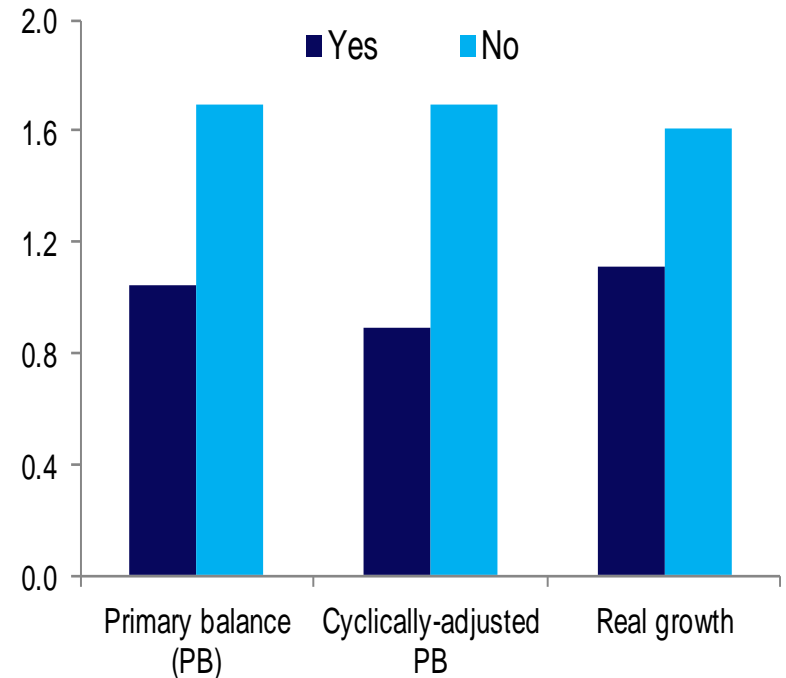
3. Impact of Fiscal Forecasts: Accuracy

- 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

- (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!