



DISCUSSION OF WOLF H. REUTER: “WHEN AND WHY DO COUNTRIES BREAK THEIR NATIONAL FISCAL RULES?”

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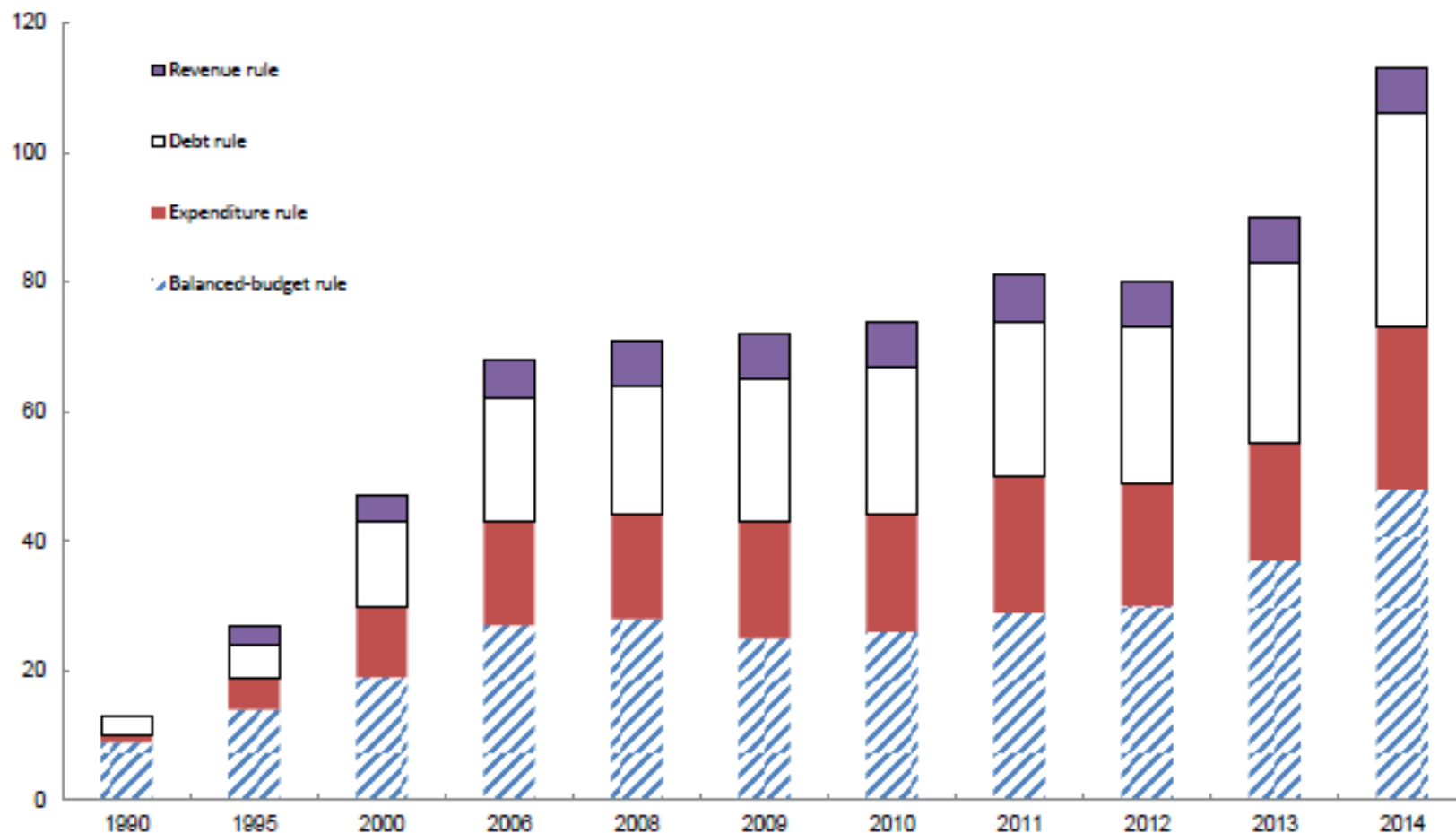
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Increasing number of (numerical) fiscal rules in the EU (EC DB)



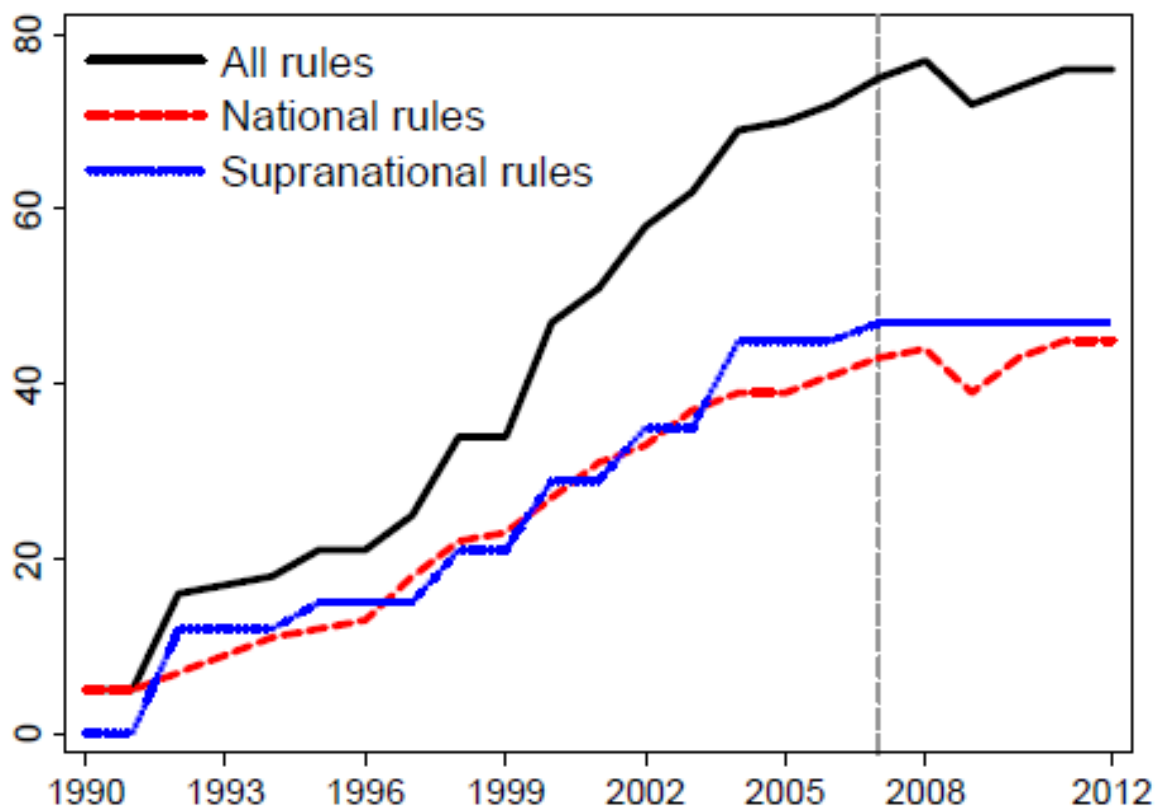
Note: No update from EE for 2014; data has been carried over from 2013 under "no-change" assumption.

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Some “national”, some “supranational” (common) (IMF DB)

Figure 2. Number of Countries with Fiscal Rules
(a) Total Rules



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This paper focuses on compliance with “national”

- Different sources (EC, IMF DBs), source of origin are national authorities
 - 51 rules, 1995-2014
 - 53% introduced since 2008
- Compliance evaluation
 - Compliance: yes/no (dummy), computed from ex post data
 - Rule-specific and country-specific determinants
 - Explanatory variables: output gap, debt, political, etc (ex post)
- Results
 - Compliance in 52% of cases (years/rules/countries)
 - Some additional, standard results on characteristics

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What do we learn?

The distinction national/supranational is somewhat blurred

- Some countries superseded national by supranational

Supranational: exposure to external auditing – national?

- Evidence of public awareness / political costs of non-compliance with national rules? (percent of elections lost?)

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Compliance is a real-time issue: relevance of real-time evaluation to assess who bears the political costs – example: public deficit revisions in EU

Revision after 4 years:

$$r_t^8 = d_t^8 - d_t^1$$

Mean	-0.34***
Standard deviation	1.05
Noise-to-signal ratio	0.43
<i>N° of observations</i>	119

Revision after 3 years:

$$r_t^6 = d_t^6 - d_t^1$$

Mean	-0.18**
Standard deviation	0.83
<i>N° of observations</i>	135

Revision after 1 year: r_t^3

$$= d_t^3 - d_t^1$$

Mean	-0.02
Standard deviation	0.62
<i>N° of observations</i>	150

Revision within the 1st

$$\text{year: } r_t^2 = d_t^2 - d_t^1$$

Mean	0.00
Standard deviation	0.53
<i>N° of observations</i>	165

$$r_{8,v}$$

$$v=1$$

$$d_t^v$$

$$-0.06***$$

(0.02)

$$E_H[g_H^v]$$

$$0.07***$$

(0.03)

$$E_H[\text{ELECTIONS}_H^v]$$

$$-0.17**$$

(0.07)

$$\text{Eurostat decisions at } v=2$$

$$-1.1***$$

$$\text{Eurostat decisions at } v=3$$

$$-0.03$$

$$\text{Eurostat decisions at } v=4$$

$$-0.37$$

$$\text{Eurostat decisions at } v=5$$

$$-0.45**$$

$$\text{Eurostat decisions at } v=6$$

$$-1.1***$$

$$\text{Eurostat decisions at } v=7$$

$$-0.27$$

$$\text{Eurostat decisions at } v=8$$

$$-1.18***$$

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Compliance as a yes/no?

“Almost compliance”: persistence is relevant for following year’s compliance or non-compliance

Pooling of compliance with rules of quite different nature (deficit, expenditure, debt)?

This may bias against explanatory power of macro forecast errors (at odds with the related literatura on “compliance” with fiscal targets)

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Escape clauses (51% of rules after 2008, 30% with escape clauses): its activation is not controlled for directly

Table 5. Fiscal Rules with Escape Clauses

Country and Date	Natural disaster	Economic recession	Banking system bailout, guarantee schemes	Change in Government	Change in budget coverage	Other events outside govt. control	Voting mechanism defined	Transition path defined
Brazil (since 2000)	X	X	-	-	-	-	X	-
Colombia (since 2011)	-	X	-	-	-	X	-	-
Germany (since 2010)	X	X	-	-	-	X	X	X
Jamaica (since 2010)	X	X	-	-	-	X	-	-
Mauritius (since 2008)	X	X	-	-	-	X	-	-
Mexico (since 2006)	-	X	-	-	-	-	-	-
Panama (since 2008)	X	X	-	-	-	X	-	X
Peru (since 2000)	X	X	-	-	-	X	-	X
Romania (since 2010)	-	X	-	X	X	X	-	X
Slovakia (since 2012)	X	X	X	-	-	X	-	-
Spain (since 2002)	X	X	-	-	-	X	X	X
Switzerland (since 2003)	X	X	-	-	-	X	X	X
EU member states/ euro area (since 2005)	-	X	-	-	-	-	-	X
WAEMU (since 2000)	-	X	-	-	-	-	-	-

Source: National authorities; and IMF staff assessment.

Note: For more details about the escape clauses see Appendix 1.

IMF DB