



BANCA D'ITALIA  
EUROSISTEMA

# Rules and Institutions for Sound Fiscal Policy after the Crisis

Seminari e convegni  
Workshops and Conferences

November 2012

number

11



BANCA D'ITALIA  
EUROSISTEMA

# Rules and Institutions for Sound Fiscal Policy after the Crisis

---

Seminari e convegni  
Workshops and Conferences

PUBLIC FINANCE WORKSHOP

Papers presented at the Banca d'Italia workshop  
held in Perugia, 31 March-2 April, 2011

*Earlier versions of the papers in this volume were presented at the Banca d'Italia workshop on "Rules and Institutions for Sound Fiscal Policy after the Crisis" held in Perugia, S.A.Di.Ba., on 31 March-2 April, 2011. We wish to thank the staff of S.A.Di.Ba. for their assistance in all aspects of the organization of the workshop.*

*Previous Public Finance workshops have addressed the following topics:*

- "Indicators of Structural Budget Balances" (1998)
- "Fiscal Sustainability" (2000)
- "Fiscal Rules" (2001)
- "The Impact of Fiscal Policy" (2002)
- "Tax Policy" (2003)
- "Public Debt" (2004)
- "Public Expenditure" (2005)
- "Fiscal Indicators" (2006)
- "Fiscal Policy: Current Issues and Challenges" (2007)
- "Fiscal Sustainability: Analytical Developments and Emerging Policy Issues" (2008)
- "Pension Reform, Fiscal Policy and Economic Performance" (2009)
- "Fiscal Policy: Lessons from the Crisis" (2010)

*The proceedings may be requested from:*

Banca d'Italia  
Biblioteca  
Via Nazionale, 91  
00184 Roma  
Italy

*They are also available at the Banca d'Italia website:*

[http://www.bancaditalia.it/studiricerche/convegni/atti;internal&action=\\_setlanguage.action?LANGUAGE=en](http://www.bancaditalia.it/studiricerche/convegni/atti;internal&action=_setlanguage.action?LANGUAGE=en)  
*and:*  
[http://www.bancaditalia.it/pubblicazioni/seminari\\_convegni;internal&action=\\_setlanguage.action?LANGUAGE=en](http://www.bancaditalia.it/pubblicazioni/seminari_convegni;internal&action=_setlanguage.action?LANGUAGE=en)

The contents of this book do not commit Banca d'Italia.  
Responsibility for the ideas and opinions expressed rests with the authors of the papers.  
Printed by the Printing Office of Banca d'Italia, Rome, November 2012.

# CONTENTS

## Foreword

Daniele Franco ( <i>Banca d'Italia</i> ) .....	p. 11
---	-------

## Introduction

Marika Cioffi, Daniele Franco and Maria Rosaria Marino ( <i>Banca d'Italia</i> ) .....	p. 13
---	-------

## Session 1

### NATIONAL FISCAL FRAMEWORKS: THE EXPERIENCE

<b>1. Fiscal Rules, What Does the American Experience Tell Us?</b> Byron Lutz and Glenn Follette ( <i>Federal Reserve Board</i> ) .....	p. 27
<b>2. Fiscal Rules and Fiscal Policy in Brazil</b> Ana Teresa Holanda de Albuquerque ( <i>Ministry of Planning, Budget and Management, Brazil</i> ).....	p. 55
<b>3. Fiscal Consolidation and Macro Economy: India's Experience with Rule-based Fiscal Policy and Post-crisis Challenges</b> Brajamohan Misra ( <i>Reserve Bank of India</i> ) .....	p. 75
<b>4. What Failed and What Worked in Past Attempts at Fiscal Adjustment</b> Paolo Mauro ( <i>IMF</i> ).....	p. 107
<b>5. Laws for Fiscal Responsibility for Subnational Discipline: International Experience</b> Lili Liu and Steven B. Webb ( <i>World Bank</i> ) .....	p. 115
<b>6. Towards (More) Appropriate Fiscal Policy in Slovenia</b> Slaven Mićković ( <i>Ministry of Finance, Slovenia</i> ) .....	p. 171
<b>Comments</b> Andrew Haughwout ( <i>Federal Reserve Bank of New York</i> ).....	p. 195

## Comments

- David Heald  
(*University of Aberdeen*)..... p. 199

## Comments

- Ernesto Rezk  
(*National University of Córdoba, Argentina*)..... p. 203

## Session 2

### FISCAL RULES AND INSTITUTIONS IN THE EUROPEAN UNION

7. **SGP 3.0: Continuity and Innovation in the Evolution of the EU Fiscal Framework**  
Martin Larch, Lucio R. Pench and Christine Frayne  
(*European Commission*) ..... p. 211
8. **Rebuilding the Public Finances and Fiscal Discipline in the Euro Area**  
Sebastian Barnes  
(*OECD*)..... p. 227
9. **Closing the Gaps of the SGP. Why a Sovereign Debt Restructuring Mechanism? Reflections from a Political Economy Perspective**  
Christian Kastrop and Werner Ebert  
(*Ministry of Finance, Germany*) ..... p. 259
10. **Rules and Risk in the Euro Area: Does Rules-based National Fiscal Governance Contain Sovereign Bond Spreads?**  
Anna Iara and Guntram B. Wolff  
(*European Commission*) ..... p. 277
11. **Implementing Germany’s New Constitutional Fiscal Rules**  
Jürgen Hamker  
(*Deutsche Bundesbank*) ..... p. 301
12. **The Importance of Fiscal Policy Frameworks – Swedish Experience of the Crisis**  
Robert Boije and Albin Kainelainen  
(*Ministry of Finance, Sweden*)..... p. 321
13. **Fiscal Performance and Decentralization in European Union Countries**  
Julio Escolano, Luc Eyraud, Marialuz Moreno Badia, Juliane Sarnes and Anita Tuladhar  
(*IMF*)..... p. 343

**Comments**

Carlo Cottarelli  
(*IMF*)..... p. 369

**Comments**

Vítor Gaspar  
(*Banco de Portugal*)..... p. 373

**Comments**

Philipp C. Rother  
(*European Central Bank*)..... p. 381

**Session 3**

**NEW DEVELOPMENTS:  
INDEPENDENT AUTHORITIES AND EXPENDITURE RULES**

- 14. Can Fiscal Discipline Be Reconciled with Fiscal Sovereignty?**  
George Kopits  
(*Woodrow Wilson International Center for Scholars, Washington, D.C.*)..... p. 387
- 15. Reforming Fiscal Institutions in Canada**  
Mostafa Askari, Kevin Page and Stephen Tapp  
(*Parliamentary Budget Office, Canada*)..... p. 403
- 16. Evaluating Election Platforms: A Task for Fiscal Councils?  
Scope and Rules of the Game in View of 25 Years of Dutch Practice**  
Frits Bos and Coen Teulings  
(*Netherlands Bureau for Economic Policy Analysis*) ..... p. 417
- 17. From First-release to *Ex Post* Fiscal Data: Exploring the Sources  
of Revision Errors in the EU**  
Roel Beetsma,<sup>\*</sup> Benjamin Bluhm,<sup>\*\*</sup> Massimo Giuliadori<sup>\*</sup> and Peter Wiertz<sup>\*\*\*</sup>  
(<sup>\*</sup> *University of Amsterdam*)  
(<sup>\*\*</sup> *Goethe University, Frankfurt*)  
(<sup>\*\*\*</sup> *De Nederlandsche Bank*) ..... p. 443
- 18. Keeping the Lid on Aggregate Expenditure During Budget Preparation:  
Enforcing Aggregate Expenditure Ceilings While Preserving  
Allocative Flexibility**  
Marc Robinson  
(*PFM Results Consulting, Switzerland*)..... p. 477

- 19. Towards Expenditure Rules and Fiscal Sanity in the Euro Area**  
 Sebastian Hauptmeier,\* A. Jesús Sánchez-Fuentes\*\* and Ludger Schuknecht\*  
 (\* *European Central Bank*)  
 (\*\* *Universidad Complutense de Madrid*)..... p. 491
- 20. Achilles Catches Up with the Tortoise: An Expenditure Rule to Bridge the Gap Between Fiscal Outturns and Targets**  
 Fabrizio Balassone, Daniele Franco and Stefania Zotteri  
 (*Banca d'Italia*)..... p. 513
- Comments**  
 Armela Mançellari, Gerti Shijaku and Jonel Kristo  
 (*Bank of Albania*)..... p. 527
- Comments**  
 Ranjana Madhusudhan  
 (*National Tax Association, USA*)..... p. 531
- Comments**  
 Javier J. Pérez  
 (*Banco de España*)..... p. 537

## Session 4

### NATIONAL FISCAL FRAMEWORKS: THE WAY FORWARD

- 21. Should Latin American Countries Adopt Structural Balance-based Fiscal Rules?**  
 Teresa Ter-Minassian  
 (*formerly IMF*)..... p. 545
- 22. Public Infrastructure Investment and Fiscal Sustainability in Latin America: Incompatible Goals?**  
 Luis Carranza\*, Christian Daude\*\* and Ángel Melguizo\*\*  
 (\* *Universidad San Martín de Porres, Lima*)  
 (\*\* *OECD*)..... p. 563
- 23. Russian Fiscal Framework: Past, Present and Future. Do We Need a Change?**  
 Sergey Vlasov  
 (*Bank of Russia*)..... p. 585

<b>24. The Story of Israel’s New Fiscal Rule: Theoretical Design Meets Politics</b>	
Adi Brender	
(Bank of Israel) .....	p. 611
<b>25. Reforming Iceland’s Fiscal Framework</b>	
Gunnar Gunnarsson	
(Central Bank of Iceland) .....	p. 631
<b>26. Making Fiscal Policy More Stabilising in the Next Upturn: Challenges and Policy Options</b>	
Anne-Marie Brook	
(New Zealand Treasury) .....	p. 653
<b>27. Is It Worth Considering Net Worth? Fiscal Policy Frameworks for Central Europe</b>	
L’udovít Ódor	
(Ministry of Finance, Slovak Republic) .....	p. 697
<b>Comments</b>	
Sergio Clavijo	
(ANIF, Colombia) .....	p. 727
<b>Comments</b>	
Philippe Frouté	
(Banque de France) .....	p. 731
<b>Comments</b>	
Walpurga Köhler-Töglhofer	
(Österreichische Nationalbank) .....	p. 739



## **Contributors**

Mostafa Askari (*Parliamentary Budget Office, Canada*)  
Fabrizio Balassone (*Banca d'Italia*)  
Sebastian Barnes (*OECD*)  
Roel Beetsma (*University of Amsterdam*)  
Benjamin Bluhm (*Goethe University, Frankfurt*)  
Robert Boije (*Ministry of Finance, Sweden*)  
Frits Bos (*Netherlands Bureau for Economic Policy Analysis*)  
Adi Brender (*Bank of Israel*)  
Anne-Marie Brook (*New Zealand Treasury*)  
Luis Carranza (*Universidad San Martín de Porres, Lima*)  
Marika Cioffi (*Banca d'Italia*)  
Sergio Clavijo (*ANIF, Colombia*)  
Carlo Cottarelli (*IMF*)  
Christian Daude (*OECD*)  
Werner Ebert (*Ministry of Finance, Germany*)  
Julio Escolano (*IMF*)  
Luc Eyraud (*IMF*)  
Glenn Follette (*Federal Reserve Board*)  
Daniele Franco (*Banca d'Italia*)  
Christine Frayne (*European Commission*)  
Philippe Frouté (*Banque de France*)  
Vitor Gaspar (*Banco de Portugal*)  
Massimo Giuliodori (*University of Amsterdam*)  
Gunnar Gunnarsson (*Central Bank of Iceland*)  
Jürgen Hamker (*Deutsche Bundesbank*)  
Andrew Haughwout (*Federal Reserve, New York*)  
Sebastian Hauptmeier (*European Central Bank*)  
David Heald (*University of Aberdeen*)  
Ana Teresa Holanda de Albuquerque (*Ministry of Planning, Budget and Management, Brazil*)  
Anna Iara (*European Commission*)  
Albin Kainelainen (*Ministry of Finance, Sweden*)  
Christian Kastrop (*Ministry of Finance, Germany*)  
Walpurga Köhler-Töglhofer (*Österreichische Nationalbank*)

George Kopits (*Woodrow Wilson International Center for Scholars, Washington, D.C.*)

Jonel Kristo (*Bank of Albania*)

Martin Larch (*European Commission*)

Lili Liu (*World Bank*)

Byron Lutz (*Federal Reserve Board*)

Ranjana Madhusudhan (*National Tax Association, USA*)

Armela Mançellari (*Bank of Albania*)

Maria Rosaria Marino (*Banca d'Italia*)

Paolo Mauro (*IMF*)

Ángel Melguizo (*OECD*)

Slaven Mićković (*Ministry of Finance, Slovenia*)

Brajamohan Misra (*Reserve Bank of India*)

Marialuz Moreno Badia (*IMF*)

L'udovít Ódor (*Ministry of Finance, Slovak Republic*)

Kevin Page (*Parliamentary Budget Office, Canada*)

Lucio R. Pench (*European Commission*)

Javier J. Pérez (*Banco de España*)

Ernesto Rezk (*National University of Córdoba, Argentina*)

Marc Robinson (*PFM Results Consulting, Switzerland*)

Philipp C. Rother (*European Central Bank*)

Juliane Sarnes (*IMF*)

A. Jesús Sánchez-Fuentes (*Universidad Complutense de Madrid*)

Ludger Schuknecht (*European Central Bank*)

Gerti Shijaku (*Bank of Albania*)

Stephen Tapp (*Parliamentary Budget Office, Canada*)

Teresa Ter-Minassian (*formerly IMF*)

Coen Teulings (*Netherlands Bureau for Economic Policy Analysis*)

Pietro Tommasino (*Banca d'Italia*)

Anita Tuladhar (*IMF*)

Sergey Vlasov (*Bank of Russia*)

Steven B. Webb (*World Bank*)

Peter Wierts (*De Nederlandsche Bank*)

Guntram B. Wolff (*European Commission*)

Stefania Zotteri (*Banca d'Italia*)