

BANCA D'ITALIA

STRUCTURAL ECONOMIC ANALYSIS
DEPARTMENT

PUBLIC FINANCE WORKSHOP

**Fiscal Policy:
Current Issues
and Challenges**

Papers presented at the Banca d'Italia workshop
held in Perugia, 29-31 March, 2007

Earlier versions of the papers in this volume were presented at the Banca d'Italia workshop on Fiscal Policy: Current Issues and Challenges held in Perugia, S.A.Di.Ba., on 29-31 March 2007. 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)

The proceedings may be requested from:

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

The contents of this book do not commit Banca d'Italia. Responsibility for the ideas and opinions expressed rests with the authors of the individual papers.

© 2007 Banca d'Italia

CONTENTS

Foreword

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

Introduction

Alfredo Bardozzetti, Daniele Franco and Stefania Zotteri (<i>Banca d'Italia</i>).....	p. 13
--	-------

Session 1

FISCAL STABILISATION

1. Fiscal Rules and the Scope for Stabilisation Policy – The Case of Sweden Yngve Lindh and Gösta Ljungman (<i>Ministry of Finance, Sweden</i>).....	p. 29
2. The Cyclical Response of Fiscal Policies in the Euro Area – Why Do Results of Empirical Research Differ so Strongly? Roberto Golinelli* and Sandro Momigliano** (* <i>Università di Bologna</i>) (** <i>Banca d'Italia</i>).....	p. 55
3. Safety Margins in EU Budgetary Surveillance: An Assessment Lorenzo Codogno* and Francesco Nucci** (* <i>Ministero dell'Economia e delle finanze, Italy</i>) (** <i>Università di Roma “La Sapienza”</i>).....	p. 89
4. Procyclicality, Fiscal Dominance, and the Effectiveness of Fiscal Policy in Egypt Mohamed Hassan (<i>Central Bank of Egypt and Cairo University</i>).....	p. 115
5. Public Debt Dynamics in Selected OECD Countries: The Role of Fiscal Stabilisation and Monetary Policy Harri Hasko (<i>Suomen Pankki</i>).....	p. 133

- 6. Fiscal Planning under Uncertainty – The Implications of Economic and Fiscal Uncertainty for Budget Forecasts**
 Jenna Robbins, Brian Torgunrud and Chris Matier
(Department of Finance/Ministère des Finances, Canada) p. 173

Comments

- Ranjana Madhusudhan
(New Jersey Treasury)..... p. 209

Comments

- Jean-Pierre Vidal
(European Central Bank) p. 215

Session 2

FISCAL CONSOLIDATION

- 7. What Affects Fiscal Consolidation? – Some Evidence from OECD Countries**
 Stéphanie Guichard, Michael Kennedy, Eckhard Wurzel and
 Christophe André
(OECD) p. 223

- 8. Fiscal Adjustments: Determinants and Macroeconomic Consequences**
 Manmohan S. Kumar, Daniel Leigh and Alexander Plekhanov
(International Monetary Fund) p. 247

- 9. Expansionary Fiscal Consolidations in Europe – New Evidence**
 António Afonso
(European Central Bank and ISEG – Universidade Técnica de Lisboa) p. 283

- 10. Assessing Overall Fiscal Effort in ECA, 1995-2004**
 Emilia Skrok and Aristomene Varoudakis
(World Bank) p. 307

- 11. If You Want to Cut, Cut, Don't Talk: The Role of Formal Targets in Israel's Fiscal Consolidation Efforts, 1985-2007**
 Adi Brender
(Bank of Israel)..... p. 349

- 12. The Quality of Fiscal Adjustment and the Long-run Growth Impact of Fiscal Policy in Brazil**
 Fernando Blanco and Santiago Herrera
 (*World Bank*)..... p. 377
- 13. The Lack of Fiscal Consolidation in an Inflationary Economy: Uruguay 1970-2006**
 Gerardo Marcelo Licandro Ferrando and Leonardo Vicente
 (*Banco Central del Uruguay*)..... p. 415
- Comments**
 Hubert Kempf
 (*Banque de France*)..... p. 459
- Comments**
 Doris Prammer
 (*Österreichische Nationalbank*)..... p. 465
- Comments**
 Mikko Spolander
 (*Suomen Pankki*) p. 473

Session 3

FISCAL POLICY AND BUDGETARY INSTITUTIONS

- 14. Fiscal Rules, Fiscal Councils and All That: Commitment Devices, Signaling Tools or Smokescreens?**
 Xavier Debrun* and Manmohan S. Kumar**
 (* *International Monetary Fund, BRUEGEL, Bruxelles, and Graduate Institute of International Studies, Geneva*)
 (** *International Monetary Fund*)..... p. 479
- 15. Design Choices for Fiscal Policy Rules**
 Barry Anderson* and Joseph J. Minarik**
 (* *OECD*)
 (** *Committee for Economic Development, Washington, D.C.*) p. 513

16. The Value and Reform of Budget Institutions Stefania Fabrizio and Ashoka Mody (<i>International Monetary Fund</i>)	p. 557
17. The Fiscal Policy Framework in China Liu Lida (<i>People's Bank of China</i>)	p. 569
18. A New Budget Rule for Germany Elke Baumann and Christian Kastrop (<i>Bundesministerium der Finanzen, Germany</i>).....	p. 595
19. Do Budget Institutions Matter? Fiscal Consolidation in the New EU Member States Carlos Mulas-Granados,* Jorge Onrubia* and Javier Salinas-Jiménez** (* <i>Universidad Complutense de Madrid</i>) (** <i>Instituto de Estudios Fiscales, Madrid</i>).....	p. 613
20. Beyond the SGP – Features and Effects of EU National-level Fiscal Rules Joaquim Ayuso-i-Casals, Diana González Hernández, Laurent Moulin and Alessandro Turrini (<i>European Commission</i>).....	p. 651
21. Economic and Politico-institutional Variables Applied to the Analysis of Subnational Public Spending in Argentina Ernesto Rezk (<i>Universidad Nacional de Córdoba, Argentina</i>)	p. 703
Comments Marco Buti (<i>European Commission</i>).....	p. 727
Comments David Heald (<i>University of Sheffield</i>).....	p. 733
Comments Álvaro Manuel Pina (<i>ISEG – Universidade Técnica de Lisboa</i> and <i>UECE (Research Unit on Complexity and Economics)</i>).....	p. 737

Session 4
PUBLIC EXPENDITURE CONTROL

22. **Debt Retrenchment Strategies and Control of Public Spending**
Carine Bouthevillain, Laurent Paul and Jeanne Pavot
(*Banque de France*)..... p. 745
23. **How Do Expenditure Rules Affect Fiscal Behaviour?**
Peter Wierds
(*De Nederlandsche Bank and University of Reading*)..... p. 781
24. **Government Expenditure and Economic Growth in the EU:
Long-run Tendencies and Short-term Adjustment**
Alfonso Arpaia and Alessandro Turrini
(*European Commission*)..... p. 799
25. **Cyclical Asymmetry in Fiscal Variables**
Fabrizio Balassone, Maura Francese and Stefania Zotteri
(*Banca d'Italia*)..... p. 845
26. **The Dutch Fiscal Framework and the Role of the Central
Planning Bureau**
Frits Bos
(*Centraal Planbureau, the Netherlands*)..... p. 869
27. **Fiscal Consolidation Strategy in Japan:
The Role of Expenditure Control**
Mikio Kajikawa
(*Ministry of Finance, Japan*)..... p. 893
- Comments**
John Janssen
(*New Zealand Treasury*)..... p. 903
- Comments**
Bernhard Manzke
(*Deutsche Bundesbank*)..... p. 907
- Comments**
Margit Schratzenstaller
(*WIFO – Austrian Institute of Economic Research, Austria*)..... p. 911

List of contributors

António Afonso (*European Central Bank and ISEG – Universidade Técnica de Lisboa*)

Barry Anderson (*OECD*)

Christophe André (*OECD*)

Alfonso Arpaia (*European Commission*)

Joaquim Ayuso-i-Casals (*European Commission*)

Fabrizio Balassone (*Banca d'Italia*)

Elke Baumann (*Bundesministerium der Finanzen, Germany*)

Fernando Blanco (*World Bank*)

Frits Bos (*Centraal Planbureau, the Netherlands*)

Carine Bouthevillain (*Banque de France*)

Adi Brender (*Bank of Israel*)

Marco Buti (*European Commission*)

Lorenzo Codogno (*Ministero dell'Economia e delle finanze, Italy*)

Xavier Debrun (*International Monetary Fund, BRUEGEL, Bruxelles and Graduate Institute of International Studies, Geneva*)

Stefania Fabrizio (*International Monetary Fund*)

Maura Francese (*Banca d'Italia*)

Daniele Franco (*Banca d'Italia*)

Claude Giorno (*OECD*)

Roberto Golinelli (*Università di Bologna*)

Diana González Hernández (*European Commission*)

Stéphanie Guichard (*OECD*)

Harri Hasko (*Suomen Pankki*)

Mohamed Hassan (*Central Bank of Egypt and Cairo University*)

David Heald (*University of Sheffield*)

Santiago Herrera (*World Bank*)

Peter Höller (*OECD*)

John Janssen (*New Zealand Treasury*)

Mikio Kajikawa (*Ministry of Finance, Japan*)

Christian Kastrop (*Bundesministerium der Finanzen, Germany*)

Hubert Kempf (*Banque de France*)

Michael Kennedy (*OECD*)

Manmohan S. Kumar (*International Monetary Fund*)

Daniel Leigh (*International Monetary Fund*)
Gerardo Marcelo Licandro Ferrando (*Banco Central del Uruguay*)
Liu Lida (*People's Bank of China*)
Yngve Lindh (*Ministry of Finance, Sweden*)
Gösta Ljungman (*Ministry of Finance, Sweden*)
Ranjana Madhusudhan (*New Jersey Treasury*)
Bernhard Manzke (*Deutsche Bundesbank*)
Chris Matier (*Department of Finance/Ministère des Finances, Canada*)
Joseph J. Minarik (*Committee for Economic Development, Washington, D.C.*)
Ashoka Mody (*International Monetary Fund*)
Sandro Momigliano (*Banca d'Italia*)
Carlo Monticelli (*Ministero dell'Economia e delle finanze, Italy*)
Laurent Moulin (*European Commission*)
Carlos Mulas-Granados (*Universidad Complutense de Madrid*)
Francesco Nucci (*Università di Roma "La Sapienza"*)
Jorge Onrubia (*Universidad Complutense de Madrid*)
Laurent Paul (*Banque de France*)
Jeanne Pavot (*Banque de France*)
Álvaro Manuel Pina (*ISEG – Universidade Técnica de Lisboa*) and
UECE (Research Unit on Complexity and Economics)
Alexander Plekhanov (*International Monetary Fund*)
Doris Prammer (*Österreichische Nationalbank*)
Ernesto Rezk (*Universidad Nacional de Córdoba, Argentina*)
Jenna Robbins (*Department of Finance/Ministère des Finances, Canada*)
Javier Salinas-Jiménez (*Instituto de Estudios Fiscales, Madrid*)
Margit Schratzenstaller (*WIFO – Austrian Institute of Economic Research, Austria*)
Emilia Skrok (*World Bank*)
Mikko Spolander (*Suomen Pankki*)
Brian Torgunrud (*Department of Finance/Ministère des Finances, Canada*)
Alessandro Turrini (*European Commission*)
Aristomene Varoudakis (*World Bank*)
Leonardo Vicente (*Banco Central del Uruguay*)
Jean-Pierre Vidal (*European Central Bank*)
Peter Wierts (*De Nederlandsche Bank and University of Reading*)
Eckhard Wurzel (*OECD*)
Stefania Zotteri (*Banca d'Italia*)