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COMMENTS ON
“INDEPENDENT FISCAL COUNCILS:
NEGLECTED SIBLINGS OF
INDEPENDENT CENTRAL BANKS?”

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What the paper does

- A review of the shortcomings of discretionary fiscal stabilisation
- A comparison of institutional arrangements in monetary and fiscal policy
- A proposal for strengthening the role of national fiscal councils in the EU:
 - Delegating the stabilisation task of fiscal policy to an independent fiscal institution: a mandate from the national parliament to set the budget balance



My discussion

- Difficulties in implementing the proposal
 - as regards national fiscal policy-making
 - as regards European fiscal rules

- Priorities to enhance the role of advisory fiscal councils



Difficulties in implementing the proposal (I)

- Political resistance
- Roles of fiscal policy: separation of stabilisation (macroeconomic dimension) from allocation and distribution (structural dimension) not simple
 - Budget balance has implications for composition of public finances (e.g. cuts to investment in large consolidations)
 - Composition of public finances can have macroeconomic impacts even in the short run (e.g. the balanced budget multiplier)
 - Reforms in tax and spending policies may require some support from the fiscal stance (e.g. Beetsma and Debrun, 2004)



Difficulties in implementing the proposal (II)

- For the macroeconomic dimension, different relative weights of long-run sustainability and short-run stabilisation are possible
- Interactions of national fiscal council with the EU framework might not be straightforward:
 - Mandate simply defined by the current EU fiscal framework → could be politically not viable
 - Mandate with more space for expertise and judgement → possible conflict with SGP rules (could lead to simplification of SGP rules, which would be welcome)
 - Articulation with European Fiscal Board needs to be considered



Making the best of advisory fiscal councils (I)

- Independent fiscal institutions now operating in virtually all euro area countries (in the wake of the 2011-13 SGP reforms)
- Most common tasks:
 - Macroeconomic forecasts
 - Monitoring of fiscal rules
- These tasks tend to be associated with lower primary deficits (Debrun and Kinda, 2014)



Making the best of advisory fiscal councils (II)

- Some challenges about resources:
 - Staff
 - Safeguards on budget
 - Access to information
- A broader advisory remit?
 - quantifying budgetary and economic impacts of reforms in tax and spending



References

- Beetsma, R. and X. Debrun (2004), “Reconciling stability and growth: Smart pacts and structural reforms”, *IMF Staff Papers*, Vol. 51, No. 3, International Monetary Fund, Washington DC.
- Debrun, X. and T. Kinda (2014), “Strengthening post-crisis fiscal credibility - Fiscal councils on the rise. A new dataset”, *IMF Working Papers*, No. WP/14/58, International Monetary Fund, Washington DC.



Remarks

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