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THE ROLE OF FISCAL COUNCILS IN ACHIEVING ECONOMIC GROWTH AND FISCAL DISCIPLINE

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Abstract: The European Union (EU) member states should ensure their long-term stability and prosperity, sound fiscal policies and discipline and here, fiscal councils play a crucial role. Fiscal councils are independent bodies responsible for assessing the government's fiscal policies, providing fiscal advice and monitoring the implementation of fiscal rules. This article discusses the role of fiscal councils in achieving economic growth and fiscal discipline in the EU. The article also highlights the importance of fiscal councils in promoting transparency and credibility in fiscal policies, providing early warning signals of potential fiscal imbalances, and contributing to the long-term stability and prosperity of the EU.

Keywords: fiscal council, fiscal stability, economic growth.

Introduction

The European Union is a complex and diverse entity composed of 27 member states. To ensure its long-term stability and prosperity, it is essential to implement sound fiscal policies and ensure fiscal discipline among its members. A fiscal council is an independent body responsible for assessing the government's fiscal policies, providing fiscal advice and monitoring the implementation of fiscal rules. Its primary purpose is to ensure fiscal sustainability and stability and to promote sound economic growth. They play an essential role in promoting transparency and accountability in the government's fiscal policies, increasing public trust and confidence in the government's actions.
Fiscal discipline and economic growth are crucial components of a stable and prosperous economy. In the European Union (EU), fiscal councils play a vital role in promoting both fiscal discipline and economic growth by monitoring the fiscal policies of the government, providing fiscal advice, and ensuring the implementation of fiscal rules.

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The establishment of fiscal councils in the EU member states has been motivated by the need to improve fiscal discipline and stability, especially in light of the financial crisis of 2008 and its aftermath. The role of fiscal councils in achieving economic growth and fiscal discipline has been widely studied and discussed in the academic literature. This article will provide a comprehensive overview of the role of fiscal councils in achieving economic growth and fiscal discipline in the EU, drawing on recent research and analysis. Studies have found that fiscal councils can contribute to improved fiscal discipline and stability by monitoring the government's fiscal situation and providing early warning signals of potential fiscal imbalances (IMF, 2013; Raudla et al., 2018; Belling, 2020; Pappas & Kostakis, 2020). The presence of a fiscal council has also been shown to improve fiscal performance (Wildowicz-Giegiel, 2019), increase the credibility of fiscal policies, promote transparency, and increase confidence among investors, consumers, and businesses. These factors can help to stimulate economic growth and investment in the long term (Wiliński, 2019).

Research has also shown that fiscal councils can significantly improve the implementation of fiscal rules and agreements. A study by Beetsma et al. (2019) found that fiscal councils can help provide higher accuracy and less optimistic fiscal forecasts while ensuring compliance with the established fiscal rules. Also, it is argued that fiscal councils can help to improve the credibility of fiscal policies (Debrun & Kinda, 2017), increase transparency (Connor, 2017), enhance fiscal surveillance and accountability (Horvath, 2018), promote fiscal discipline and stability (Larch & Braendle, 2018; Tesche, 2021).

Additionally, studies have found that fiscal councils can effectively improve fiscal policy accountability and transparency (Tesche, 2019). On the other hand, some articles found that fiscal councils can increase accountability and transparency by providing regular, independent and impartial assessments of government policies (Hemming & Joyce, 2013). It can help to increase public trust in the government and promote fiscal discipline (Begg, 2017; Martins & Correia, 2021).

Results

In the European Union, the fiscal councils play a crucial role in ensuring that the EU member states adhere to the fiscal rules set by the EU, such as the Stability and growth pact (SGP). The pact requires that member states maintain a budget deficit below 3% of GDP and a debt-to-GDP ratio below 60%. Fiscal councils also help to improve the transparency and credibility of fiscal policies. Another important role of fiscal councils is to provide early warning signals of potential fiscal imbalances.

Most EU member states have established a fiscal council (FC); however, their mandate, functions and independence differ, which leads to a differentiation in influencing economic growth and fiscal discipline. Table 1 summarises data on fiscal councils' establishment and functions in the EU.

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Table 1. Fiscal councils in the EU.

Country	Start of activity	Positive analysis	Normative analysis	Forecast Preparation	Forecast Assessment	Recommendations	Ex-Post Analysis	Mandate beyond FP	Public reports	Legal independence	Operational independence
Austria	1970	1	1	1	1	1	1	0	1	1	1
Belgium	1989	1	1	0	0	1	1	0	1	0	1
Bulgaria	2015	1	1	1	1	1	1	0	1	1	1
Croatia	2013	1	0	0	0	1	1	0	1	1	1
Cyprus	2014	1	1	0	1	1	1	0	1	1	1
Czech Republic	2017	1	1	0	0	1	1	0	1	1	1
Denmark	1962	1	1	1	1	1	1	1	1	1	1
Estonia	2014	1	0	0	1	1	1	0	1	1	1
Finland	2013	1	1	0	1	1	1	1	1	1	1
France	2013	1	0	0	1	0	1	0	1	1	1
Germany	2013	1	0	0	1	1	1	0	1	1	0
Greece	2010	1	1	0	1	1	1	1	1	1	1
Hungary	2009	1	1	1	1	1	1	0	1	1	0
Ireland	2011	1	1	0	1	1	1	0	1	1	1
Italy	2014	0	0	0	1	0	1	0	1	1	1
Latvia	2014	1	1	0	1	1	1	0	1	1	1
Lithuania	2015	1	1	0	1	1	1	0	1	1	1
Luxembourg	2014	1	1	0	1	1	0	0	1	1	1
Malta	2015	1	1	0	1	1	1	0	1	1	1
Netherlands	2014	1	1	0	0	1	1	0	1	1	1
Portugal	2012	1	0	0	1	0	1	0	1	1	1
Romania	2010	1	0	1	1	1	0	1	1	1	1
Slovak Republic	2012	1	1	0	1	1	1	0	1	1	1
Slovenia	2015	1	1	0	1	1	1	0	1	1	1
Spain	2014	1	1	1	1	1	1	0	1	1	0
Sweden	2007	1	1	0	1	1	1	0	1	1	1

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Source: Compiled by the author based on IMF fiscal council dataset (2022)

Figure 1 shows the relationship between fiscal council mandates, functions and independence and the government debt. To assess the level of the mandates, functions and independence of the fiscal council in a specific country, we have developed an index based on IMF fiscal council data (2022) by accounting for the main dimensions: positive, normative, ex-ante and ex-post analyses, fiscal policy coordination, mandate beyond fiscal policy, public relations, budget process, independence and accountability. The index varies between 0 and 1, with 0 being the lowest power and 1 standing for the highest power level. The results show that the higher power FC has, the lower the government debt in the EU member states. Hence, we can say that fiscal councils contribute to fiscal discipline and stability in the country.

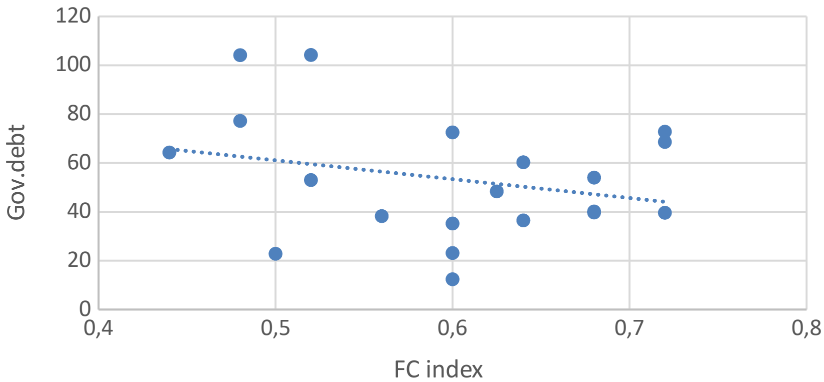

Figure 1. Fiscal councils and government debt in the EU.
Source: Made by the author based on IMF fiscal council dataset (2022) and Eurostat

Conclusion

The fiscal councils play a crucial in achieving economic growth and fiscal discipline in the EU. Fiscal councils are independent bodies responsible for assessing the government's fiscal policies, providing fiscal advice, and monitoring the implementation of fiscal rules. They can contribute to improved fiscal discipline and stability, enhanced fiscal rules and agreements implementation, and stimulate economic growth.
The presence of fiscal councils helps to increase transparency, credibility, and confidence in fiscal policies, contributing to long-term prosperity and stability. Additionally, fiscal councils can increase accountability and transparency by providing regular, independent and impartial assessments of government policies. It can help to increase public trust in the government and promote fiscal discipline.
The EU member states should continue to support the development of fiscal councils and ensure that they have the resources and independence necessary to carry out their mandates effectively. By doing so, the EU can help to ensure its long-term prosperity and stability.

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