Fiscal rules

A fiscal rule is a long-term constraint on fiscal policy through numerical limits on the budgetary aggregates. Without overall limits, incremental budgeting can become an open-ended process in which governments accommodate demands by spending more than they have. A fiscal rule has two fundamental characteristics. First, it presents a constraint that binds political decisions made by the legislature and by the executive. And second, it serves as a concrete indicator of the executive's fiscal management. While fiscal rules can help governments to achieve fiscal objectives and discipline, there is no one-size-fits-all rule for every country.

Fiscal rules may focus on different elements of government fiscal performance: revenues, expenditures, budget balance, and public debt. Across OECD member countries, the most common types of fiscal rules are budget balance rules (28 member countries) and debt rules (23), due to obligations for European Union countries. Revenue rules are the least common, as only five OECD member countries have them in place (Australia, France, Greece, the Netherlands, and the Slovak Republic).

Fiscal rules can have different national legal foundations, and may be enshrined in constitutions, or primary or secondary legislation. Other countries may stipulate fiscal rules in public political commitments or in internal rules set out by the ministries of finance. Australia is an interesting example as it has in place all four kinds of rules. The legal basis for three of them is the Budget Honesty Act, which is a strong political commitment; in the case of the debt rule, it is founded in legislation. Japan and Korea have only expenditure rules, in both cases as internal rules and policies.

Finally, some countries must also ascribe to fiscal rules fixed in international law. In the case of countries in the European Union, for instance, the Maastricht Treaty establishes a debt and two budget balance rules. As a result of the new Fiscal Compact and the – Six Pack – measures for fiscal consolidation, EU authorities have requested to raise fiscal rules to constitutional status as a way of increasing the political costs of non-compliance. Ten countries (Austria, Belgium, the Czech Republic, Germany, Hungary, Italy, Poland the Slovak Republic, Spain and Switzerland) have fiscal rules stipulated in their constitutions.

One of the most important lessons from past experience is that unduly rigid rules tend to be unworkable and could be insensitive to economic or political circumstances. In turn, strong fiscal rules regimes may rely rather on the strength of political commitment, monitoring by independent fiscal institutions and other actors, as well as clear and effective enforcement procedures for non-compliance. Concerning the latter, different kinds of measures can be implemented, from the need to present a corrective proposal to the legislature to automatic correction mechanisms and sanctions. Countries belonging to the EU are subject to Excessive Deficit Procedures (EDP), a multi-step revision process of the country fiscal situation, which can lead to sanctions. The recent changes in the economic governance framework have loosened the requirements to start an EDP. Across OECD member countries, with the exception of EDPs, automatic correction mechanisms are the most common enforcement tool for budget balance rules, whereas a requirement for the indebted institution to adopt measures is the most common correction mechanism for debt rules. Automatic sanctions for breaking any kind of fiscal rules are only used in five OECD member countries (the Netherlands, the United States, Switzerland, Poland and the Slovak Republic).

Methodology and definitions

Data refer to 2012 and draw upon country responses to questions from the 2012 OECD Survey on Budgeting Practices and Procedures. Survey respondents were predominately senior budget officials in OECD member countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude budgeting practices at state/local levels.

Primary legislation (also referred to as principal legislation or primary law) is regulations which must be approved by the legislature.Secondary regulations are regulations that can be approved by the head of government, by an individual minister or by the Cabinet – that is, by an authority other than the legislature. Secondary regulations are susceptible to disallowance by the legislature.

Further reading

Anderson, B. and J. Sheppard (2010), "Fiscal futures, institutional budget reforms, and their effects: What can be learned?", *OECD Journal on Budgeting*, Vol. 9/3, *http://dx.doi.org/10.1787/budget-9-5kmh6dnl056g*.

Schick, A. (2010), "Post-Crisis Fiscal Rules: Stabilising Public Finance while Responding to Economic Aftershocks", *OECD Journal on Budgeting*, Vol. 10/2, *http://dx.doi.org/10.1787/budget-10-5km7rqpkqts1*.

Table notes

4.1 and 4.2: Data not available for Iceland. Data reflect countries' multiple fiscal rules. New Zealand and Turkey do not have fiscal rules in place and are not displayed in the table.

4.1: For Italy Law No. 243/2012 introduced the structural budget rule, the expenditure and debt rule in line with European requirements. The first two will enter into force by 2014 and the debt rule by 2015.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

4.1. Types and legal foundation of fiscal rules (2012)

	Expenditure rule(s)	Budget balance (deficit/surplus) rule(s)	Debt rule(s)	Revenue rule(s)
Australia	❍	❍	❐	❍
Austria	❐	■ ●	■ ●	
Belgium		● ✧ ■	■	
Canada		✧		
Chile	❐	❐		
Czech Republic	❐	●	■	
Denmark	❐	❐ ■	■	
Estonia	✧	■ ✧	❐ ■	
Finland	✧	❐■	■	
France	❐	■	■	❐
Germany		● ■	■	
Greece	■	❐ ■	■	■
Hungary		❐ ■	■ ●	
Ireland	✧	❐ ■	❐ ■	
Israel	❐	❐		
Italy		● ■	■	
Japan	✧			
Korea	✧			
Luxembourg	✧	■	■	
Mexico		❐		
Netherlands	✧	❐ ■	❐ ■	✧
Norway		✧		
Poland	❐	■	❐ ● ■	
Portugal	❐	■	■	
Slovak Republic		■	●	❐
Slovenia	❐	■	■	
Spain	❐	●	●	
Sweden	❐	❐ ■	■	
Switzerland		●		
United Kingdom		❐ ■	❐ ■	
United States	❐		❐	
Russian Federation	❐			❐
Total OECD	**21**	**28**	**23**	**5**

● Constitution.
■ International treaty.
❐ Primary and/or secondary legislation.
✧ Internal rules or policy.
❍ Political commitment.

Source: 2012 OECD Survey on Budgeting Practices and Procedures.

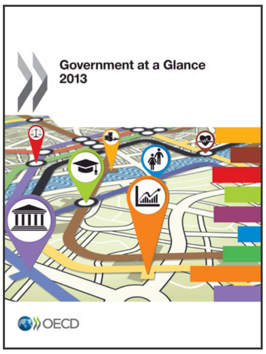
StatLink http://dx.doi.org/10.1787/888932943381

4.2. Enforcement mechanisms for fiscal rules (2012)

Type of rule/correction mechanisms	Automatic correction mechanisms	Proposal with corrective measures presented to the legislature	Entity must implement measures	Automatic sanctions	Excessive deficit procedures of the stability and growth pact	None
Expenditure	DNK, GRC, USA, ESP	EST, FRA, ISR, NLD, SWE, ESP	AUT, GRC, NLD, SWE, CHL, ESP	USA		AUS, CZE, FIN, FRA, IRL, JPN, KOR, LUX, POL, PRT, RUS, SVN
Budget balance	AUT, BEL, DNK, FIN, FRA, DEU, GRC, IRL, ITA, LUX, PRT, SVK, SVN, ESP, CHE	ISR, ITA, MEX, ESP	GRC, ESP, CHL	NLD, CHE	AUT, BEL, CZE, DNK, EST, FIN, FRA, DEU, GRC, HUN, IRL, ITA, LUX, NLD, POL, PRT, SVK, SVN, ESP, SWE, GBR	AUS, CAN, NOR
Debt	POL, SVK, ESP	POL, SVK, ESP	GRC, HUN, POL, SVK, ESP	NLD, POL, SVK	AUT, BEL, CZE, DNK, EST, FIN, FRA, DEU, GRC, HUN, IRL, ITA, LUX, NLD, POL, PRT, SVK, SVN, ESP, SWE, GBR	AUS, USA
Revenues	GRC	NLD				AUS, FRA, RUS, SVK

Source: 2012 OECD Survey on Budgeting Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888932943400



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