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Implementation of the Fiscal Compact in the Euro Area Member States

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Working Paper 08/2013*)
November 2013,

partly updated in January 2014

*) Working papers reflect the personal views of the authors and not necessarily those of the German Council of Economic Experts. This text is a translation of the german version.

IMPLEMENTATION OF THE FISCAL COMPACT IN THE EURO AREA MEMBER STATES

**Expertise on the behalf of the
German Council of Economic Experts**

September 2013,
partly updated in January 2014

Heiko T. Burret

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I. Introduction

The unfortunate experiences during the European sovereign debt crisis have led to the adoption of the European Fiscal Compact in December 2011. Its primary objective is the prevention of future debt-related crises by imposing on the signatory states the duty to implement budget rules into national legislation. While the Fiscal Compact defines some cornerstones of the budget rule, the precise legal wording is left to the states. It is obvious that such an approach leads to heterogeneity across countries in rules eventually implemented. Besides the design of the fiscal rules, the progress of implementation also varies across the countries. While the budget rule is already effective in some states, a draft law is still pending approval in others. Hence, it seems necessary to gain a broad overview of the current state of implementation. The objective of this survey is twofold. On the one hand, the expertise presents the status quo of the implementation of the Fiscal Compact on the national and sub-national level in the Euro area member states.¹ On the other hand, the expertise points out potential loopholes in the budget rules and in the correction mechanisms in particular.

In addition, the survey focuses on the legal design and staffing of the independent fiscal councils, which are supposed to supervise compliance with the new fiscal rules. Although the fiscal councils are generally not vested with the power to intervene into national fiscal policies directly, they might have considerable impact on fiscal outcomes through their influence on the public debate. Thus, staffing the councils with independent, internationally renowned economists may be seen as a signal for fiscal credibility and sustainability. A further focus is put on the fiscal framework of federal states. Our survey will in particular examine whether the tragedy of fiscal commons is mitigated by a credible no-bailout rule, or by other rules and institutions.

In section II we provide a brief analysis of the fiscal situation in the Euro area member states. Section III comprises a concise description of the requirements of the Fiscal Compact and points out regulatory loopholes. In section IV an (mainly tabular) overview of the current state of implementation is presented. Finally, section V concludes. Further details on the new budget rule of each signatory state within the Euro area are documented in the appendix.

II. Public Finances in the Euro Area

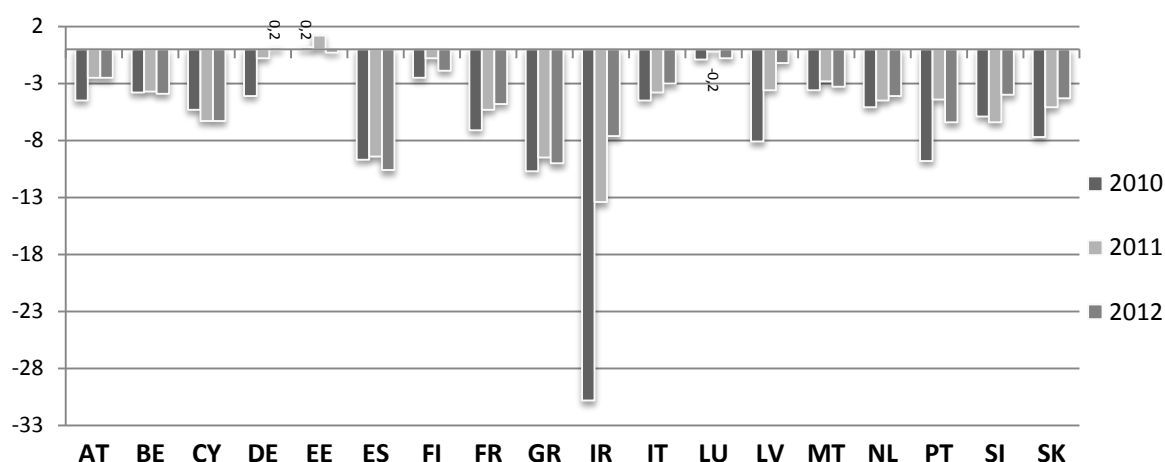
Most Euro area member states have made considerable consolidation progress in recent years. Nevertheless, the Maastricht deficit criterion that restricts the public deficit to 3% of GDP was only met occasionally. A deficit below the threshold of 3% has been recorded only in Austria, Germany, Estonia, Finland and Luxemburg in 2012 (Figure 1). Thus, most member states are currently subject to an Excessive Deficit Procedure (EDP). The observed public deficits are not merely based on contractions of the business cycle. In fact, correcting for the cyclical deficit component still leads to a negative budget balance, i.e. a structural deficit, in almost all countries. While the country-specific Medium-Term Objective (MTO) limits the structural deficit to 0.5% of GDP, this threshold has been exceeded in 2012 by all countries except Germany, Estonia and Latvia (Table 1).

The accumulation of public deficits has obviously resulted in an increase of most countries' debt to GDP ratio. Only Greece and Latvia succeeded in decreasing their debt ratios in 2012 compared to the previous year. The consolidation achievement of Greece is particularly due to its partial controlled default. In twelve member states, the amount of public debt even exceeded the Maastricht benchmark of 60% of GDP (Figure 2). The sub-national levels of government contributed a substantial share to total debt in various countries. In 2012 the share was above 30% in Germany and Estonia, above 20% in Spain and around 10% in Belgium, Finland, France, Latvia, Luxemburg, the Netherlands and Austria (Figure 3).

¹ The term "Euro area" refers to those 18 countries, which use the Euro as legal tender as of 1st January 2014, thus including Latvia.

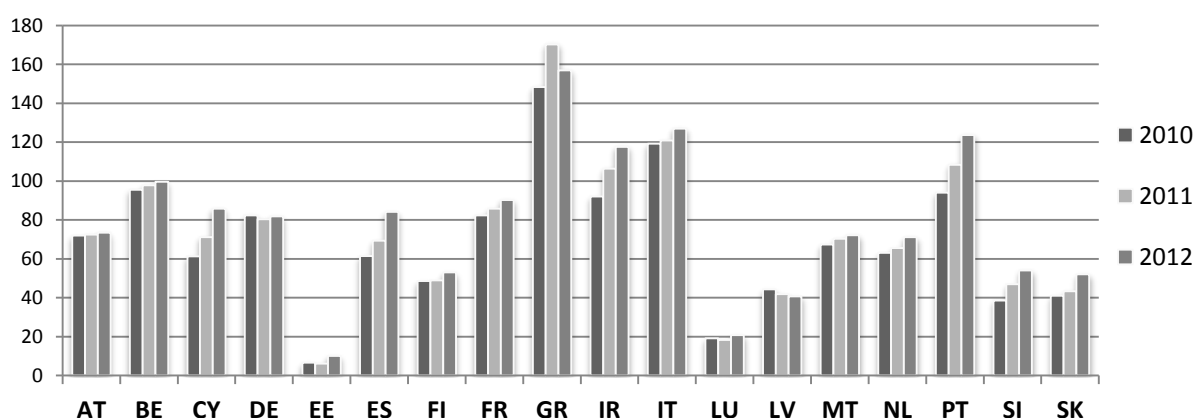
In these countries it seems particularly important that fiscal rules encompass sub-national jurisdictions or require them to implement corresponding restrictions.

Figure 1 Budget Balance of General Government in % of GDP



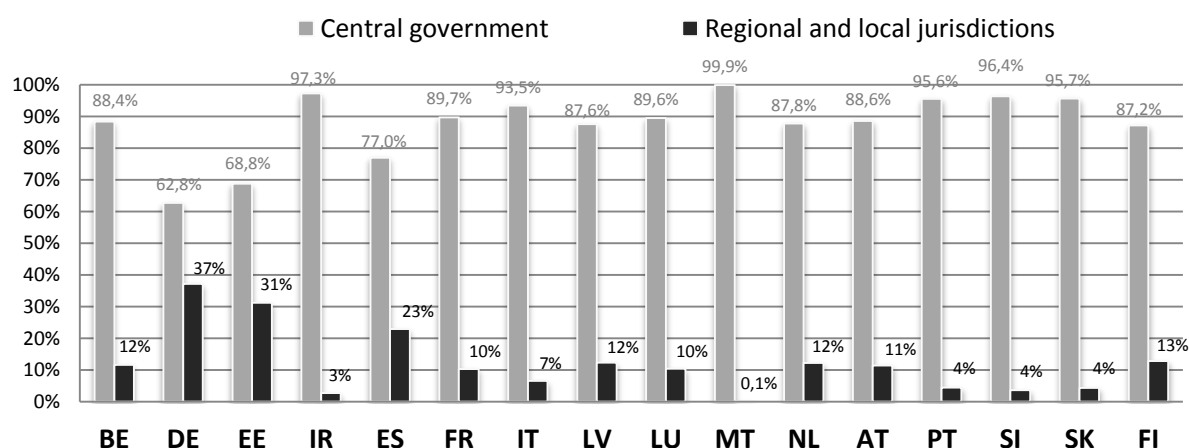
Budget balanced defined as government net borrowing as laid down in the EDP. AT= Austria, BE= Belgium, CY= Cyprus, DE= Germany, EE= Estonia, ES= Spain, FI= Finland, FR= France, GR= Greece, IE= Ireland, IT= Italy, LU= Luxembourg, LV= Latvia, MT= Malta, NL= Netherlands, PT= Portugal, SI= Slovenia, SK= Slovakia. Source: Eurostat.

Figure 2 Gross Debt of General Government in % of GDP



Gross debt defined as consolidated public debt as laid down in the EDP. Source: ECB.

Figure 3 Sub-national Shares of Total Public Debt, 2012



Total public debt is defined as the sum of the debt of the central government, the regions and the municipalities. Source: Eurostat.

Table 1 Country-specific MTOs and Excessive Deficit Procedures

	MTO 2012	Structural deficit in		EDP since	Deadline for deficit correction
		2012	2013		
AT	-0,45	-1,5	-1,6	2009	2013
BE	0,5	-3,0	-2,3	2009	2013
CY	0,0	-6,7	-5,4	2010	2016
DE	-0,5	0,3	0,4	2009	Abrogated in 2012
EE	>0,0	0,2	-0,2	No EDP	
ES	0,0	-5,5	-4,4	2009	2016
FI	0,5	-0,7	-0,6	2010	Abrogated in 2011
FR	0,0	-3,6	-2,2	2009	2015
GR	n/a	-1,0	2,0	2009	2016
IE	-0,5	-7,4	-6,9	2009	2015
IT	0,0	-1,4	-0,5	2009	Abrogated in 2013
LU	0,5	0,1	0,7	No EDP	
LV	-0,5	-0,3	-1,4	2009	Abrogated in 2013
MT	0,0	-4,1	-3,8	2013	2014
NL	-0,5	-2,6	-2,0	2009	2014
PT	-0,5	-4,2	-3,6	2009	2015
SI	0,0	-2,7	-2,4	2009	2015
SK	-0,5	-4,1	-3,0	2009	2013

MTO and structural deficit in percent of GDP; forecasts for 2013. A positive number indicates a budget surplus, a negative a deficit. Cells highlighted in red indicate that the MTO has been exceeded, otherwise cells are highlighted in green. Sources: European Commission, Country-specific Recommendations 2013, European Commission (2013a).

III. The Fiscal Compact: Design and Loopholes

Almost all EU countries signed the [Treaty on Stability, Coordination and Governance in the Economic and Monetary Union](#) (TSCG) in early March 2012. So far only the United Kingdom and the Czech Republic have not signed the TSCG. The rejection of the Treaty implies that these two states are not eligible for loans from the European Stability Mechanism (ESM). For the TSCG to become effective on January 2013, the deposit of the means of ratification from at least twelve Euro area member states has been sufficient. So far the Treaty has been ratified by 22 EU member states, which makes it binding under international law ([Council of the European Union](#)).² The primary object of the Treaty is the Fiscal Compact (Title III), which stipulates the introduction of a permanent numeric budget rule, a so-called debt brake,³ into national law until the beginning of 2014. While the specific design of the budget rule is left to the individual states, the Fiscal Compact defines a number of general requirements.

Budget Rule

The budget has to be balanced or in surplus unless there are exceptional circumstances. Compliance with the budget rule is assumed if the annual structural deficit of the general government stays within the country-specific limit of its MTO, as defined by the Stability and Growth Pact (SGP).⁴ The budget balance is calculated in accordance with the European System of Accounts (ESA) by netting of cyclical components, as well as one-off and other temporary measures. For countries with a debt ratio well below

² Denmark (III, IV, V), Hungary (V), Lithuania (V), Latvia (V), Poland (V), Romania (III, IV, V) and Sweden (V) have only ratified the Titles of the Treaty that are specified in parentheses.

³ The term debt brake usually refers to a numeric limit of public deficits. In order to avoid confusions with a rule limiting the amount of sovereign debt, the term budget rule will be used instead of debt brake throughout this survey.

⁴ For further information on the MTO refer to [European Commission](#) (2012a).

60% of GDP, the MTO is allowed to be as large as 1% of GDP, but only if long-term fiscal sustainability is not put at risk. Otherwise the MTO may not exceed 0.5% of GDP.

Correction Mechanism

Considerable deviations from the MTO or adjustment path⁵ towards the MTO have to be corrected through an automatic correction mechanism within a reasonable period of time. According to the definition of the SGP, a considerable deviation is only present if one of the following conditions is violated and the other is not or only partly fulfilled:

- First, the deviation from the MTO or the adjustment path, respectively, amounts to less than 0.5% of GDP in one year or to less than 0.25% of GDP on average of two consecutive years.
- Second, the deviation of the growth rate of primary expenditures (net of discretionary revenue measures) from the growth rate of the potential GDP has a negative impact on the budget balance of at most 0.5% of GDP in one year, or of 0.5% cumulative in two consecutive years ([EU Regulation 1175/2011](#), [European Commission](#), 2012a).

The second condition does not apply to countries that have overachieved their MTO, unless this owes to an unexpected significant increase in revenue, and the country risks to fail its MTO during the program period ([EU Regulation 1175/2011](#), [European Commission](#), 2012a). The countries may specify additional activation triggers of the correction mechanism. According to the legal wording of the Fiscal Compact, the European Commission has the duty to spell out common principles on the national fiscal correction mechanisms. The European Commission (2012d) assumed its responsibility by releasing a Communication in June 2012. Among others, the document states that the size of the correction shall be based on the size of the deviation and that member states should adopt a binding correction plan. However, the legal text of the Communication is rather abstract such that the specific design is once again left to the signatory states.

Temporary Exceptions

Temporary deviations from the budget rule and a suspension of the correction mechanism are only allowed in case of emergency situations. These are specified as exceptional circumstances, which are beyond the control of the government and severely affect public finances, and as severe economic downturns in the respective country, the entire EU, or the Euro area. The escape clause for recessions is only applicable if medium-term fiscal sustainability is not compromised. The SGP defines a severe downturn as a year with a negative rate of GDP growth, or with a “accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential” ([EU Regulation 1056/2005](#)). To assess the loss of output, the output gap is calculated in accordance with EU regulations. The suspension of the correction mechanisms has to be temporarily limited and a binding plan for the correction of the structural deficit has to be provided. The pace of adjustment is defined by the requirements laid down in the SGP ([European Commission](#), 2012d).

⁵ The adjustment path is subject to the currently reformed SGP. Member states which have not yet achieved their MTO are supposed to reduce their structural deficit, net of one-off and other temporary measures, by a benchmark value of 0.5% of GDP or by more than 0.5% of GDP if the debt ratio exceeds 60% of GDP or if there are substantial risks for fiscal sustainability. Furthermore “the growth rate of government expenditure should normally not exceed a reference medium-term rate of potential GDP growth, with increases in excess of that norm being matched by discretionary increases in government revenues and discretionary revenue reductions being compensated by reductions in expenditure [...]. The expenditure aggregate shall exclude interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure” ([EU Regulation 1175/2011](#)). For further details refer to [EU Regulation 1175/2011](#) and [European Commission](#) (2012a).

Fiscal Council

To make compliance with the budget rule legally highly binding, the corresponding law shall be enshrined in the constitution, or in a comparable piece of legislation, and be monitored by an independent supervisory institution, i.e. a fiscal council. According to a Communication from the [European Commission](#) (2012d) the fiscal council is supposed to evaluate in particular the consolidation progress and the circumstances which either end, trigger or prolong emergency situations. A "comply or explain" principle ensures that the national governments do not ignore the assessments. The governments have either to follow the advice of the fiscal councils or explain why they depart.

Transition Period

All signatory states have been obliged to implement the budget rule and the correction mechanism into national law by January 1, 2014. If the deadline is not observed, or the implemented rules do not meet the requirements of the Fiscal Compact, the European Commission or individual contracting parties may sue the violating countries before the Court of Justice of the European Union. If a country does not fulfil the requirements that are handed down in a Court decision, financial sanctions up to 0.1% of GDP may be imposed, but only after a second round of legal proceedings. The monetary sanctions are payable to the ESM if the payment is made by Euro area member state, and into the EU budget otherwise. The European Commission has to report on the proper implementation of the Fiscal Compact. According to the Directorate General for Economic and Financial Affairs the Commission will only do so after the implementation deadline (December 31st, 2013) has expired.

Debt Rule

According to Article 4 of the Fiscal Compact, signatory states with a debt ratio above 60% shall decrease the exceeding share by "an average rate of one twentieth per year as a benchmark" (1/20th debt rule). While the budget rule and correction mechanism have to be passed into national law in 2014, a national implementation of the debt rule is not required. Technically it already applies to all signatory states since the TSCG came into effect on January 1, 2013. However, for countries that have been subject to an EDP in November 2011 and show a sufficient fiscal consolidation progress, the debt rule is suspended for the time of the EDP and for a further three years following the correction of the excessive deficit. The postponement applies to all countries of the Euro area except Estonia, Malta and Luxemburg. For instance, the debt rule applies to Germany not before 2015 and to Greece not before 2019 (Table 1).

Legal Flaws and Loopholes

Empirical studies have shown that budget rules can support fiscal consolidation (e.g. Feld and Kirchgässner, 2008). However, the impact of the Fiscal Compact on public finances is not straightforward, because several legal ambiguities and loopholes exist:

1. A constitutional anchoring of the provisions of the Fiscal Compact is only recommended, but not mandatory. An implementation into simple law offers at least two loopholes. First, the fiscal rule can obviously be altered through a simple majority in parliament. Second, a law governing a more specific matter (*lex specialis*) or a younger law (*lex posterior*) may override a more general or older law. Thus the annual budget law may just override the budget rule (Figure 4, number 1).
2. The cyclical component of the public deficit can only be estimated. Overly optimistic forecasts may risk the aim of a balanced budget across the business cycle and prepare the way to public deficits. It should, thus, be compulsory to submit fiscal forecasts to an independent fiscal council for review. Further, the correction of the structural deficits for one-off and temporary measures

may lead to rising public debts. For instance, in 2012 the recapitalization of the biggest bank of Slovenia, worth 0.2% of GDP, was declared as a one-off measure. Similarly, the Slovenian deficit figure of 2013 is likely to be corrected downwards by 1.2% of GDP, because the conversion of hybrid capital instruments to equity at the two largest banks of the country will be deducted from the deficit figure ([European Commission, 2013d](#)) (Figure 4, number 2).

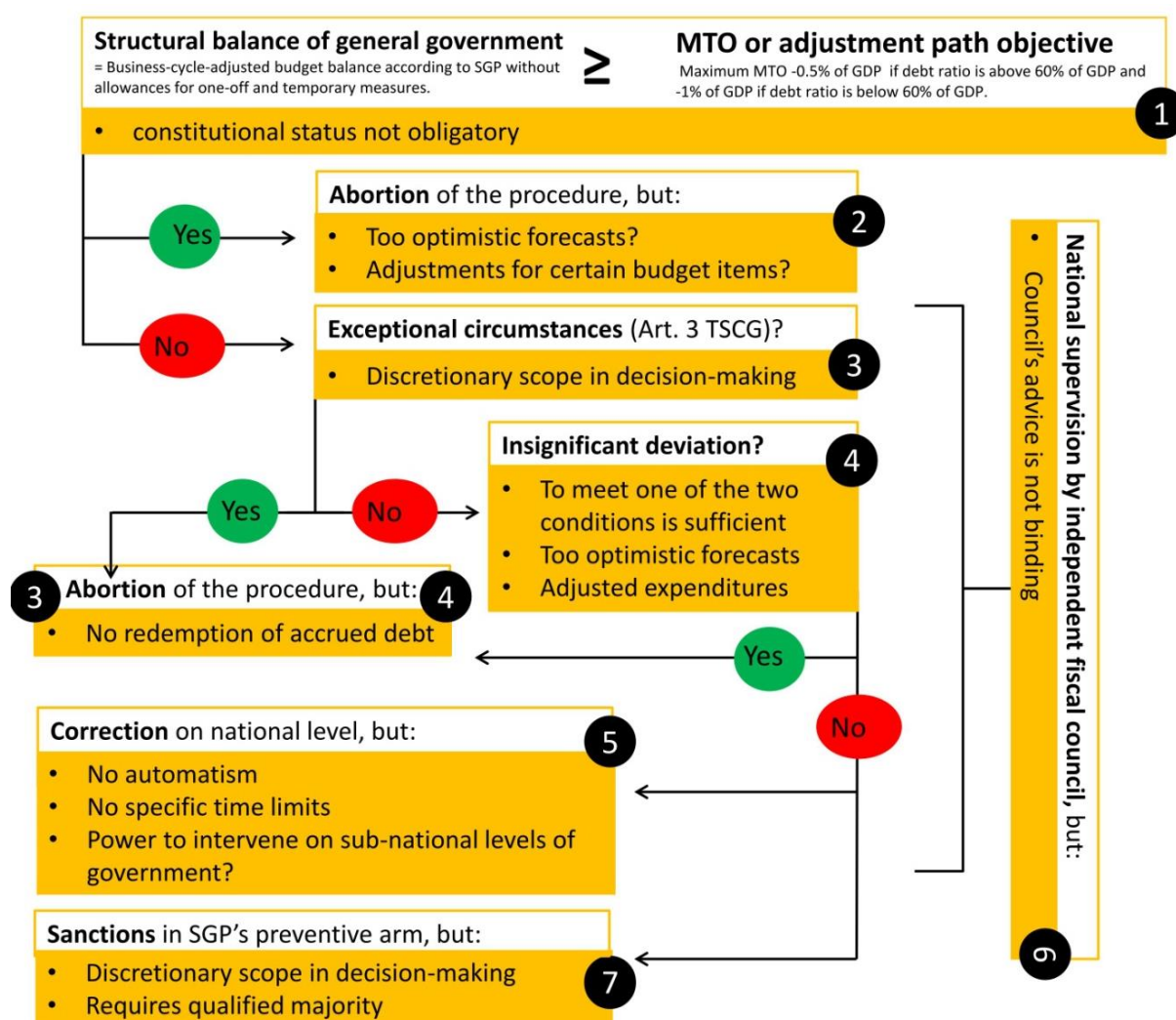
3. The exceptions for emergency situations are rather loosely defined. The enabling escape clauses and the accompanying credit extension should be phrased more precisely and require a qualified majority in parliament. Similarly, the exception made for economic downturns in the whole of the Euro area or EU is susceptible to misuse. While the recession in the Euro area during the past years would have allowed all signatory states to rely on the escape clause, a deviation from the budget rule would have been hardly justified in all countries. For instance, Germany experienced economic growth and historical high tax revenue during most of this period. Further, the accumulated deficits during times of emergencies are not required to be subject to a redemption plan (Figure 4, number 3).
4. A violation of the budget rule does not necessarily trigger the “automatic” correction mechanism. In countries that are yet to achieve their MTO, the correction mechanism is only triggered if both conditions defining a considerable deviation are not entirely met. Thus, exceeding the MTO threshold is not necessarily sufficient to trigger the correction mechanism. A violation of the expenditure rule is additionally required. However, the expenditure rule can easily be manipulated, as it is based on estimations of the potential GDP growth and allows for adjustments of total expenditures. The latter holds in particular for smaller countries that may make further adjustments with respect to their investment-related spending. The calculations and estimations should, thus, be supervised and monitored by an independent fiscal council. Furthermore, deficit deviations that are not defined as considerable are not subject to binding redemption plans and may lead to an increase in public debt (Figure 4, number 4).
5. The correction mechanism is triggered “automatically” at the end of the procedure that analyses whether escape clauses apply and whether the deviation is significant. However, the correction mechanism only requires the set up of a binding action plan. Since the magnitude and timescale of the correction is not specified, a fast adjustment may not take place automatically. Furthermore, in federally organized countries, compliance with the MTO and application of correction measures might be particularly difficult to achieve if the central government lacks the power to intervene on the sub-national level or if the national budget rule is not binding for the sub-national level. Hence, it seems useful to ex-ante split up the MTO threshold and correction measures between the jurisdictions. Finally, a credible no-bailout rule could mitigate the tragedy of the fiscal commons (Figure 4, number 5).
6. Any non-compliance with the advice given by the independent fiscal council is required to be explained by the government. A higher barrier for deviations from the assessments, such as a necessary approval by parliament (possibly with a qualified majority) could be implemented (Figure 4, number 6).
7. Since its reform in 2011 the SGP allows to implement sanctions at a relatively early stage. However, discretionary leeway in the decision-making process and majority requirements reduced the probability that sanctions were actually applied even if they seemed justified and appropriate. The Fiscal Compact leads to a higher degree of automatism, but only with respect to the EDP within the *corrective arm of the SGP*. The EDP is triggered if the net borrowing position⁶ of a country exceeds 3% of GDP. On the other hand, the *preventive arm of the SGP*, that triggers a formal procedure if a country’s structural deficit exceeds its MTO, is not amended

⁶ The net borrowing position under the EDP is defined as net borrowing of the general government (as defined in ESA 1995), adjusted for interest payments from forward rate and swaps arrangements ([Eurostat 2013](#)).

by the Fiscal Compact. Thus, sanctions in the *preventive arm* can still be aborted on an early stage due to scope in decision-making and qualified majority requirements.

8. The Fiscal Compact reforms the *corrective arm* (3% criterion) insofar that Euro area members are now obliged to support the EDP recommendations and decisions made by the European Commission as long as no qualified majority in the Council of the EU is voting against it (the concerned country has no vote). On the one hand, this so-called reversed majority rule obviously increases the probability of sanctions. On the other hand, it has to be noted that – at least until 2016 – those countries that are less fiscally conservative dominate the trio presidency (Table 2).⁷ Therefore doubts remain whether the Council will follow the decisions of the European Commission and sanctions will actually be implemented ([Deutsche Bank Research, 2012](#)) (Figure 4, number 7).

Figure 4 Procedures and Legal Loopholes within the Fiscal Compact



⁷ The trio presidency is supposed to ensure continuity in the work of the Council. Therefore each trio develops a presidency program covering 18 months. Since the presidency can develop and stress its own focus and agenda it has considerable influence on the political decision making process.

Table 2 Presidency of the Council of the EU

Ireland	January-June	2013
Lithuania	July-December	2013
Greece	January-June	2014
Italy	July-December	2014
Latvia	January-June	2015
Luxemburg	July-December	2015
Netherlands	January-June	2016
Slovakia	July-December	2016
Malta	January-June	2017
United Kingdom	July-December	2017
Estonia	January-June	2018
Bulgaria	July-December	2018
Austria	January-June	2019
Romania	July-December	2019
Finland	January-June	2020

Source: 2007/5/EG, Euratom.

The Fiscal Compact lacks precise definitions and spells out the correction and sanction mechanisms only insufficiently. Its success is, thus, mainly left to the national efforts to implement strong budget rules. Therefore it seems necessary to examine the status quo of the implementation of the Fiscal Compact in the Euro area member states. The European Commission will only evaluate the national budget rules after the implementation deadline (December 31, 2013) has been passed.⁸ The paper at hand offers a survey of the state of implantation as of September 2013 (partly updated in January 2014). This allows to reveal possible problems and flaws in the national budget rules and to identify rooms for improvements at an early stage.

IV. Implementation of the Fiscal Compact in the Euro Area Member States

Although the TSCG has already been signed in March 2012, the ratification process has yet to be completed in Belgium and Latvia.⁹ In Belgium and Greece a draft bill for the implementation of the Fiscal Compact into national law has not even been introduced to parliament. This is remarkable since Greece obliged itself in a Memorandum of Understanding (MoU) to adopt the Fiscal Compact until August 2013. While a revised version of the MoU grants extended terms until October 2013 ([European Commission, 2013h](#)), Greece also violated the new deadline. All other Euro area member states have already ratified the Treaty and most has adopted the necessary national pieces of legislation before the implementation deadline expired end of last year (Tables 3, 4, 5). An analysis of the available laws reveals that the majority of budget rules do barely meet all requirements of the Fiscal Compact. Almost all countries seem to use the discretionary leeway provided by the Compact to implement rather weak budget rules, though without explicitly violating the provisions. Thus, the prospects of a success of a lawsuit before the European Court of Justice are rather poor. In addition, the probability that a lawsuit is filled by one country against another is small, as the suing country has to expect retaliation by being subjected to legal proceedings itself.

⁸ Most recent reports on national fiscal rules by the European Commission are based on data from 2011 ([Fiscal Rule Database](#) and [European Commission, 2012c](#)) and 2012 (European Commission, [2012b](#), [2013c](#)). The European Central Bank (2013) provides a short overview of the national fiscal rules as of late 2012 in its Monthly Bulletin. Two overviews by Deutsche Bank Research ([2012](#), [2013](#)) are rather not based on thorough research.

⁹ So far Latvia – as most countries outside the Euro area – has only signed Title V (“Governance of the Euro area”) of the TSCG. While Belgium has ratified the Treaty the [General Secretariat of the Council of the European Union](#) has yet to be informed.

A *numerical limit of the structural deficit* was implemented in ten of the 18 Euro area member states (AT, CY, DE, ES, FI, FR, IE, IT, LV, and PT) and is subject to a draft bill in Luxemburg. The Dutch law requires the MTO only to be respected during budget execution, and the Slovenian constitution encompasses merely a medium-term balanced budget amendment. The latter might be brought in line with the provisions of the Fiscal Compact by means of an amending implementation law, which is currently in preparation. In Estonia, Belgium, Malta and Slovakia draft bills are still in preparation. The new budget rule became effective in 2013 in six Euro area member states. The bills of Italy, Luxemburg and the Netherlands are supposed to enter into force as of 1st January 2014. A longer transition period is granted in Austria (2017), Slovenia (2015) and Spain (2020). All three countries are obliged to reduce their structural deficits until the respective laws come into effect. In line with the Fiscal Compact the transition periods can, thus, be seen as adjustment paths towards the country-specific MTOs.

In most countries, the new budget rules are implemented as simple laws, which imply rather low barriers to alter or override the law (*lex specialis* or *lex posterior*). It is only Italy, Slovenia and Spain that have enshrined the budget rule into their respective constitution. Germany has anchored the new budget rule (“debt brake”) in its constitution, too. However, the German rule does not cover the general government level but deficits of the federal government (starting from 2016) and of the federal states (starting from 2020). Furthermore, the constitutional rule defines public deficits in a different manner than the Fiscal Compact. On the contrary, the German budget rule for the general government is only implemented into simple law.

The balanced budget rules of almost all countries include *exceptions* that allow for deviations in emergency situations. While the escape clauses of most countries coincide with the provisions of the Fiscal Compact, the laws in Latvia (threats to national security and for material losses), Portugal (structural reforms) and Spain (impairments of economic and social stability) comprise additional exceptions. The legislation in the Netherlands and Cyprus do not feature any escape clauses at all. In Slovenia the exceptions have yet to be defined in an implementation law. In addition, governments can invoke on exceptional circumstances in almost all countries without parliamentary approval. The latter is only required in Austria, Spain and Italy, whereas the Spanish and Italian law demand for an absolute majority. In Germany such an approval is only requested by the constitutional budget rule of the federal level.

A *correction mechanism* for significant deviations from the budget rule that are not justified by emergency situations was only implemented into national legislation by nine countries (AT, CY, ES, FI, FR, IE, IT, LV, NL and PT). The draft bills of Luxemburg and Malta encompass such a mechanism, too. Germany and Slovenia on the other hand have not adopted a correction mechanism. In these two countries, the budget rule has only an ex-ante binding character; there is no ex-post correction of deviations. In Slovenia an implementation law is currently being prepared which may include a correction mechanism. In Germany a correction mechanism is only in place regarding the constitutional budget rule of the federal level (“debt brake”). Instead the German budget rule of the general government does not make any specific provisions for budgetary deviations but refers to EU provisions.

While we classify a mandatory provision of an action plan as sufficient for the presence of a correction mechanism, a *correction automatism* additionally requires details on the timescale and magnitude of the correction. So far, such an advanced mechanism has been implemented by four countries (AT, ES, LV, and PT): Austria has introduced the obligation for debt repayment if the change in the output gap turns positive. In Spain an action plan has to correct the deviation within one year. The Portuguese law provides for a minimum correction and in Latvia the deficit limit is automatically reduced. While Germany has also a correction automatism in place, it merely refers to the constitutional budget rule of the federal government (“debt brake”). The rule requires deviations from the deficit limit of the federal

level to be booked on a control account. If the balance of the control account exceeds a certain threshold the deficit limit will be lowered by the overshooting amount unless the change in the output gap is negative. On the contrary, the German budget rule of the general government has no such provisions.

The adopted laws of several states stipulate that an *independent fiscal council* shall be created on the national level in order to supervise compliance with the new budget rule and the correction mechanism (AT, DE, ES, FI, FR, IE, IT, LV and PT). A similar provision is included in the draft laws of Cyprus, Estonia, Malta and Belgium. So far the set-up and recruiting of the councils have only been completed in France, Austria, Germany, Ireland and Portugal. In Finland (National Audit Office) and Luxemburg (Central Bank, draft bill) the supervision will be performed by already existing institutions. In several Euro member states (independent) institutions that might be capable of supervising compliance with the budget rules already exist. However, no mandate has been awarded to these institutions so far (BE, GR, NL, SK, and SI). Even though the Netherlands Bureau for Economic Policy Analysis (Central Planning Bureau, CPB) is widely considered as a fiscal council, the Council of the State (Rad van Staate) was awarded the mandate for supervision of the correction mechanism and the formulation of recommendations.

A "comply or explain" principle ensures that the national governments do not ignore the assessments of the fiscal councils. Even though required by the Fiscal Compact, only six governments are obliged to explain and justify their actions if they depart from the advice of their fiscal council (ES, FI, FR, IE, IT, and PT) ([European Commission, 2012d](#)). Similarly, the Dutch draft bill requires the government to provide reasons for not acting in compliance with the recommendations given by the Council of the State (Rad van Staate). However, one has to note that the Council of the State (Rad van Staate) is not classified as an independent fiscal council. Generally speaking, the credibility of fiscal councils could be enhanced if they are staffed with renowned, competent and experienced members, who do not hold any political mandate or office. Such a staffing of the fiscal councils can in particular be observed in Ireland, Germany and Portugal and to a smaller degree in the Slovenia and Slovakia. However, in Slovenia four out of the seven members resigned from office in July 2012 as they felt ignored by the government. So far, they have not been replaced.

The structural deficit limits and potential corrective measures should ex-ante be split up between national and sub-national jurisdictions. This seems particularly important for federally organized countries. In addition, the tragedy of the fiscal commons could be mitigated by a credible no-bailout rule. However, the bills of only five countries (AT, ES, IT, LU, and NL) stipulate for a sub-national breakdown of the deficit limit. While the German law also provides specific deficit limits for the federal level and the states, the thresholds are not established within the realm of the budget rule for the general government but with regard to the constitutional rule ("debt brake"). In addition, Portugal, Spain and Slovakia have implemented a no-bailout rule regarding their regions, cities and communities. On the contrary, in Germany sub-national bailouts are allowed if certain circumstances apply.

Hardly any national budget rule has met the provisions of the Fiscal Compact to the full extend. It can be observed that countries often (over-)fulfil certain requirements (e.g. correction mechanism) while others are neglected (e.g. constitutional implementation). Nevertheless, the Spanish budget rule appears to be particularly strong. Article 135 of the Spanish constitution prohibits a structural deficit during normal times. In case of structural reforms the cyclically adjusted deficit must not exceed 0.4% of GDP, which is below the highest allowed MTO threshold of 0.5% or 1% of GDP, respectively. On the local level structural deficits are generally banned. In addition, an expenditure rule with regard to the general government has been implemented. A third rule sets debt limits for each level of governments. In order to invoke an escape clause, the approval of an absolute majority in the Spanish Lower House is required. In case of ex-post deviations from any of the three fiscal rules, an action plan has to be set up which

corrects for the deviation within one year. A violation of the plan leads to sanctions on the sub-national levels. As the law is binding for all autonomous regions and local jurisdictions there is no need to adopt it into sub-national legislation. Further, the bailout of regions, cities and municipalities is prohibited. During a transitional period all levels of government are obliged to decrease their structural deficit (by combined 0.8% of GDP per year) and to push the public debt ratio below 60% of GDP. The new law will eventually become effective in 2020. To supervise compliance with the fiscal rules an independent fiscal council shall be founded. If the government does not act in compliance with the recommendations given by the council, it has to explain its decision. The main weakness of the Spanish set of rules derives from the additional exception from the budget rule in situations in which the economic or social stability is severely at risk.

Apart from Spain, the Austrian rule is also relatively rigid. The general government deficit is limited to 0.45% of GDP. The threshold is split up between the federal level, the states and municipalities. Until the rule turns fully effective in 2017, there is an adjustment path for each level of government. Emergency situations have to be approved by the *Bundestag* and *Landtag*, respectively. Any deviations from the rule enter the control account of the respective jurisdiction. These accounts need to be reduced, while taking the requirements following from the general state of the economy into account. If the balance of the control account exceeds a certain limit, sanctions will be imposed. Although the new rules were not given constitutional status, the law does represent an Interstate Treaty (*Staatsvertrag*), which is in its effect equivalent to a constitutional law ([Vorblatt Stabilitätsgesetz, 2012](#)). However, the Austrian budget rule fails to spell out the “comply or explain” principle with respect to the assessment of the Austrian Fiscal Advisory Council.

Besides Belgium and Greece, which have been rather inactive with regard to the adoption of the Fiscal Compact, the rules implemented in Germany and the Netherlands seem fairly weak. According to the Dutch draft bill the MTO has to be only considered as the budget plans are being executed. In addition, the bill does not provide for the set up of an independent fiscal council. Neither Germany nor the Netherlands has implemented a general government budget rule with constitutional status. Instead, the budget rule enshrined in the German constitution is only binding for the federal level and the states. Similar, Germany has only implemented a correction mechanism into the constitutional budget rule of the federal level (“debt brake”). Conversely the German budget rules of the general government and of most federal states do not incorporate a correction mechanism. This is remarkable since sub-national jurisdictions are responsible for almost 40% of total public debt in Germany. In addition, governments can invoke on escape clauses from the budget rule of the general government without parliamentary approval. The latter is only necessary in case of the budget rule of federal level (“debt brake”). Further, a non-compliance with the fiscal council’s advice does not have any consequences. The German constitutional budget rule (“debt brake”) has a lot of similarities with the Fiscal Compact. However, problems arise mainly due to two issues: First, the constitutional rule applies only to the federal and state’s level and second, the definition of the deficit term does not correspond to the provisions made in the Fiscal Compact.

Apart from Greece, all countries that have received financial rescue packages during the recent Euro crisis have implemented the new budget rule (CY, ES, IE, and PT). The rules in Spain and Portugal seem considerably rigid. The Portuguese budget rule has a superior legal status, encompasses a correction automatism, requires the approval of escape clauses through the National Assembly (*Assembleia da República*), is monitored by a fiscal council that is staffed with several renowned economists and spells out the “comply or explain” principle. In addition a no-bailout clause is implemented. Contrary to the provisions of the Fiscal Compact, the Portuguese budget rule allows for deviations during structural reforms.

Table 1 Implementation of the Fiscal Compact in the Euro Area

	AT	BE	CY ¹⁾	DE ²⁾	EE	ES	FI	FR	GR	IE	IT	LU Draft	LV	MT	NL	PT	SI	SK
Fiscal Compact (Title III TSCG) ratified	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓ ⁴⁾	✓	✓	✓
Numeric budget rule	✓	Draft bill in preparation.	✓	HGrG GG	Draft bill in preparation.	✓	✓	✓	According to the MOU the law has to be passed until October 2013. However, no (draft) bill is currently available. Compliance with the deadline is, thus, at risk.	✓	✓	✓	✓	Draft bill in preparation.	✓ ⁵⁾	✓	- ⁹⁾	A budget rule, correction mechanism and independent supervision has been implemented recently. Due to the late approval, the new law has not been taken into account in this exercise.
General government covered	✓		✓	✓		✓	✓	✓		✓	✓	✓	✓		- ⁶⁾	✓	✓	
Deficit limit split up between levels of government	✓		-	-		✓ ²⁾	-	-		-	✓	✓	-		✓	- ⁸⁾	- ⁹⁾	
Effective as of fiscal year	'17		'13	'13		'20	'13	'13		'13	'14	'14	'12		'14	'13	'15	
Adjustment path until rule becomes effective	✓	-	-	✓	✓	✓	-	-	-	-	-	-	✓	-	-	-	✓	A budget rule, correction mechanism and independent supervision has been implemented recently. Due to the late approval, the new law has not been taken into account in this exercise.
Constitutional status	-	-	-	✓	✓	✓	-	-	-	-	✓	-	-	-	-	-	✓	
Exceptions in accordance with Fiscal Compact	✓	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	- ⁹⁾	
Exceptions require parliamentary approval	✓	-	-	✓	✓	✓	-	-	-	-	✓	-	-	-	-	-	- ⁹⁾	
Correction mechanism	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	- ⁹⁾	A budget rule, correction mechanism and independent supervision has been implemented recently. Due to the late approval, the new law has not been taken into account in this exercise.
Correction automatism	✓	-	-	✓	✓	✓	-	-	-	-	-	-	✓	-	✓	✓	- ⁹⁾	
Supervision by independent fiscal council	✓	-	✓	-	*✓	✓	✓	✓	✓	✓	*✓	*✓	*✓	-	- ⁷⁾	✓	- ⁹⁾	
"Comply or explain" principle spelled out	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	-	-	-	- ⁷⁾	✓	- ⁹⁾	

* indicates that a fiscal council still has to be founded or the members have to be appointed, respectively. ¹⁾Cyprus is currently preparing a draft law (FRBSL) that is intended to replace the budget rule and introduce a fiscal council. ²⁾The German budget rule of the amended Law on Budgetary Procedures (Haushaltsgrundsatzgesetz, HGrG) and of the constitutional law (Grundgesetz, GG) are shown. ³⁾A sub-national split up of the deficit limit is not spelled out. However this seems hardly necessary since structural deficits on local level are prohibited anyway and only allowed in case of structural reforms on the central and regional level. Thus, the deficit limit is 0.0% of GDP in normal times on all levels of government. ⁴⁾The General Secretariat of the EU has yet not been informed about the ratification. ⁵⁾The MTO is only considered with respect to the execution of the budget plan. ⁶⁾The level of the general government gets not explicitly mentioned. However, the law refers to the MTO which applies to the general government. ⁷⁾There is a supervision of the correction mechanism by the Dutch Council of the State (Raad van State), which is not classified as an independent fiscal council. The "comply or explain" principle applies. ⁸⁾Although the deficit limit is not split up between the levels of governments, the regions and municipalities are subject to their own debt and budget rules, which include sanctions as well as correction mechanisms. ⁹⁾It might be subject to an implementation law that is currently in preparation. For further information refer to appendix.

Table 4 Detailed Overview of the Implementation of the Fiscal Compact in the Euro Area (August 2013)

	Fiscal Compact ratified¹⁾	New budget rule		Budget rule in accordance with provisions of the Fiscal Compact?						Further fiscal rules and no-bailout clauses ²⁾
		Effective from	Legal foundation	Constitutional status	General level of government encompassed	Lower limit for structural deficit	Correction automatism	Exceptions consistent with Fiscal Compact	Supervision by independent fiscal council	
AT	July 30 th , 2012	January 1 st , 2017	Österreichische Stabilitätspakt 2012	No, but Interstate Treaty	✓	-0.45% of GDP	✓	✓	✓	1/20 th debt rule
		Adjustment path, split up between central and sub-national levels of government				Split up between levels of government: -0.35% federal government, -0.1% states (according to population share), 20% of state share for municipalities	Control accounts. Reduction if change in output gap is positive. Sanctions if limits are exceeded.	Requires approval by federal or state parliament respectively		Expenditure rule Maastricht budget rule
		January 1 st , 2012	Änderung des Bundeshaushalts-gesetz	No	No	-0.35% of GDP for the federal government and social insurance	✓ Reduction if change in output gap is positive	✓	No	
BE A draft bill has yet to be introduced to parliament.										
CY	July 26 th , 2012	December 21 st , 2012	Medium-Term Budgetary Framework and Budgetary Rules Law (MTBFRL)	No But superior to simple laws	✓	-0.5% of GDP	No Measures to be adopted, particularly on the expenditure side	No exceptions	No	Constraints imposed by adjustment programme Debt and expenditure rule
Cyprus is currently preparing a draft law (FRBSL) that is intended to replace the MTBFR and introduce a new budget rule and an independent fiscal council. While the MoU conditionally directs adoption of the FRBSL by end of December 2013, it has not been adopted by end of January 2014.										
DE	September 27 th , 2012	July 19 th , 2013	Gesetz zur innerstaatlichen Umsetzung des Fiskalpakts	No	✓	-0.5% of GDP	No. Reference to EU legislation	✓ Reference to EU legislation	✓	Bailout of federal states in extreme budgetary emergencies possible.
		January 1 st , 2016 (federal government)	Art. 109, 115 and 143d GG	✓	No	-0.35% of GDP for federal government	(✓)	✓	No	
		January 1 st , 2020 (state governments)	Art. 115-Gesetz			0.0% of GDP for state governments	Control account. If a certain threshold is exceeded, the federal government's credit limit is reduced. Most states do not have such regulations.	Parliamentary majority required		
		Steady reduction of the structural deficit from 2010 onwards								

	Fiscal Compact ratified⁽¹⁾	New budget rule		Budget rule in accordance with provisions of the Fiscal Compact?						Further fiscal rules and no-bailout clauses ⁽²⁾
		Effective from	Legal foundation	Constitutional status	General level of government encompassed	Lower limit for structural deficit	Correction automatism	Exceptions consistent with Fiscal Compact	Supervision by independent fiscal council	
EE	December 5 th , 2012	A draft bill is currently being discussed in the cabinet. So far only very few details are known (see appendix).								Budget and debt rule on the local level
ES	September 27 th , 2012	January 1 st , 2012 Adjustment path for structural deficit and debt. Split up between levels of government.	Art. 135 Constitución Española Ley Orgánica 2/2012	✓	✓	Up to -0.4% of GDP in case of structural reforms, prohibited otherwise Structural deficits prohibited on the local level in any case	✓ Adoption of an action plan for deficit correction within one year. Sanctions if plan is violated. Additional preventive rules	No Additional exception for situations which seriously threaten social or economic stability Exceptions require absolute majority in the Lower House (Congreso de los Diputados)	(✓) No members have been appointed yet	Debt and expenditure rules Bailout of regional and local jurisdictions prohibited
FI	December 21 st , 2012	January 1 st , 2013	Law 869/2012	No	(✓) Not explicit but reference to TSCG	MTO	No An action plan has to be adopted if considered necessary by EU Commission or Finnish government. Correction until the end of next year.	✓ Reference to Fiscal Compact	✓	
FR	November 26 th , 2012	March 1 st , 2013	Loi organique n° 2012-1403	No	✓	MTO According to Art. 3 TSCG	No An action plan has to be adopted	✓ Reference to Fiscal Compact	✓	
GR	May 10 th , 2012	According to the Memorandum of Understanding a law has to be passed until October 2013. However, a draft bill is yet not available.								Constraints imposed by adjustment programme
IE	December 14 th , 2012	December 31 st , 2012	Fiscal Responsibility Bill 2012	No	✓	-0.5% of GDP and -1.0% of GDP, if debt to GDP ratio is below 60% of GDP and public finances remain sustainable in the long run	No An action plan has to be adopted if considered necessary by the EU Commission or Irish government	✓	✓	Constraints imposed by adjustment programme 1/20 th debt rule

		New budget rule		Budget rule in accordance with provisions of the Fiscal Compact?						Further fiscal rules and no-bailout clauses ²⁾
		Effective from	Legal foundation	Constitutional status	General level of government encompassed	Lower limit for structural deficit	Correction automatism	Exceptions consistent with Fiscal Compact	Supervision by independent fiscal council	
NL	October, 8 th , 2013	January 1 st , 2014 Bill was adopted by the Lower House in April 2013 (Tweede Kamer der Staten-Generaal)	Wet Houdbare Overheidsfinanciën (Sustainable Public Finance Law)	No	(✓) Not explicitly, only reference to MTO	MTO is to be considered during budget execution Budgetary objectives for regional and local governments	No Measures have to be adopted if the Dutch Finance Minister or a European institution observe a significant deviation.	No exceptions	No But supervision of the correction mechanism by the Council of the State (not classified as a fiscal council)	Expenditure rule (not fully codified in law)
PT	July 25 th , 2012	June 14 th , 2013	Sétima alteração à Lei 91/2001; Lei 37/2013	No But law is superior to other simple laws (according to Art. 112 of the constitution)	✓	MTO -1.0% of GDP if debt to GDP ratio is below 60% and -0.5% of GDP starting from 2015	✓ An action plan has to be adopted within 30 days Automatic correction of at least 2/3 of the deviation or 0.5% of GDP until the end of the year	No Additional exceptions for structural reforms Requires approval of the Assembly of the Republic (Assembleia da República)	✓	Constraints imposed by adjustment programme Expenditures and 1/20 th debt rule Sub-national budget rule with correction mechanism and sanctions Sub-national debt rules No-bailout clause for cities, municipalities and autonomous regions
SI	May 30 th , 2012	January 1 st , 2015 Public budget needs to be gradually adjusted in order to be in compliance with the new rules from 2015 onwards	Art. 148 Ustava (constitution) Implementation law has to follow until November 31 st , 2013	✓	✓	Balanced budget over the medium-term Further specification might be subject to the implementation law	No Further specification might be subject to the implementation law	No Additionally allowed in emergency situations of the state Further specification shall be subject to the implementation law	No Further specification might be subject to the implementation	Borrowing of the local level has to be approved by the Ministry of Finance

	Fiscal Compact ratified¹⁾	New budget rule		Budget rule in accordance with provisions of the Fiscal Compact?					Further fiscal rules and no-bailout clauses ²⁾	
		Effective from	Legal foundation	Constitutional status	General level of government encompassed	Lower limit for structural deficit	Correction automatism	Exceptions consistent with Fiscal Compact		Supervision by independent fiscal council
SK	January 17 th , 2013				A bill is currently in preparation					Constitutional debt rule with correction mechanism and independent monitoring
										Debt rule on sub-national level, sanctions apply from 2015 onwards
										No-bailout clauses for regional and local level of governments
A budget rule, correction mechanism and independent supervision has been implemented recently. Due to the late approval, the new law has not been taken into account in this expertise										

*indicates that provisions of a draft bill are shown. ¹⁾Date of notification of the General Secretariat of the Council of the European Union regarding the ratification of the Fiscal Compact (Title III TSCG). ²⁾The presentation of the national fiscal rules is not comprehensive. An extensive survey over various fiscal rules is provided by, e.g., [Fiscal Rules Database](#) (as of 2011) of the European Commission. For further information on the budget rule of each country refer to appendix.

Table 5 Overview of the Independent Fiscal Councils in the Euro Area (August 2013)

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
AT	<p>Fiscal Council (transformation of the existing Public Debt Committee/Staatsschuldenausschuss)</p> <p>Public Debt Committee founded in 2002, Fiscal Council founded in 2013.</p> <p>Law of July 31st, 2013</p>	Central bank	<p>✓</p> <p>According to the law of July 31st, 2013</p>	Public recommendations	<p>No</p> <p>But not bound by instructions from third parties (“weisungsfrei”)</p>	<p>Members deputed from:</p> <p>6x federal government</p> <p>3x Federal Economic Chamber (Wirtschaftskammer)</p> <p>3x Chamber of Labour (Bundesarbeitskammer)</p> <p>1x Association of Municipalities (no voting power)</p> <p>1x Association of Cities and Towns (no voting power)</p> <p>1x Provincial Governors Conference (Landeshauptleutekonferenz) (no voting power)</p>	<p>15 members</p> <p>Renowned experts in the field of public finances and budgeting</p> <p>No holders of political offices or mandates on federal or state level</p>	<p>6 years</p> <p>Reappointment possible</p>	<p>Prof. Dr. Bernhard Felderer (president), Prof. MMag. Dr. Gottfried Haber (vice president, January to July), Dr. Markus Marterbauer (vice president, July to December), Dr. Konrad Pesendorfer, Dr. Ulrich Schuh, Dr. Peter Riedler, Dr. Edith Kitzmantel, Dr. Elisabeth Springler, Mag. Tobias Schweitzer, Mag. Georg Kovarik, Dr. Ralf Kronberger, Dr. Peter Kaluza, Dr. Walter Leiss, Mag. Dr. Thomas Weninger, Dr. Egon Mohr.</p>
BE	<p>High Council of Finance (Hoge Raad van Financiën / Conseil supérieur des Finances)</p> <p>The OECD (2012) classifies this body as a fiscal council</p> <p>Founded in 1936 (1989)</p> <p>Law of April 4th, 2006</p>	Federal Public Service Finance	No	Public reports	No	<p>Chaired by the Finance Minister who appoints his two deputies</p> <p>Complicated nomination of the members through the ministers, central bank, and (regional) governments (see appendix). Appointment by the king.</p>	<p>1 chairman, 2 deputies</p> <p>22 members, who are experts in the fields of budgeting, economics, finance and/or taxation (see appendix)</p>	<p>5 years, prolongable</p>	<p>Steven Vanackere (chairman, Finance Minister);-Christine Vanderveeren (deputy); -Dr. Françoise Masai (deputy; director Belgian central bank); Prof. Mathias Dewatripont; Johan Hanssens;-Norbert De Batselier (director Belgian central bank); Jean Hilgers (director-treasurer Belgian central bank); Dr. Pierre Wunsch (director Belgian central bank); Wivina Demeester-De Meyer; Guy Clemer; André-Marie Poncelet; Sébastien Durieux; Olivier Hubert; Eric Degreef; Marleen Mannekens; Jan Verhoeve; Dr. Géraldine Thiry; Antoine Dayez; Prof. Herman Matthijs; Luc Simar; Prof. Axel Haelterman; Christophe Quintard; Jan Verschooten; Dr. Bernard Jurion; Wim Coumans</p>

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
CY	A bill (FRBSL) is currently being drafted. While it envisages the creation of an independent fiscal council until 1 st January 2015, there is a delay in the adoption of the FRBSL.								
DE	Independent advisory board at the stability council (Stabilitätsrat) Stability council founded in 2010 Advisory council has yet to be established Law of July 18th, 2013	50% federal government, 50% state governments	✓ According to law of July 18th, 2013	Public recommendations	✓	Representatives of: 1x German Bundesbank 1x German Council of Economic Experts 1x Institutes of the joint economic forecast Further experts appointed by: 2x federal government (5 years) 2x state governments (5 years) 1x Central Association of Municipalities (5 years) 1x Central Association of Social Insurance Companies (5 years)	9 members	Dependent on member, either permanent or five years (see left column)	- Prof. R. Döhrn, - Prof. H. Enderlein, - Prof. L.P. Feld, - Prof. C. Fuest, - Prof. H.-G. Henneke, - Prof. E. Janeba, - Prof. G. Milbradt (Ministerpräsident a.D.), - Dr. U. Reineke, - K. Wendorff
EE	The State Budget Law has not been approved yet. It shall establish a fiscal council that operates with the operational support of the central bank. The latter appoints six independent members with specific qualifications for a term of five years.								
ES	Autoridad de Responsabilidad Fiscal Bill of July 3rd, 2013 (passed in December 2013)	All three levels of government	✓ According to Bill of July 3rd, 2013	Public assessment If the government does not act in accordance with the assessment it has to explain the deviations	✓	The president is nominated by the cabinet on proposal of the Finance Minister. Approval of the House of Deputies required.	The president has to be renowned in the field of objective and independent evaluation of public finances and shall have at least ten years of experience	President for 3 years Second term possible under certain conditions	Not yet appointed
FI	Fiscal Policy Audit and Executive Office at the National Audit Office Founded in 1949 Law of July 14th, 2000 Law of December 21st, 2012	Parliamentary budget	✓ According to the law of December 21st, 2012	Public assessment Government has to publically comment on the assessment	✓ According to Section 90 of the constitution of March 1st, 2012	Director General is elected by the parliament	1 Director General	6 years	Dr. Tuomas Pöysti (Director General)

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
FR	Haut Conseil des Finance Publiques at the Cour des Comptes (General Accounting Office) Founded in 2012 Organic law of December 18th, 2012 Regulation of February 18th, 2013 Regulation of March 16th, 2013 Regulation of April 16th, 2013	Cour des Comptes	✓ According to the organic law of December 18th, 2012	Public assessment If the government does not act in accordance with the assessment it has to explain the deviations	✓	1x President of the General Accounting Office, 1x President of the Statistical Bureau, 4x Magistrates of the General Accounting Office, 4x Members who are appointed jointly by the presidents of the National Assembly and the Senate and by the chairmen of the budget commissions of both chambers of parliament, and 1x member who is appointed by the president of the Economic, Social and Environmental Council of France	President of the General Accounting Office and ten additional members No holders of a political mandate; Jean Pisani-Ferry was already replaced due to this provision	10 members: 5 years Magistrates may be reappointed once Half of all members is replaced after 30 months Other tenures for the first set of members	President of the General Accounting Office: -Didier Migaud Members: -Raoul Briet; -Martine Latare; -Francois Ecalle; -Catherine Démier; - PhD François Bourguignon (former Chief Economist of the World Bank); -Prof. Michel Aglietta; -Marguerite Bérard-Andrieu; -Mathilde Lemoine; -Prof. Philippe Dessertine; -Jean-Luc Tavernier
GR	Parliament Budget Office (PBO) Founded in 2011 Law of December 31st, 2010	Parliamentary budget	No According to the MoU the PBO has to be transformed into a fully equipped fiscal council until end of 2013. But nothing happened so far.	Public assessment	No	The head of office is proposed by the president of the parliament and appointed by the regulatory committee of the parliament The members of the scientific committee are appointed by the parliamentary committee	The head of office has to be a renowned, English speaking person with a university degree in economics and a scientific education. He must have gathered at least five years of practical experiences in a relevant field. Scientific committee with five members: Renowned person with competence and experience in the fields relevant to the PBO	Head of office: 5 year, prolongable Scientific committee: 3 years, prolongable	Head of office: -Prof. Panagiotis Liargovas Scientific committee: -Prof. Panos Kazakos; -Dr. Spiros Lapatsioras; -Prof. Napoleon Maravegias; -Prof. Michael Rignios
IE	Fiscal Advisory Council Founded in 2011 Law of December 27th, 2012	National budget	✓ According to the law of December 27th, 2012	Public assessment If the government does not act in accordance with the assessment it has to explain the deviations to the Lower House	✓	Appointed by the Finance Minister	5 members Competent person with national and international experience in macroeconomics and fiscal issues No holders of a political office or mandate	4 years No more than two consecutive terms	-Prof. John McHale (chairman, advisor to the World Bank); -Sebastian Barnes (economic advisor of the Chief Economist of the OECD); -Prof. Alan Barrett; -Prof. Donal Donovan; -Prof. Róisín O'Sullivan

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
IT	<p>Parliamentary Budget Office (Ufficio parlamentare di bilancio)</p> <p>Has to be founded until 2014</p> <p>Law of December 24th, 2012</p>	50% each chambers of parliament	<p>✓</p> <p>According to the law of December 24th, 2012</p>	<p>Public Assessment</p> <p>If the government rejects the assessment it has to explain the deviation if asked by at least 1/3 of the members of the parliamentary budget committee</p>	✓	<p>Chosen from a list of ten by the presidents of the Senate and the House of Representatives. The list has to be approved with a two-third majority by the budget committee of both chambers.</p>	<p>3 members</p> <p>Independent persons, who have national or international experiences in the fields of economics and public finances.</p> <p>No holders of a political office or mandate</p>	<p>6 years</p> <p>Not prolongable</p>	Not yet appointed
LU*	<p>Department of the Banque centrale du Luxembourg which was founded in 1998</p> <p>Draft bill of June 24th, 2013</p>	Central bank	<p>✓</p> <p>According to the draft bill of June 24th, 2013</p>	<p>Public recommendations</p> <p>DRAFT</p>	✓	<p>The Directorate of the central bank is being nominated by the cabinet and appointed by the Grand Duke</p>	<p>Directorate with 3 members</p>	<p>6 years, prolongable</p>	<p>Directory:</p> <ul style="list-style-type: none"> -Prof. Gaston Reinesch (Director General; member of ECB Governing Council; IMF vice-governor for Luxembourg); -Serge Kolb; -Pierre Beck
LV	<p>Fiscal Council</p> <p>Law of May 6th, 2012, approved on 19 December 2013</p>	National budget	<p>✓</p> <p>According to the law of May 6th, 2012</p>	<p>Public recommendations</p>	✓	<p>Nominated by at least ten members of parliament and jointly by the Latvian central bank and the Finance Minister. Appointed by the parliament.</p>	<p>6 members</p> <p>Experts in the fields of finance and economics and with experience in fiscal politics</p> <p>Representatives of political parties are not allowed</p>	<p>6 years</p> <p>Maximum two consecutive terms, other tenure for the first members</p>	Not yet appointed
MT	Government is currently preparing a draft bill for the creation of a fiscal council (according to the Ministry of Finance, European Commission, 2013c)								
NL (1)	<p>Netherlands Bureau for Economic Policy Analysis (Central Planning Bureau, CPB) at the Ministry of Economic Affairs</p> <p>The CPB is classified as a fiscal council by the OECD (2012)</p> <p>Founded in 1945 (1947)</p>	Ministry of Economic Affairs	No	<p>Public recommendations</p>	<p>No</p> <p>But de facto considerable independence (OECD, 2012)</p>	<p>The Director is nominated by the Minister of Finance and appointed by the cabinet</p>	<p>Management with 3 members</p> <p>Traditionally the president is a renowned Dutch economist with extensive experiences in the field of politics and someone who accomplishes the task in a professional, non-political manner (OECD, 2012)</p>	<p>7 years</p> <p>Second term is possible</p>	<p>Management:</p> <ul style="list-style-type: none"> -Laura van Geest (director; former advisor at the IMF); -Casper van Ewijk (vice director); -George Gelauff (vice director)

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
NL (2)	<p>Council of the State (Raad van State)</p> <p>Not classified as an independent fiscal council. According to Articles 73 and 75 of the constitution the Council has to advise the government and simultaneously serves as supreme administrative court.</p> <p>Founded in 1861 (1994)</p>	National budget	<p>No</p> <p>But supervision of the correction mechanism of the budget rule and of fiscal policy in general</p>	<p>Public recommendations</p> <p>If the government does not comply with the recommendations it has to give reasons for doing so</p>	<p>No</p> <p>But the Council acts independently from the government</p>	<p>Members are appointed by the king.</p> <p>The members shall have experience in the fields of legislation, administration and judicial matters. They are drawn from academia, public administration, judiciary and government.</p>	<p>President (king), vice-president and up to ten additional members. The vice president must not be drawn from an institution which is subject to elections</p>	<p>For lifetime</p> <p>Members can be suspended or removed from office on their own request</p>	<p>President: -King Willem-Alexander</p> <p>Vice president: -Piet Hein Donner</p> <p>Members: -Dr. H. Borstlap; -Dr. W.J. Deetman; -J.H.B. van der Meer; -K.J.M. Mortelmans; -Dr. H.G. Sevenster; -W. Sorgdrager; -Y.E.M.A. Timmerman-Buck; -Dr. B.P. Vermeulen; -J.G.C. Wiebenga; -S.F.M. Wortmann</p>
PT	<p>Public Finance Council</p> <p>Founded in 2012</p> <p>Law of October 19th, 2011</p> <p>Cabinet decision of January 19th, 2012.</p>	National budget	<p>✓</p> <p>According to law of October 19th, 2011</p>	<p>Public recommendations</p> <p>Government has to justify non-compliance with the recommendations</p>	<p>✓</p>	<p>The cabinet appoints the members based on a joint nomination by the president of the General Accounting Office and the governor of the Portuguese central bank</p>	<p>5 members</p> <p>Renowned and independent experts with experience in the fields of economics and public finances. Two experts from other EU member states are desired.</p> <p>No holders of a political office or mandate during the past two years</p>	<p>7 years</p> <p>A second term is allowed for non-executive members</p> <p>Other tenures for the first members</p>	<p>-Maria Teodora Osório Pereira Cardoso (chair); -Prof. Dr. Jürgen von Hagen (vice chairman); -Rui Nuno Baleiras (executive member); -PhD George Kopits (non-executive member); -PhD Carlos José Fonseca Marinheiro (non-executive member)</p>

	Name, founding year and legal basis	Source of funding	Supervision of budget rule	Reporting and consequences	De jure independence	Appointment or election of members	Number of members and characteristics	Tenure	Current members
SI	<p>Fiscal Council at the government's General Secretary</p> <p>Founded in 2009. But several members stepped down as they felt ignored by the government.</p> <p>Internal regulations</p> <p>Codex</p> <p>Art. 106 Public Finance Act (Zakon o javnih financah)</p>	General Secretary of the government	No Only supervision of compliance with the rules of the SGP	Public recommendations	✓	<p>Government appoints members on proposal of the Finance Minister</p> <p>It is unclear whether the Council is still in existence as four members stepped down in July 2012. The members felt ignored by the government and particularly the Finance Minister. So far no new members have been appointed.</p>	<p>7 members, at least 4 Slovenians</p> <p>Experts (university degree) with at least 10 years of experience in the field of public finances or university professors or scientists from the field of economics</p> <p>Members have to be independent from the government, political parties and interest groups.</p>	<p>5 years</p> <p>Not prolongable</p>	<p>-Prof. Marjan Senjur (stepped down);</p> <p>-Prof. Bogomir Kovač (stepped down);</p> <p>-Prof. Jože Mencinger (stepped down);</p> <p>-Prof. Rasto Ovin;</p> <p>-Ivan Simič (director Fiscal Education Institute, stepped down);</p> <p>-France Arhar (director Bank Association of Slovenia);</p> <p>-Prof. Marian Wakounig (Austrian Ministry of Finance)</p>
SK	<p>Council for Budget Responsibility (CBR)</p> <p>Founded in 2012</p> <p>Law of December 8th, 2011</p> <p>See also Klein et al. (2013)</p>	<p>Central bank</p> <p>Central bank may request the Ministry of Finance to assume funding responsibility</p>	No Only supervision of the debt rule	Public recommendations	✓	<p>The chairman is nominated by the government and elected by the parliament with a 3/5 majority</p> <p>President and governor of the central bank nominate the remaining members who are elected with a simple majority by the parliament</p>	<p>3 members</p> <p>No members of the European or national parliament, no members of the government, the Commission, or the Governing Council of the ECB.</p> <p>No members of a political party, no mayors or regional governors.</p>	<p>7 years</p> <p>Not prolongable</p>	<p>Members:</p> <p>-Ivan Šramko (chairman);</p> <p>-Eudovít Ódor;</p> <p>-PhD Michal Horváth;</p> <p>Advisors:</p> <p>-PhD George Kopits;</p> <p>-Simon Wren-Lewis;</p> <p>-Prof. Philip Lane;</p> <p>-Daniele Franco;</p> <p>-Kevin Page</p>
A budget rule, correction mechanism and independent supervision by the CBR has been implemented recently. Due to the late approval, the new law has not been taken into account in this expertise.									

* indicates that provisions of a draft bill are shown. For further information on the fiscal council of each country refer to appendix.

V. Conclusion

The overall picture of the current status of implementation of the Fiscal Compact into national law is rather ambiguous. On the one side, there are countries like Spain and Portugal, which have been severely affected by the Euro crisis, and appeared to have learned a lesson and implemented promising and strong fiscal rules. On the other side, it is worrisome that Greece, of all countries, has not put forward any draft bill so far and failed to meet the deadlines set by the MoU. The overall picture is also somewhat ambiguous because many countries have not anchored their budget rules into their constitution, but rely on simple laws instead.

While the vast majority of countries have created the legal basis for the creation of an independent fiscal council, only some have already appointed the members. There seems to be a general tendency towards staffing the councils with members who are rather not involved in politics but are academic economists, and in some cases even are recruited from other countries. This finding fuels the expectation that the fiscal councils are not only *de jure* but also *de facto* independent in their work. However, one also has to note that the appointing process for fiscal councils is still a much politicized procedure, with the parliament and the government being the key players. Thus, the question to what extent the independence of the fiscal councils will also be ensured in the long run, remains unanswered for the moment. In some countries the independence is not institutionally secured, for instance, by explicitly prohibiting the appointment of active (or recently active) politicians for the fiscal council.

Appendix

(1) Austria (AT)

Just before the Fiscal Compact was agreed upon, Austria has implemented a new budget rule on the level of the federal government in 2011. Due to resistance from the three opposition parties (Green Party, BZÖ and FPÖ) in the National Council the budget rule could not be [anchored in the constitution](#). Instead, it was implemented as a simple law within the Federal Budget Law (Bundeshaushaltsgesetz) by the ruling Social Democratic Party (SPÖ) and the Conservative Party (ÖVP) ([BGBl. No. 150/2011](#)). The new rule was supposed to become effective from the fiscal year 2017 onwards. However, the Austrian Stability Pact of 2012 ([BGBl. No. 30/2013](#)) regulated that the budget rule should already enter into force in 2012. In addition, the Pact implemented a budget rule for the level of the general government. [The Austrian Stability Pact](#) was given the status of an Interstate Treaty which is in its effect equivalent to constitutional legislation.

Budget Rule of the Federal Government (Federal Budget Law)

The structural deficit of the federal government, social insurance companies and all legal entities belonging to the federal government must not exceed 0.35% of GDP. The definitions and calculations of the structural budget deficit are stated in a regulation ([BGBl. II. No. 79/2013](#)).

Correction Mechanism of the Federal Budget Rule (Federal Budget Law)

Ex-post deviations from the federal budget rule have to be booked on a control account which is limited to 1.25% of GDP. If the threshold is exceeded the control account must be reduced as soon as there is a positive rate of change of the output gap. Further specifications of the control account are stated in a regulation ([BGBl. II.No. 79/2013](#)).

Exceptions from the Federal Budget Rule (Federal Budget Law)

Deviations from the budget rule are allowed in case of natural disasters and exceptional emergency situations which are beyond the government's control and seriously affect public finances. An action plan has to secure that these deficits are reduced within an appropriate period of time. The deficits are only booked on the control account if the European Commission does not approve the presence of an exceptional situation.

Budget Rule of the General Government (Stability Pact of 2012)

While the budget rule of the Federal Budget Law only refers to the federal level of government (see above), the Austrian Stability Pact of 2012 ([BGBl. Nr. 30/2013](#)) comprises a budget rule that encompasses the general government. The Pact was implemented in January 2013 and restricts the structural budget deficit of the public sector (including all legal entities of the government according to ESA 1995) in the years 2017 and beyond to 0.45% of GDP. The deficit limit is split up between the federal level (0.35%) and the states (0.1%), whereas the share of each state is determined by its relative population size. The states have to pass on 20% of their shares to the local level of governments. During the transition period (2012-2016) the structural deficit and the total deficit (Maastricht criterion) of both the federal and state governments must not exceed a decreasing upper limit. The aim of these adjustment paths is to reach an almost balanced budget by 2016. A faster adjustment path can be specified by the European Commission. The municipalities are obliged to present a budget that is jointly balanced in structural and cyclical terms during the transition period.

Correction Mechanism of the General Government Budget Rule (Stability Pact of 2012)

Ex-post deviations from the budget rule are booked on control accounts which should be reduced “without unnecessary delay”. The accounts have to be reduced if the change in the output gap is positive and a certain limit is reached. The threshold for the account of the federal government is 1.25% of GDP and the joint threshold for all nine state and nine local accounts (one account for all municipalities in one state) is 0.367% of GDP. If the limits are exceeded, sanctions of 15% of the overshooting value are imposed. The sanctions are split up between the states and the municipalities according to a fixed allocation key and the principle of causation. A regulation comprises further details on the control account and the calculation of the structural budget balance ([BGBl. II Nr. 79/2013](#)).

Exceptions from the General Government Budget Rule (Stability Pact of 2012)

Similar to the budget rule of the federal level described previously, deviations are only allowed for natural disasters and emergency situations which are beyond the government’s control and seriously affect public finances. To invoke on escape clauses requires the approval of the National Assembly (Nationalrat) or the state parliaments and a plan to repay debt within an appropriate period of time. It seems that public deficits arising due to emergency situations have to be booked on the control accounts. The budget rule of the general government does not specify any consequences for the case that the European Commission does not approve the presence of an emergency situation.

Other Fiscal Rules

The part of general government debt that exceeds 60% of GDP has to be reduced by one twentieth on average over the past three years (Article 10 [Stability Pact of 2012](#)). The share of each level of governments is determined by its share on total public debt as of 31st December 2011. If the debt ratio will rise above 60% in the future, a correction has to take place in the following year. The jurisdiction that is accountable for the increase may be subject to sanctions. In accordance with the transition period stipulated by EU law, Article 10 will enter into effect three years after the EDP is terminated. Thus, the 1/20th debt rule will be effective from 2016 onwards. In addition, Article 9 of the [Stability Pact of 2012](#) introduces an expenditure rule that slows down the growth rate of spending on all three levels of government.

Fiscal Council

In late July 2013 a federal law was adopted in order to establish a fiscal council ([Bundesgesetz über die Einrichtung des Fisklarates](#)). The law came into effect on 1st November 2013. It transforms the Government Debt Committee which was created in 2002 into an independent fiscal council, the Austrian Fiscal Advisory Council. The legal text does not explicitly mention “independence” but characterizes the fiscal councils as not being bound by any instructions from third parties (“weisungsfrei”). The responsibilities of the existing Government Debt Committee are in particular expanded by the duty to supervise compliance with the budget rule of the general government, to give advice with regard to budgetary targets and to observe situations which activate, prolong or terminate the correction mechanism. The advice given by the fiscal council has to be published. The council is funded by the Austrian central bank where it is also located. Its 15 members shall be experts in the field of public finance and budgeting and must not hold a political mandate or office on federal or state level. The federal government appoints six members and the Austrian Federal Economic Chamber (Wirtschaftskammer) and the Chamber of Labour (Bundesarbeiterkammer) appoint three members each. Additional members without the right to vote are appointed by the Austrian Association of Municipalities, the Austrian Association of Cities and Towns and the Conference of Provincial Governors (Landeshauptleutekonferenz). The tenure of the members is four years and a reappointment

is possible. The following members have been appointed: Prof. Dr. Bernhard Felderer (president), Prof. MMag. Dr. Gottfried Haber (vice president, January to July), Dr. Markus Marterbauer (vice president, July to December), Dr. Konrad Pesendorfer, Dr. Ulrich Schuh, Dr. Peter Riedler, Dr. Edith Kitzmantel, Dr. Elisabeth Springler, Mag. Tobias Schweitzer, Mag. Georg Kovarik, Dr. Ralf Kronberger, Dr. Peter Kaluza, Dr. Walter Leiss, Mag. Dr. Thomas Weninger, Dr. Egon Mohr.

(2) Belgium (BE)

While the TSCG has been ratified with a simple majority in both national chambers and the five regional parliaments (as required by Article 167 of the [Belgian constitution](#)), the General Secretariat of the Council has yet to be notified. A task force headed by the Federal Public Service Budget and Management Control (FOD Budget en Beheerscontrole) has released a report on the possible options for the implementation of the Fiscal Compact into Belgian law. According to the texts, the High Council of Finance could be attributed the role of an independent fiscal council. However, a draft bill has yet to be introduced to parliament.

Fiscal Council

The Belgian [High Council of Finances](#) (Hoge Raad van Financiën / Conseil supérieur des Finances) was founded in 1936 and thoroughly reformed in 1989. While it may be eligible to classify as a (non-independent) fiscal council,¹⁰ such a mandate has not been assigned to the High Council so far. The Council's main tasks today comprises the analysis of government finances and the preparation of recommendations and reform proposals. The High Council may – on its own initiative or on that of the Finance Minister – evaluate the need to restrict public borrowing in certain jurisdictions. However, such an action has never been taken until today ([OECD, 2012](#)). In addition, the Council assesses the stability programme. While the Belgian Finance Minister chairs the Council and appoints his two deputies, he has no voting right. There are 22 additional members in the Council whereas six of them have to be experts in the field of budgeting and economics. Three of the experts are appointed by the Belgian central bank, one by the Finance Minister, one by the Budget Minister and one jointly by the two Ministers. On proposal of the regional and local governments the Finance and Budget Ministers nominate six further members, which have to be experts in the field of finance and economics. Ten additional members have to be experts in taxation, whereas six may be nominated by the regional governments. The remaining four experts on taxation are nominated by the Finance Minister, following nomination by other ministers and the Federal Planning Bureau. Technically, all members of the High Council are eventually appointed by the King who has followed the nominations ever since. The Council is funded by the budget of the Federal Public Service Finance (Federale Overheidsdienst Financiën). The appointment process of the chairman, the deputies and the members, as laid out above, raises doubts about the High Council's independence. Nevertheless it is classified as a Fiscal Council by the [OECD](#) (2012).

¹⁰ The Belgian Ministry of Finance holds that opinion.

(3) Cyprus (CY)

Cyprus has adopted a law in December 2012 in order to implement the provisions of the Fiscal Compact (Medium-Term Budgetary Framework and Budgetary Rules, Cyprian official gazette, December 21st, 2012). However, the government is currently preparing a draft of a new fiscal framework law (Fiscal Responsibility and Budget System Law, FRBSL) that is intended to replace the budget rule installed previously and introduce a fiscal council.

Budget Rule (General Government)

The new law limits the structural deficit of the general government to Cyprian MTO (according to the SGP) which must not exceed 0.5% of GDP.

Correction Mechanism

If there are deviations from the MTO or the respective adjustment path of more than 0.5% of GDP corrective measures have to be implemented immediately, especially on the expenditures side.

Exceptions

Escape clauses are not mentioned in the law.

Other Fiscal Rules

An expenditure rule is intended to secure the achievement of the MTO. In addition, the law requires the reduction of the debt ratio to 60% or below within an appropriate period of time ([European Commission, 2013b](#); [Cypriot Ministry of Finance, 2013](#)).

Draft of a New Fiscal Framework Law: Fiscal Responsibility and Budget System Law

Since its inauguration in early 2013 the new government under Nikos Anastasiades follows an IMF proposal and prepares a draft bill comprising a new fiscal framework law. While the MoU conditionally directs adoption of the FRBSL by end of December 2013, it has not been adopted by end of January 2014. The law is intended to replace the current budget rule installed in the Medium-Term Budgetary Framework and Budgetary Rules Law and implement additional EU directives. While the new budget rule is mainly based on the previous one, the current draft bill of the FRBSL comprises exceptions for severe economic crises and extraordinary circumstances that are beyond the government's control or severely affect public finances. To supervise compliance with the new budget rule an independent Fiscal Council with three members shall be established as of 1st January 2015. The FRBSL overrides simple legislation as it implements EU provisions ([Panteli, 2013](#)).

Quantitative Limits within the Economic Adjustment Programme

Cyprus has agreed in its Economic Adjustment Programme to correct its excessive deficit until 2016. Therefore the primary deficit shall not exceed -2.4% in 2013, -4.3% in 2014 and -2.1% in 2015. In the years 2016 and 2017 a surplus of at least 1.2% and 3%, respectively, shall be generated ([European Commission, 2013q](#)).

(4) Germany (DE)

Germany has already implemented a new constitutional budget rule in 2009 ([Art. 109, 115 and 143d Grundgesetz, GG](#)). Details of the so-called “debt brake” have been laid out in an implementation law ([Article 115-Law](#)). The design of the new budget rules is mainly based upon the Swiss debt brakes, which had already been implemented in the early 1920s in some cantons. The European Fiscal Compact in turn borrows largely from the German and Swiss budget rules. However, the constitutional budget rule of Germany refers only to the federal and state governments. Therefore a general government budget rule has been implemented into simple law in July 2013 ([Gesetz zur innerstaatlichen Umsetzung des Fiskalpakts](#)).

Constitutional Budget Rule (Federal Government)

The constitutional budget rule limits the deficit of the federal government to 0.35% of GDP. The rule also applies to borrowing through “new” Federal Special Funds (Sondervermögen des Bundes).¹¹ Deviations from the threshold are allowed up to the cyclical deficit component as long as cyclical effects are symmetrically considered. The business cycle adjustment has to be carried out in accordance with the provisions made under the SGP. In addition, public revenues and expenditures are adjusted for financial transactions.¹² While the federal budget rule will not become effective before 2016, the federal structural deficit has to be reduced steadily to 0.35% of GDP until then. So far the consolidation requirements have been met. However, the consolidation success owes particularly to historically high public revenues.

Correction Mechanism of the Constitutional Budget Rule

Ex-post deviations from the budget rule are booked on a control account which must not exceed 1.5% of GDP. Once the volume of the account exceeds 1% of GDP the deficit threshold of 0.35% of GDP is reduced by the overshooting amount (at maximum by 0.35% of GDP) in the years after. The reduction only takes place if the rate of the change in the output gap is positive.

Exceptions from the Constitutional Budget Rule

Deviations from the budget rule and the correction mechanism are only allowed in the presence of exceptional situations. The use of escape clauses requires the approval by a majority in the German parliament as well as a redemption plan. Exceptions are allowed in case of natural disasters and emergency situations that are beyond the government’s control and severely affect public finances. Public debt that has been accrued during such situations has to be paid back within a reasonable period of time and is not debited on the control account.

Sub-national Provisions of the Constitutional Budget Rule

In general revenues and expenditures of the German states have to be balanced without borrowing according to Article 109 GG. Deviations in the presence of specific emergency situations or economic slowdowns are only allowed if a state has implemented the budget rule in its own legal system. Similar, cyclical deficits are only allowed if the state law takes cyclical effects symmetrically into account. While the states are allowed to deviate from the budget rule until 2019, their budgets have to be balanced in structural terms by 2020. During the transition period the states of Berlin, Bremen, Saarland, Saxony-

¹¹ Credit authorizations for Federal Special Funds created before 2011 are not encompassed by the rule. The use of existing Federal Special Funds for spending on other issues than the initial ones might be possible (Feld, 2010).

¹² Due to these adjustments the German legal deficit definition does not correspond to the definition laid down in the Fiscal Compact.

Anhalt and Schleswig-Holstein receive annual consolidation payments totalling to 800 million Euro. Due to the autonomy of the states no (financial) sanctions can be imposed if the budget rule or adjustment path is violated. Only the consolidation payments to the five states can be ceased.

So far new budget rules have been implemented in the constitutions of six states (Hesse, Hamburg, Mecklenburg-Western Pomerania, Rhineland-Palatine, Saxony and Schleswig-Holstein) and in the financial regulations of five states (Baden-Württemberg, Bavaria¹³, Lower Saxony, Saxony-Anhalt and Thuringia). However, most rules are less strict than the rule of the federal government and some rules are not fully consistent with the provisions of the German constitution. For instance, several state rules are characterized by additional escape clauses, exceptions for special funds and the absence of qualified majority requirements. States that have not implemented the new fiscal rule into their legislative framework until 2020 will be bound by the constitutional budget rule, which overrides the old state rules and bans regional borrowing without any exception (Burret and Feld, 2013).

Budget Rule in Simple Law (General Government)

The constitutional budget rule does not fully meet the requirements of the Fiscal Compact (see above). First, it does not cover the general government, but the federal and state level. Second, the laws of most states comprise rather loosely defined escape clauses and no correction mechanism. Third, the legal deficit definition is not consistent with the provisions of the Fiscal Compact. These inconsistencies led to the adoption of the [Gesetz zur innerstaatlichen Umsetzung des Fiskalpakts](#) in July 2013, which revised the Law on Budgetary Procedures (Haushaltsgrundsätzegesetz). The new law came into effect on 19th July 2013 and limits the structural deficit of the general government to 0.5% of GDP. While the law does neither specify escape clauses nor a correction mechanism, it refers to EU legislation regarding these issues. In addition, the law stipulates that sanctions arising from violations of the SGP are split up between the federal government (65%) and the states (35%). The latter share is split up between the single states according to their population size and the principle of causation. The municipalities are assigned to the state they are located in.

Other Fiscal Rules

In 1992 the German Constitutional Court decided that the federal government is obliged to bailout the states of Berlin and Saarland ([BVerfGE 86, 148](#)). The Court claimed that the federal fiscal framework of Germany and in particular the fiscal equalization scheme includes a solidarity principle which is based on mutual support (“bündnisches Prinzip”). While the Constitutional Court rejected a bailout for Berlin in 2006, a (implicit) bailout guarantee still seems to exist if a state experiences extreme budgetary hardship.

The Fiscal Council

An independent advisory council is supplemented to the [Stability Council](#) which was founded in 2010. The independent council has the duty to supervise the budget rule of the general government and to publish recommendations and evaluations. The costs are shared equally between the federal level and the states. The German Bundesbank, the German Council of Economic Experts and the institutes engaged in the joint economic forecast in Germany (Gemeinschaftsprognose) each post one member. The federal government and the states appoint two members each and the central associations of municipalities and social insurances appoint one member each. The term for the nine members is five years. As of December 2013 the members are: Prof. Dr. Roland Döhrn, Prof. Dr. Henrik Enderlein, Prof.

¹³ The Bavarian debt brake became effective in 2007. However, deviations can still be justified relatively easily by a macroeconomic disequilibrium. Thus, the Bavarian rule does neither comply with the requirements of the German constitution nor with the provisions of the Fiscal Compact.

Dr. Lars P. Feld, Prof. Dr. Clemens Fuest, Prof. Dr. Hans-Günter Henneke, Prof. Dr. Eckhard Janeba, Ministerpräsident a.D. Prof. Dr. Georg Milbradt, Dr. Ulrich Reineke und Karsten Wendorff.

(5) Estonia (EE)

The Estonian cabinet is currently discussing a draft bill for the implementation of the Fiscal Compact (State Budget Act). The bill is planned to be introduced to the parliament during fall 2013 and to enter into effect in January 2014. However, at the end of January 2014 the law was still in parliament. Only a few details of the draft have yet been released. The rule seems to require a structural budget of the general government that is in balance or surplus. In addition a debt rule is planned to be introduced. The draft law stipulates that significant violations of the fiscal rules trigger a correction automatism. The government has to generate budget surpluses of at least 0.5% of GDP until the deviation is corrected again.

Sub-national fiscal rules

A [Local Government Financial Management Act](#) came into effect in January 2013. The law stipulates that local budgets need to be balanced or in surpluses. In addition, the net debt must not exceed annual revenues.

Fiscal Council

Two institutions are currently considered for assuming the responsibility of the fiscal council (i.e. supervision of the budget rule and of the correction automatism): the Estonian Central Bank ([Eesti Pank](#)) and the [National Audit Office](#) (NAO). Independence of the latter is guaranteed by Chapter XI of the [Estonian constitution](#). The director general of the NAO is appointed by the parliament on proposal of the president. The renewable term is five years. According to the draft law of the State Budget Act, the council should operate with the operational support of the central bank. The latter appoints six independent members with specific qualifications for a term of five years.

(6) Spain (ES)

Spain conducted crucial reforms of its fiscal framework during 2011 and 2012. The reformed Article 135 of the Spanish constitution ([Constitución Española](#)) includes both a deficit and a debt rule. In addition to the already rather extensive constitutional law, an organic law stipulates further details ([Ley Orgánica 2/2012, de Estabilidad Presupuestaria y Sostenibilidad Financiera](#), LEP). Since the LEP is binding for all autonomous regions and local jurisdictions, it is not necessary to implement the provisions into sub-national legislation.

Budget Rule (General government)

Structural deficits of public budgets are banned for the most part. The deficit calculation follows the methodology of the European Commission. Structural deficits up to 0.4% of GDP are allowed in case of structural reforms that affect public finances in the long run. While social insurances are supposed to keep their budgets in balance, a deficit leads to a corresponding reduction of the deficit limit of the central government. The budgets of the local governments have to be in balance or surplus.

Debt Rule

The debt ratio of the general government must not exceed 60% of GDP (or another limit set by the EU). The amount of nominal debt defined by the 60%-threshold is split up between the central government (44%), the autonomous regions (13%) and the local jurisdictions (3%). The debt ratio of each region must not exceed 13% of the local GDP. If the limit is exceeded further borrowing is prohibited.

Expenditure Rule

The Spanish expenditure rule follows the provisions of the SGP. The growth rate of the adjusted primary expenditures of all levels of government (corrected for non-discretionary spending on unemployment and EU programmes, for expenditures which are completely covered by revenues from EU funds, for spending of the social insurance companies and intergovernmental transfers) must not exceed the medium-term GDP growth rate. The latter is calculated by the Ministry of Economic Affairs following the methodology proposed by the European Commission. The limit on the growth rate of public spending is adjusted for expected revenues of planned, discretionary tax changes.

Correction Mechanism

The LEP stipulates several measures in order to prevent both a violation of the fiscal rules and an activation of the correction mechanism:

- If the debt ratio exceeds 95% of the respective limit, further borrowing is reserved for the Ministry of Finance (tesorería).
- If the public pensions fund runs a deficit the government has to adjust the fund's sustainability factor by reforming the social insurance system (Art. 18 LEP).
- If the compliance with the debt, deficit or the expenditure rule is at risk in a regional or local jurisdiction, a warning is issued by the central government. Afterwards the respective jurisdiction has one month to improve the situation. If the Ministry of Finance deems the improvements as insufficient an automatic correction mechanism is activated (Art. 19 LEP).

In addition to these preventive rules, the law contains a correction automatism if the debt, deficit or expenditure rule is violated on the central, regional or local level. If no emergency situation is present, the violating jurisdiction has to prepare a financial and economic plan, which will correct the deviation within one year (Art. 21 LEP). If the jurisdiction breaches the correction plan, it must not access any more public funds. In addition, sanctions of 0.2% of GDP are imposed and need to be deposited at the Banco de España. The interest payments on the deposit cease if the jurisdiction does not take appropriate corrective measures within three months. Another three months later the deposit is converted into a fine. The jurisdiction has another three month to implement appropriate corrective measures otherwise the central government under the direction of the Ministry of Finance may designate a commission of experts that recommend obligatory measures (Art. 25 LEP). If a regional government continues to access funds, makes no deposit at the central bank or does not accept the recommendations made by the commission of experts the central government is supposed to take the appropriate measures by means of compulsory enforcement. A similar mechanism is implemented with respect to local jurisdictions. Here a final step leads to the dissolution of the local government (Art. 26 LEP). Further, a violation of the deficit rule on regional or local level does not only oblige the jurisdiction to draft an action plan but also to obtain an approval of all borrowing by the central government. Similarly, if the debt rule is infringed, the jurisdiction is not allowed to borrow anymore (Art. 20 LEP).

Exceptions

Deviations from the deficit and the debt rule do not trigger the automatic correction mechanism in case of exceptional circumstances. These are defined as natural disasters, economic recessions¹⁴ or emergency situations that are beyond the control of the government and either severely affect public finances or impose a significant threat to economic or social stability. The use of escape clauses must

¹⁴ Defined as a year with a negative growth rate of GDP.

not pose a risk for medium-term fiscal sustainability and requires an approval by an absolute majority in the Lower House (Congreso de los Diputados).

Adjustment Period

The debt, deficit and expenditures rule will come into effect in 2020. During the transition period the annual structural deficit has to be reduced by at least 0.8% of GDP on average. The consolidation requirements are split up between the three levels of government according to their share in the structural deficit of the general government as of January 2012. In addition, the debt ratio shall be reduced to below 60% of GDP by 2020. A reduction of two percentage points is mandatory if the annual growth rate of either the GDP or the labour force amounts to at least 2%. The government may invoke escape clauses during the transition period. Evaluations of the rules are supposed to take place in 2015 and 2018.

Sub-national Fiscal Rules

The LEP includes an extensive no-bailout rule which wording largely resembles Article 125 of the Treaty on the Functioning of the European Union (TFEU). According to the rule the central government cannot be held reliable for debts of the autonomous regions or local jurisdictions. The central government may, however, provide liquidity if the respective jurisdiction agrees with the Ministry of Finance on a binding action plan. The tranches will only be disbursed if the jurisdiction complies with the stipulations of the action plan.

Fiscal Council

The Consejo de Política Fiscal y Financiera exists since 1980. Its main responsibilities encompass the coordination of the financing activities of the central government and the autonomous regions. Since the institution is not independent the parliament has passed a bill in December 2013 that establishes an independent fiscal council, the Autoridad de Responsabilidad Fiscal (AIRF). The AIRF is intended to supervise the new budget rule and the correction mechanism and to publish its assessments. A non-compliance with the advice of the AIRF has to be justified by the government. The president of the council is nominated by the cabinet on proposal of the Finance Minister. The Congress of Deputies (Congreso de los Diputados) has to approve the nomination with regards to the candidate's qualification. The candidate shall be a renowned expert with at least ten years of experience in the field of independent and objective evaluation of public finances. While the term ends after three years, a second term is possible under certain conditions. No members have been appointed so far.

(7) Finland (FI)

Finland has implemented the Fiscal Compact in late 2012 by adopting a simple law ([Laki talous- ja rahaliiton vakaudesta, yhteensovittamisesta sekä ohjauksesta ja hallinnasta tehdyn sopimuksen lainsäädännön alaan kuuluvien määräysten voimaansaattamisesta ja sopimuksen soveltamisesta sekä julkisen talouden monivuotisia kehyksiä koskevista vaatimuksista](#)).

Budget Rule (General Government)

Since January 2013 the structural budget balance of the general government has to be within the limits of the Finnish MTO (§2).

Correction Mechanism

Corrective measures have to be taken if the Finnish government considers them as necessary for fiscal sustainability or if advised by the European Council. If the correction mechanism is triggered, the

government has to provide a report on the current state of public finances to the parliament. It has to comprise the magnitude of the deviation from medium-term structural budget limit and the measures (legislative and others) which are deemed necessary in order to correct the deviation from the target until the end of the following year. If the European Council reasons that the required measures are not or not sufficiently taken, the government has to present a new report to the parliament immediately. The report should again stipulate legislative and other measures that are necessary to correct the deviation until the end of the year after (§3).

Exceptions

The measures described in §3 do not have to be taken in the presence of extraordinary circumstances as defined in the Fiscal Compact. If the European Council concludes that an exceptional situation is terminated, the government has to take appropriate measures in order to reduce the structural deficit in the same or the following year by at least 0.5 percentage points. The National Audit Office of Finland has the duty to decide whether the measures taken are sufficient (§4, §5).

Sub-national Fiscal Rules (§6)

The government may influence fiscal policies on the regional level by issuing regulations regarding revenues, expenditures, deficits and debt.

Fiscal Council

The [National Audit Office](#) (NAO) is given the responsibility of supervise the compliance with the new budget rule. The government has to comment on the recommendations in public (§7). The Finnish constitution (Chapter 90) guarantees the independence of the NAO. Its director general (Tuomas Pöysi) is elected by the parliament for a term of six years.

(8) France (FR)

France implemented the Fiscal Compact by adopting a law in late 2012 ([Loi organique n° 2012-1403](#)). The bill came into effect on March 1, 2013.

Budget Rule (General Government)

The structural budget of the general government has to be balanced once it is adjusted for one-off and other temporary measures. The requirement is assumed to be met if the target of the multi-year budget plan is achieved. Through the reference to Article 3 of the TSCG there exists a lower limit of the target of -0.5% of GDP.

Correction Mechanism

If deviations from the target add up to more than 0.5% of GDP in one year or more than 0.25% in two consecutive years, an action plan has to be compiled in order to correct the deviation.

Exceptions

Temporary exceptions are allowed in accordance with Article 3 TSCG.

Fiscal Council

The [Loi organique n° 2012-1403](#) stipulates that an independent Fiscal Council, the [Haut Conseil des Finances Publiques](#), shall be established at the Cour des Comptes (General Accounting Office) in order to supervise the budget rule and the correction mechanism. A non-compliance with the

recommendations of the fiscal council has to be explained by the government. The president of the Cour des Comptes (Didier Migaud) is also president of the council. The ten further members are the president of the Statistical Bureau, four magistrates of the General Accounting Office, four members which are jointly appointed by the presidents of the Senate and the National Assembly and the Chairmen of the Budget Committees of both chambers and one member that is appointed by the Council on Economic, Social and Environmental Affairs. While the members are appointed for a term of five years, [some of the first ten members have a different tenure](#): Raoul Briet (30 months), Martine Latere (30 months), François Ecalte (5 years), Catherine Demier (5 years), Jean Pisani-Ferry (5 years), Michel Aglietta (30 months), Marguerite Bérard-Andrieu (30 months), Mathilde Lemoine (5 years) and Philippe Dessertine (5 years). Due to the assumption of a political office Jean Pisani-Ferry was replaced by François Bourguignon ([Assemblée Nationale, 2013](#)). The members took their office in early 2013.

(9) Greece (GR)

In the MoU a deadline until August 2013 was fixed for Greece to implement the Fiscal Compact into national law ([IMF, 2012](#)). However, no bill has been adopted so far. An extension of the deadline until October 2013 was agreed upon in a revised MoU in July 2013. However, Greece also violated the new deadline. A task force of the General Accounting Office and the Parliamentary Budget Office is currently preparing a draft proposal on an implementation of the Fiscal Compact ([European Commission, 2013h](#)). It shall be presented to the Troika before the deadline expires. However, the European Commission regards compliance with the extended deadline as being at risk.

Quantitative Limits within the Economic Adjustment Programme

Greece has agreed in its Economic Adjustment Programme to correct its excessive deficit until 2016. The primary deficit of the general government is limited to -1.5% in 2012 by the EDP. The primary budget should be balanced in 2013 and in surpluses afterwards (+1.5% in 2014, +3.0% in 2015 and +4.5% in 2016) ([European Commission, 2013h](#)). Further, the medium-term budget plan for the years 2012 to 2015 includes expenditures limits for the central and sub-national levels of government ([European Commission, 2013c](#)).

Fiscal Council

A [bill](#) on the establishment of a [Parliament Budget Office](#) (PBO) was adopted in Greece in 2010. The PBO's purpose is to supervise the budget execution and the compliance with the budgetary provisions as well as to publish quarterly and annual reports. According to the MoU the PBO shall be transformed into fully-fledged fiscal council until December 2013. The duty of the PBO will then be extended to the supervision of the compliance with the fiscal rules ([European Commission, 2013h](#)). The chair of the Council (Prof. Panagiotis Liargovas) has to be staffed with a renowned person with a university degree in economics, an academic record, a very good command of the English language and with least five years of working experience. The chairman is proposed by the president of the parliament and appointed by the Regulatory Committee. The term is five years and may be renewed. The PBO is supported by a scientific committee. The four members of the committee have to be "people of acknowledged prestige and scientific training or professional experience in areas related to the responsibilities of the Office" ([Gouvernement Gazette 2123/ B' 31. 12. 2010](#)). The members are appointed for a term of three years by the Special Committee on the Financial Statement and the General Balance Sheet of the State and on the Control of the Implementation of the State Budget. Currently its members are: Prof. Panos Kazakos, Dr. Spiros Lapatsioras, Prof. Napoleon Maravegias and Prof. Michael Rignios. The PBO is funded by the parliamentary budget.

(10) Ireland (IR)

Ireland has adopted a [Fiscal Responsibility Act](#) end of December 2012. It stipulates a budget and debt rule and implements an independent [Irish Fiscal Advisory Council](#). The bill came into effect on the day of its adoption.

Budget Rule (General Government)

The budget rule was implemented as a simple law and stipulates that the structural budget of the general government has to be balanced or in surpluses. The requirement is satisfied if the budget outcome is in accordance with the MTO or the adjustment path towards the MTO (according to the SGP). The MTO is limited to -1% of GDP as long as public debt does not exceed 60% of GDP and sustainability of public finances is not put at risk in the long run. Otherwise the lower limit is -0.5% of GDP.

Correction Mechanism

If the European Commission releases a deficit warning or the Irish government assess a severe deviation from the budget rule (according to the SGP) an automatic correction mechanism is triggered. It requires the government to present a detailed action plan with specific corrective measures to the parliament's Lower House (Dáil Éireann) within two months. If the government proposes a timescale for the correction of more than one year, the action plan has to include annual fiscal targets that are in accordance with the SGP and the stability programme. Deviations from the plan are allowed in exceptional situations.

Exceptions

Temporary deviations from the budget rule are only allowed in case of extraordinary circumstances that are beyond the government's control and severely affect public finances, or in case of severe economic downturns (according to the SGP) – as long as the sustainability of public finances is not put at risk.

Debt Rule

Public debt of the general government is limited to 60% of GDP by a debt rule. If this limit is exceeded the debt ratio has to be reduced in accordance with the provisions SGP, i.e. 1/20th debt rule ([Irish Fiscal Advisory Council, 2013](#)).

Quantitative Limits within the Economic Adjustment Programme

Ireland has agreed in its Economic Adjustment Programme to reduce its excessive deficit until 2015 and to comply with the general government deficit target of -7.5% of GDP in 2013. In addition, the EDP limits the general government deficit to -5.1% in 2014 and -2.9% in 2015 ([European Commission, 2013e](#)).

Fiscal Council

The responsibilities of a fiscal council have been assumed by the [Irish Fiscal Advisory Council](#) which was founded in 2011. It supervises the government's compliance with the budget rule and action plans, and assesses the presence of exceptional circumstances. The recommendations of the Advisory Council have to be published. If the government does not comply with the advice the Finance Minister has to justify this in the Lower House of parliament. The Fiscal Advisory Council has five members, who have to be competent and experienced in national or international macroeconomic and fiscal matters. No member may hold a political office or mandate. Under certain conditions the Finance Minister may recall members of the Council. The current members, amongst them four (assistant) professors, have

been working or still work for the OECD, the IMF, the World Bank, the Irish Ministry of Finance or the central bank. The Irish Fiscal Advisory Council receives its funds from the national budget.

(11) Italy (IT)

Italy has adopted a new budget rule with [constitutional status](#) in April 2012, already before it ratified the Fiscal Compact. The fiscal rules of the central government (Art. 81), the general government (Art. 97) and the regional and local jurisdictions (Art. 119) are partly overlapping. An extensive implementation law stipulates the details ([No. 243/2012](#)). The new rules will come into effect on January 2014.

Budget Rule (General Government)

The structural budget of the general government has to be balanced or in surplus once it is corrected for one-off or temporary measures. The requirement is assumed to be met if the budget deficit does not significantly deviate from the MTO or the adjustment path towards the MTO. A significant deviation is defined in accordance with the provisions of the SGP. In order to ensure compliance with the MTO or the adjustment path, respectively, annual budget targets shall be assigned to each level of governments (Article 3 of the implementation law). If the debt ratio exceeds the limits set by the EU, the annual budget targets should also take into account the need to reduce the debt ratio towards the EU objective. In general public borrowing for financial asset transactions is prohibited.

Correction Mechanism

If the budget rule is significantly violated according to EU law and the government estimates that the deviation will affect “the results of the fiscal years included in the financial planning period”, a correction mechanism is triggered (Article 8 implementation law). The government has then to explain the magnitude of and the reasons for the deviation and it has to specify measures to realign public finances with the deficit target. The measures have to be enacted no later than one year after the observation of the violation. However, the activation of the mechanism can be delayed by a parliamentary majority. The financial planning documents shall stipulate the magnitude and timescale of the deviation as well as a breakdown of the deviation between the levels of government. The latter has to take into account the share of the sub-national jurisdictions on the total deviation.

Exceptions

In accordance with EU law, there are two exceptions from the deficit and debt rules: First, in case of severe recessions in the Euro area or the whole European Union, and second, in case of extraordinary events that are beyond the government’s control and severely affect public finances (including natural disasters and financial crises). To be allowed to invoke on the escape clauses the government has to enquire the European Commission and send a report to both chambers of parliament. The report shall include the magnitude and timescale of the deviation and point out adjusted fiscal targets as well as a plan on how the MTO can be reached again. The adjustment period has to be suitable to the magnitude of the emergency situation. The plan requires the approval of both the Senate and the House of Deputies (Camera dei deputati) with an absolute majority. It has to come into effect no later than one year after the approval.

Expenditure Rule

The implementation law does not only include a deficit and a debt rule but also an expenditure rule: The annual growth rate of general government expenditures must not exceed the limit laid down by EU regulations. In accordance with EU legislation the rule does not encompass all public expenditures.

Compliance with the rule is supervised by the Ministry of Financial and Economic Affairs. If the rule is violated, the government has to present a report to both chambers of parliament. The report has to specify measures to reach the budget targets again.

Sub-national Fiscal Rules

Article 119 of the [Italian constitution](#) and Chapter IV of the [implementation law](#) spell out an investment-oriented “golden” budget rule for local and regional jurisdictions. The rule is assumed to be met if the budget formation and outturn show “a non-negative commitment- and cash-based balance of final revenues and final expenditures” as well as “a non-negative commitment- and cash-based balance of current revenues and current expenses, including principal repayments instalments on loans” (Article 9 implementation law).¹⁵ If the rules are violated appropriate measures have to be taken to correct the deviation from the rule within three years. Sanctions may be imposed until budget balance is reached again. Fiscal surpluses shall be used for debt repayment or investment-related spending. Generally speaking the rule bans public borrowing for spending on other issues than investment. The investment-related deficit has to be combined with a repayment plan whose timespan is restricted by the lifespan of the respective investment. In addition an overview of the costs of debt service and the funding of debt has to be drafted. However, public borrowing is only allowed if the budgets of all jurisdictions within a region and the region itself are balanced. Conversely, debt service may always be funded by new borrowing.

The President of the Council of Ministers (Presidente del Consiglio dei Ministri) shall issue a decree on the precise breakdown of the debt repayment among the regions and local jurisdictions. In general, the shares shall take into account the effect of the business cycle on the revenues of each region or local authority, respectively.

Budget Rule (Central government)

The budget of the central government has to be balanced or in surplus. The rule is assumed to be met if the budget deficit is in accordance with the fiscal targets for the central government as laid down in Article 3 of the implementation law (see budget rule of general government). Deviations have to be explained in a report. Non-territorial public entities must ex-ante and ex-post balance their budgets.

Fiscal Council

Chapter VII of the [implementation law](#) stipulates that an independent fiscal council, the Ufficio parlamentare di bilancio (Parliamentary Budget Office, PBO), shall be founded until early 2014 in order to supervise the budget rule. The PBO has to publish its recommendations. If the government does not comply with the recommendations, it has to state the reasons for doing so if demanded by at least one third of the members of the Parliamentary Budget Committee. The PBO is staffed with three members who are jointly appointed by the two presidents of the Senate and the House of Deputies from a list of ten persons. The list has to be approved with a two-thirds-majority in the budget committees of both chambers beforehand. The members shall be “persons of recognised independence and proven expertise and experience in the field of economics and public finances at the national and international level” (Article 17 implementation law). Holders of political offices or mandates cannot apply for office. The

¹⁵ The original Italian wording of the paragraph is ([Art. 9, 243/2013](#)): „I bilanci delle regioni, dei comuni, delle province, delle città metropolitane e delle province autonome di Trento e di Bolzano si considerano in equilibrio quando, sia nella fase di previsione che di rendiconto, registrano: a) un saldo non negativo, *in termini di competenza e di cassa, tra le entrate finali e le spese finali*; b) un saldo non negativo, *in termini di competenza e di cassa, tra le entrate correnti e le spese correnti*, incluse le quote di capitale delle rate di ammortamento dei prestiti” (emphasis by the authors).

term is six years and may not be renewed. A qualified majority can discharge members in case of a serious violation of their duties. Currently no members have been appointed. The PBO is equally funded by the two chambers of parliament.

(12) Luxembourg (LU)

The government of Luxembourg has introduced a draft bill to parliament in July 2013 in order to implement the Fiscal Compact into simple law (Law on coordination and governance of public finances, [Loi relatif à la coordination et à la gouvernance des finances publiques](#)).¹⁶ The new law shall come into effect in January 2014.

Budget Rule (General Government)

The structural deficit of the general government (according to the ESA) adjusted for one-off and temporary measures must not violate the Luxembourgian MTO or has to quickly approach the MTO via an adjustment path. The multi-year budget plan shall include a breakdown of the allowed nominal and structural budget balance among the sub-national levels of government and implement an annual upper spending limit for the central government.

Correction Mechanism

If no exceptional situation is present the government has to correct significant deviations from the budget rule in the year after. A violation is considered significant if the deviation exceeds 0.5% of GDP or 0.25% of the average GDP of the previous two years.

Exceptions

Temporary deviations are allowed in accordance with the escape clauses of the Fiscal Compact.

Other Fiscal Rules

The government programme for the year 2009 to 2014 sets non-numeric rules for the growth rate of public debt and expenditures ([European Commission, 2013c](#)).

Sub-national Fiscal Rules

An investment-oriented “golden” budget rule is implemented on the local level. It bans local borrowing for other issues than investment (Art. 118 [Loi Communale](#)).

Fiscal Council

It is envisaged that the [Banque centrale du Luxembourg](#) will assume the responsibilities of the fiscal council, i.e. to supervise the budget rule and the correction mechanism. Its assessments and results shall be published. It is yet to be decided which department of the central bank will handle the task. The directorate of the central bank is proposed by the cabinet and appointed by the Grand Duke of Luxembourg. The tenure of the three members of the board is six years.

¹⁶ An English translation of the law can be obtained from the Banque centrale du Luxembourg.

(13) Latvia (LV)

Latvia will introduce the Euro on 1st January 2014. So far Latvia has only [ratified](#) Title V (“Governance of the Euro area”) but not Title III (“Fiscal Compact”) of the TSCG. Nevertheless the Fiscal Discipline Law ([Fiskālās disciplīnas likums](#))¹⁷ which came into effect in March 2013 is intended to implement the Fiscal Compact into the national legislation with the status of a simple law. The budget rule will only become effective once the structural deficit of the previous year is below 1% of GDP. Until that moment the structural deficit has to be reduced by 0.5% of GDP annually, unless international agreements state a different rate of adjustment. Latvia has already reached the 1%-threshold in 2012 (Table 1). Thus, the budget rule already came into effect with the adoption of the law on 6th March 2013. However, in 2013 the government departed from the budget rule by setting a structural deficit target of 1% of GDP. While the deviation was justified with a reform of the pension scheme, such an exception is not part of the Fiscal Compact. Only the preventive arm of the SGP comprises such an escape clause.

Budget Rule (General Government)

The annual budget of the general government has to be balanced or in surplus. The requirement is assumed to be met if the structural deficit (adjusted for one-off and temporary measures) does not exceed 0.5% of GDP or if an adjustment path towards the MTO is pursued.

Correction Mechanism

A violation of the budget rule triggers a correction automatism that follows the Swiss role model. If the accumulated deficits that are not allowed within the limits of the Fiscal Discipline Law exceed 0.5% of GDP, the structural deficit target in the next medium-term budget plan is raised by 0.5% of GDP until the deviation is completely compensated. The adjustment takes only place if the difference between the forecasted and the potential GDP growth is positive.

Exceptions

Temporary deviations are allowed in case of severe recessions (according to the SGP), threats to national security (according to Art. 62 of the [Latvian constitution](#)) and material losses that are caused by natural catastrophes, emergency situations or natural and social processes. The exception for material losses applies only if it implies costs that exceed 0.1% of GDP. The deviation from the budget rule is limited to the amount of the costs or to the forecasted loss of revenue in case of recessions, respectively. In times of economic crises the fiscal council shall assess the extent of the deviation.

Other Fiscal Rules

The growth rate of public expenditures must not exceed the average growth rate of the potential GDP. Furthermore public debt is limited to 60% of GDP. Both rules have to be considered in the drafting process of the medium-term budget plan. The plan shall also include an upper spending limit for the following three years.

Fiscal Council

The Fiscal Council of Latvia was approved on 19 December 2013 to serve as an independent institution supervising the Fiscal Discipline Law. It consists of six members and has an independent funding. Three members are nominated under the joint proposal of the president of the Latvian central bank and the Finance Minister. The other half of the members is nominated by at least ten members of parliament.

¹⁷ An unofficial translation into English can be obtained from the European Commission (Department of Economic and Financial Affairs). The description is based on that translation.

The parliament eventually elects the members for tenure of six years, whereas one consecutive term is allowed. Notwithstanding, the first members of the council will only serve for a term of three years if they were nominated by the members of parliament. The members shall be experts in the field of financial and economic affairs and should have experience in financial policy issues. The members may not represent a political party, can be dismissed by the parliament and may have a foreign citizenship.

(14) Malta (MT)

While Malta has ratified the Fiscal Compact, the implementation into national law has yet to be conducted. According to the Ministry of Finance the government is currently preparing a draft bill regarding the revision of the Maltese fiscal framework and the introduction of an independent fiscal council. However, a [report of the European Commission](#) (2013c) from early 2013 already provides a similar finding and states that a decision on the respective piece of legislation is expected in the near future. But until today only a “Review of Departmental Spending Plan” has been adopted.

(15) Netherlands (NL)

The Netherlands have ratified the TSCG on July 26, 2013 ([Staatsblad 209](#)) and notified the [General Secretariat of the Council of the European Union](#) on 8th October 2013. Even before the ratification was completed, the Fiscal Compact has already been subject to a draft law that was passed in the Lower House of parliament ([Tweede Kamer der Staten-Generaal](#)) in April 2013. The bill ([Wet Houdbare Overheidsfinanciën](#)/Sustainable Public Finances Law)¹⁸ has been approved by the Upper House ([Eerste Kamer der Staten-Generaal](#)) on 10th December 2013.

Budget Rule (General Government)

The bill stipulates that the budgetary policy has to observe the MTO and the EU debt rule among others (Art. 2). To comply with these rules the local and regional jurisdictions have to “make an effort equivalent to that made by the public service and social security funds [...] and will take the necessary measures to this end” (Art. 3). The ministers shall determine what may be regarded as “equivalent” effort.

Correction Mechanism

Appropriate corrective measures have to be implemented if a significant deviation is ascertained by the Finance Minister or a European institution. If a recommendation is put forward by the European Commission, it also determines the timescale and magnitude of the correction. The adjustment plan has to be submitted to the Dutch Council of the State ([Raad van State](#)). The Minister of the Interior and Kingdom Relations may, on proposal of the Finance Minister, impose sanctions if the budgetary objectives are not met on the regional and local level or if the joint budget balance of both levels of government is negative. In a first step a “deduction on the general payout made by the Provinces Fund or Municipalities Fund” applies (Art. 6). The deduction takes the form of an interest-free deposit during the first three years and must not exceed the amount of the deviation. If the provisions of the budget rule are not met at least twice in the next three years, the deposit is converted into a fine. Further, potential EU sanctions are split up between the levels of government, whereas the individual shares are primarily determined by the causation principle (Art. 7).

¹⁸ An English translation of the law can be obtained from the Ministry of Finance.

Exceptions

The law does not comprise any exceptions from the budget rule or the correction mechanism.

Other Fiscal Rules

An expenditure rule defines an upper limit for public spending during the whole period of government. The rule has to be considered by the government in its multi-year budget plan. However, this procedure is not fully implemented in law, but derives from a long lasting political tradition ([European Commission, 2013c](#)).

Fiscal Council

The creation of an independent fiscal council is not part of the [Sustainable Public Finances Law](#). However, the [Netherlands Bureau for Economic Policy Analysis](#) (CBP) and the Council of the State ([Raad van State](#)) have both been invited to the meeting of the European independent fiscal institutes. The CBP which is attached to the Ministry of Economic Affairs is widely regarded as an independent fiscal council. Even though the independence of the CPB was not subject to the [foundation act](#) of 1947,¹⁹ a legal decree of 2012 clarified various aspects of the bureau's independence. The CPB can independently choose its tasks and is endowed with an advisory board that is staffed with representatives from the private sector. The director of the CPB is appointed by the cabinet on proposal of the Finance Minister. Traditionally the president is a renowned Dutch economist with crucial experiences in the field of politics and the ability to accomplish the required duties in a non-political and professional manner. A survey of the OECD concludes that the CPB enjoys de facto a high degree of independence ([OECD, 2012](#)). However, responsibilities to supervise the fiscal rules have not been delegated to the CPB so far. The [Sustainable Public Finances Law](#) (Article 2.9) only mentions that the debt and deficit estimations should be based on macroeconomic forecasts of the CPB.

The Netherlands [Raad van State](#) has two main responsibilities which should be pursued independently. According to Article 73 and 75 of the [Dutch constitution](#) the Council advises the government and the parliament, and is the Supreme Administrative Court. While the Raad van State cannot be classified as an independent fiscal council, it shall supervise the correction mechanism and the action plans of the budget rule and fiscal policies in general. The assessments of the Council of the State have to be published. If the government does not comply with the recommendations it has to provide an explanation. The Council receives its funding from the national budget. The chairman is King Willem-Alexander. The vice president and the ten members are recommended by the Council, nominated by the cabinet and appointed by the King. The members are appointed for life. A fix tenure is only possible for members of the advisory division. The members shall have experience in the fields of legislation, administration and judicial matters. They are drawn from academia, public administration, the judiciary and the government. The vice president must not be a member of a public institution which is subject to elections ([Council of State Act](#); Chapter 4 of the [constitution](#)). The history of the Council of the State dates back to 1531. The [Council of the State Act](#) was adopted in 1861 and the General Administrative Law in 1994 ([Raad van State](#)).

¹⁹ While the CPB was already founded in September 1945, the respective legislation was adopted more than a year later.

(16) Portugal (PT)

Portugal has already reformed its budgetary framework law in 2011 ([Lei de Enquadramento Orçamental](#)). Despite the reform neither the requirements of the Fiscal Compact nor of the MoU have been met ([IMF, 2012](#)). Therefore the seventh amendment of the budgetary framework law came into effect in June 2013 ([Sétima alteração à Lei 91/2001; Lei 37/2013](#)). The law was not anchored into the Portuguese constitution since the necessary two-third majority was not reached ([Germany Trade and Invest, 2013](#)). According to Article 112 of the [Portuguese constitution](#) the law is superior to other simple laws as it represents the basis for other simple laws. However, a simple majority is still sufficient to alter the law.

Budget Rule (General Government)

The structural budget deficit of the general government (according to ESA), adjusted for one-off and temporary measures, must not exceed the MTO as laid down in the TSCG. If the MTO is not met, the deficit limit is determined by the adjustment path towards the MTO which shall be specified in the stability programme. The structural budget balance is calculated according to the provisions of the SGP. The lower limit of the MTO is -1% of GDP if the debt ratio is significantly below 60% and fiscal sustainability is not put at risk (Art. 12-C). Otherwise the lower bound of the MTO is -0.5% of GDP according to a bill that was already adopted before the Fiscal Compact was signed ([No. 64-C/2011 annex I 5.2.1](#)). This law will come into effect in 2015.

The adjustment path towards the MTO has to fulfil the following criteria laid down in the budgetary framework law: If the MTO is not met the structural deficit must be improved by at least 0.5% of GDP and the growth rate of the adjusted primary expenditures (adjusted for spending on EU programmes which are completely refunded by the EU and for non-discretionary changes in unemployment compensations) has to be below the medium-term growth rate of the potential GDP growth. The latter requirement applies only if the overshooting part of total expenditures is not fully funded by discretionary measures on the revenue side (according to the expenditure rule of the SGP). The fiscal adjustment has to take into account the economic cycle (Art. 12-C).

Correction Mechanism

Significant deviations from the budget rule trigger a correction automatism. The government has to provide an action plan to the Assembly of the Republic within 30 days which ensures that the fiscal objective of Article 12-C (MTO) is met again (Art. 72-C). If no extraordinary circumstances are present, the volume of the correction until end of the year has to amount to at least two-thirds of the deviation or 0.5% of GDP – whichever is higher. The remaining deviation has to be corrected in the year after, unless extraordinary circumstances justify a delay. The correction must not be smaller than stipulated by the 1/20th debt rule. A restructuring plan splits up the corrective measures among the levels of government and has to be presented to the fiscal council.

A deviation from the MTO or the adjustment plan, respectively, is considered significant if the following conditions apply: (1) the deviation is at least 0.5% of GDP in one year or 0.25% of GDP on average of two consecutive years. (2) the annual growth rate of expenditures, adjusted for one-off and temporary measures on the revenues side has a negative impact on the structural balance of more than 0.5% of GDP in one year or cumulative in two consecutive years. After achieving the MTO, a significant deviation is only defined by the first of the two conditions. The recognition of the existence of a significant deviation is left to the government which has to consult the fiscal council or the Council of the European Union. A deviation may be classified as insignificant if extraordinary measures on the revenue side are adopted and the targets of the stabilisation programme are not at risk during the programme period (Art. 72-B).

Exceptions

Temporary deviations are allowed in case of exceptional situations or natural disasters which are beyond the government's control and severely affect public finances, in case of deep recessions in Portugal, the Euro area or the EU and in case of structural reforms that have long-term effects on economic activities – as long as the medium-term sustainability of public finances is not put at risk. The presence of an exceptional situation has to be declared by the government and is to be examined by the Assembly of the Republic (Assembleia da República) with respect to the stability programme. The deviation has to be corrected within four years after the declaration of the emergency situation. The Portuguese fiscal council has to be consulted with regards to the corrective measures (Art. 72-D).

Other Fiscal Rules

In accordance with the SGP a multi-year budget plan shall include binding spending limits on the level of the central government for the next four years (Art. 12-D). In addition, a debt rule stipulates that general government debt in excess of 60% of GDP has to be reduced by one-twentieth annually as a benchmark (Art. 10-G).

Quantitative Limits within the Economic Adjustment Programme

Portugal has agreed in its Economic Adjustment Programme to correct its excessive deficit until 2015. The deficit of the general government shall not exceed -6.0% of GDP in 2012, -5.5% in 2013, -4.0% in 2014, and -2.5% in 2015 ([European Commission, 2013f](#)).

Sub-national Fiscal Rules

In order to ensure compliance with the budget rule, all three levels of government are subject to annual debt limits. If the thresholds are exceeded the financial transfers are curtailed (Art. 12-A and Art. 87). The debt limits must not coincide with those set by the regional ([Proposta de Lei n.º 121/XII](#)) and local ([Proposta de Lei n.º 122/XII/2.^a](#)) financial legislation.²⁰ The two laws limit public debt of each municipality and autonomous region to a maximum of 150% of their average net current revenues during the preceding three years. If a region exceeds this limit it has to reduce the overshooting share by at least 5% per annum. On the local level a reduction of at least 10% is required. In addition, a numeric limit restricts the annual rise of the debt ratio. Parishes are subject to a separate set of rules.

Besides the debt rule, local governments are subject to an investment-oriented “golden” budget rule. It stipulates that local budgets have to be balanced both ex ante and ex post. The rule is assumed to be met if the annual difference between current revenues and current expenditures (including average amortisation payments of medium- and long-term debt) is positive. If there is a negative difference that exceeds 5% of current revenues, the deficit has to be corrected in the year after. The finances of the autonomous regions are subject to a similar but less strict rule: The regional budget has to be in line with the “golden” rule over the whole period of government. A deviation from the rule needs not to be correct in the year after. Both financial laws include a no-bailout clause for regional and local jurisdictions, i.e. the central government is not allowed to assume the liabilities of autonomous regions, cities or municipalities (Art. 45 [Proposta de Lei n.º 121/XII](#) and Art. 57 [Proposta de Lei n.º 122/XII/2.^a](#)).

²⁰ While these two laws have already been adopted, the following paragraphs are based on an extensive description of the two draft bills by the [Portuguese Public Finance Council](#) (2013).

Fiscal Council

The Portuguese Public Finance Council ([Conselho das Finanças Públicas](#), CFP) was founded in 2012 in order to supervise and control the budget rule of the general government, the expenditure rule of the central government and the debt rules of the regional and local jurisdictions (Art. 12-I [Budget Framework Law, No. 52/2011](#); [Council Statutes, No. 54/2011](#)).

The reports and recommendations of the CFP have to be published. If the government does not comply with the given recommendations it has to provide an explanation. The CFP is financed by the central bank. The five members of its board shall be renowned and independent experts with experience in the field of economics and public finances. Holders of political offices or mandates during the previous two years may not become a member of the CFP. Two members from other EU states should be appointed. The cabinet (Conselho de Ministros) appoints the members on a joint proposal by the president of the General Accounting Office (Tribunal de Contas) and the governor of the Portuguese central bank (Banco de Portugal). The tenure is seven years and may be extended once for non-executive members. An impeachment is only possible in case of serious malpractice and has to be approved by the president of the General Accounting Office and the governor of the central bank. The current members have been [appointed by the cabinet in January 2012](#). However, their term differs from the legal provisions described above: The terms are (since February 16th, 2012): seven years for the chairman, five years for the deputy chairman and the executive members and three years for the two non-executive members. The current members of the CFP are: Maria Teodora Osório Pereira Cardoso (chairman), Jürgen von Hagen (deputy chairman), Rui Nuno Baleiras (executive member), George Kopits (non-executive member) and Carlos José Fonseca Marinheiro (non-executive member).

(17) Slovenia (SI)

Slovenia has amended its constitution in May 2013 in order to implement the Fiscal Compact.

Budget Rule (General Government)

The revised Article 148 of the Slovenian constitution ([Ustava Republike Slovenije](#)) stipulates that revenues and expenditures of the general government have to be balanced over the medium-term or generate a surplus, respectively. The public budgets have to be gradually adjusted such that the new budget rule is met from 2015 onwards. Further details shall be specified by the National Assembly (Državni zbor) until the end of November 2013 in an implementation law, which has to be passed with a two-third majority. The Ministry of Finance is currently preparing such a bill and intends to have it passed in accordance with the deadline. Details of the implementation law have yet to be published.

Correction Mechanism

No information on a correction mechanism is laid down in the constitution.

Exceptions

According to the constitution temporary deviations from the budget rule are only allowed in emergency situations that affect the government. Details shall be stipulated in the implementation law.

Sub-national Fiscal Rules

A fiscal rule for sub-national levels of government has already been implemented. It stipulates that public borrowing has to be approved by the Ministry of Finance ([European Commission, 2013c](#)).

Fiscal Council

No information about an institution which will supervise compliance with the fiscal rule is provided by the constitution. However, it seems likely that these responsibilities are assigned to the independent [fiscal council](#) at the Secretariat-General of the Government. Currently the main task of the council is the supervision of the compliance with the rules of the SGP. The seven members of the council are appointed by the government on proposal of the Finance Minister for five years. An extension of the tenure or reappointment is not possible. The members shall be experts with a university degree and at least ten years of job experience or scientists or professors in the field of economics. They are required to be independent from the government, political parties and interest groups. Party officials are explicitly excluded ([Art. 106 Public Finance Act](#), Zakon o javnih financah; [Codex](#)). However, the president of the council and three other members stepped down from office in July 2012 since they felt ignored by the government and in particular by the Finance Minister and, thus, regarded the council as a rather useless institution. So far the government has not appointed new members.²¹ The council consisted of the following members as of July 2012: Prof. Marjan Senjur (stepped down), Prof. Bogomir Kovač (stepped down), Prof. Jože Mencinger (stepped down), Prof. Rasto Ovin, Ivan Simič (Director of the Fiscal Education Institute, stepped down), France Arhar (Executive Director of the Bank Association of Slovenia) and Prof. Marian Wakounig (Regional Director of the Austrian Ministry of Finance).

(18) Slovakia (SK)²²

Slovakia has neither adopted nor introduced any (draft) bill to limit the structural deficit of the general government. According to the Ministry of Finance a draft bill is currently being discussed which will limit structural deficit to 0.5% of GDP. Further details shall be made public soon. In March 2012 a constitutional debt restriction ([Fiscal Responsibility Law](#), Ústavný zákon o rozpočtovej zodpovednosti) came into effect ([Council for Budget Responsibility, 2013](#); [Klein et al., 2013](#)).

Debt Rule (General Government)

The general government debt must not exceed 60% of GDP. The debt to GDP ratio is calculated in accordance with the provisions of the SGP.

Correction Mechanism

If debt ratio of the general government exceeds the 50% (40% after 2028) automatic sanctions will be triggered:

- If the debt ratio is between 50% and 53% (40% and 43% after 2028) the Finance Minister has to explain the accrued debt to the parliament in written form and propose debt reducing measures.²³
- If the debt ratio is between 53% and 55% (43% and 45% after 2028) the government has to propose debt reducing measures to the parliament. In addition, the salaries of the cabinet members will be reduced to the level of the previous year.

²¹ According to a former member of the council the new government may not even be informed about the existence of the council and the necessity of new appointments.

²² As of January 2014 the amended Act No. 523/2004 implements a budget rule and a correction mechanism and oblige the CBR to supervise the activation of the mechanism and the use of escape clauses. Due to the late approval, the Act has not been taken into account in this expertise

²³ Public debt in Slovakia was above 52% of GDP in 2012. The parliamentary opposition demanded from the Finance Minister (Kazimir) to justify the debt situation and propose counter-measures. Kazimir has only presented a written statement. As of late 2013 it seems like the debt ratio will exceed 54% of GDP.

- If the debt ratio is between 55% and 57% (45% and 47% after 2028) the Finance Minister has to “freeze” 3% of total government expenditures (excluded from this provision are certain expenditures such as debt services, payments to the EU, transfers to social insurance companies). In addition, the government has to present a draft budget that does not increase nominal expenditures compared to the previous year (certain expenditures are again excluded from this provision). Similar, public spending on regional and local level must not exceed the level of the previous year.
- If the debt ratio is between 57% and 60% (47% and 50 after 2028) the government has to present a draft budget for the general government which does not require any new borrowing. The regional and local budgets have to be balanced or in surplus.
- If the debt ratio exceeds 60% (50% after 2028) in addition to the previous steps the government has to ask the parliament for a vote of confidence.

The limits of the sanctions as well as the upper limit of 60% will be reduced after 2018 by 1 percentage point annually until the upper limit is at 50% in 2028. While the sanctions for public debt above 53% of GDP are cumulative, the “freezing” of the expenditures applies for the first year only.

Exceptions

Under certain conditions the sanctions may be suspended. No sanctions are imposed in wartime. During the first 24 months after a new government has been elected only sanctions of the first two stages may be imposed. Similar, only sanctions of the first two stages apply if the costs related to emergency situations, natural disasters, the recapitalizations of banks or liabilities arising from international treaties exceed 3% of GDP. The same holds for the first three years of a severe recession.²⁴

Sub-national Fiscal Rule

The [Fiscal Responsibility Law](#) includes a debt rule for local and regional jurisdictions, too. If their debt exceeds 60% of their revenues sanctions will apply from 2015 onwards. The sanctions amount to 5% of the difference between total debt of the respective jurisdiction and 60% of its revenues of the previous year. Similar to the exception above, no sanctions are imposed during a new government’s first 24 months in power. In addition, the Local Government Budgetary Rules Act allows borrowing by local and regional governments only under two conditions: First, total debt has to be below 60% of last year’s revenues and second, the annual debt service must not exceed 25% of last year’s revenues. The Slovakian Ministry of Finance is responsible for the supervision of the rule. Further, a no-bailout clause has been introduced. It stipulates that the central government cannot be held responsible for the liabilities of regions, cities or municipalities ([Council for Budget Responsibility, 2013](#); [Klein et al., 2013](#)).

Other Fiscal Rules

The [Fiscal Responsibility Law](#) includes a rather loosely defined expenditure rule. While the calculation of the upper limit and other details need to be specified in an implementation law, no deadline was set in that respect. The consultations over a draft bill have been postponed to September 2013. According to the State Budget Act the central government may exceed the planned expenditures by 1% as long as this does not increase the deficit ([Council for Budget Responsibility, 2013](#)).

²⁴ A severe recession is defined as a negative year-to-year difference of economic growth rates of more than twelve percentage points.

Fiscal Council

In order to supervise and control the debt rule the Fiscal Responsibility Act stipulated the creation of an independent fiscal council. The Council for Budget Responsibility ([Rozpocetovarada](#)) became fully operational in the second half of 2012. Aside from supervision of the budget rule, the Council is responsible to evaluate the fiscal consequences of draft bills, to make own recommendations and to assess the sustainability of public finances. Its reports have to be published.

The Council is funded by the Slovakian central bank, which may request the Ministry of Finance to assume funding responsibility. The chairman is nominated by the government and elected by the parliament with a three-fifth majority. The other two members are nominated by the president and the governor of the central bank and elected with simple majority in parliament. The members are appointed for seven years ([Klein et al., 2013](#)). Members of the national and European parliament, the government, the European Commission, the central bank's board of directors, of a political party and mayors and governors of the regions are not eligible to become a member of the council. The current members are: Ivan Šramko (chairman), Ľudovít Ódor and Michal Horváth. Additionally there is a team of advisors to the Council, currently consisting of: George Kopits, Simon Wren-Lewis, Philip Kane, Daniele Franco and Kevin Page.

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