

Numerical Fiscal Rules And Their Role In Ensuring Sustainable Public Finances In The EU Member States

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Abstract:

Sustainable public finances, seen as governments' ability to fulfill their commitments over the long-term, are a major concern in the European Union. One popular option to correct irrational public behavior are numerical fiscal rules, or indicators of fiscal performance established as ceilings or targets that are used to set constraints on fiscal policy. Although such rules were in force in some of the EU Member States before the international economic and financial crisis of 2008 and debt crisis of 2010, these major events reiterated the need to strengthen or introduce new mechanisms aimed at constraining governments' behavior and ensuring the long-term sustainability of public finance. Against this background, the paper aims to analyze the features and composition of the domestic fiscal rules frameworks of the EU countries, as well as to assess their efficiency in reducing budget deficits and limiting public debt growth in the post-crisis period. In particular, we will refer to the nature of these rules (budget balance, public debt, expenditure, or revenue rules), their coverage, the monitoring bodies, and the mechanisms implemented to ensure that deviations from the rules are timely corrected, and therefore the rules are effective in ensuring sound fiscal policies in the future. Our analysis reveals an increase in the number of domestic fiscal rules in force in the EU countries, supported by the strengthening of EU fiscal governance, although some deficiencies still persist and threats to fiscal sustainability have not been fully addressed yet.

Keywords: Fiscal Rules, Public Finance Sustainability, Correction Mechanisms, EU Member States