

The Fiscal Council Dataset : A Primer to the 2016 Vintage



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This note summarizes the contents of the 2016 vintage of the Fiscal Council Dataset. It covers 39 institutions formally identified as operational fiscal councils at end-2016. The 2016 vintage updates the original dataset published in 2014 and documented by Debrun and Kinda (2014). This new dataset is available at <http://www.imf.org/external/np/fad/council/>.

The dataset summarizes different aspects of the 39 fiscal councils. It is divided into five sections: general information, remit, task and instruments, independence and accountability, and resources. Most variables are coded in binary terms.

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I. INTRODUCTION

Fiscal institutions play an important role in promoting fiscal policies consistent with the objectives of fiscal sustainability and macroeconomic stabilization. By constraining discretion and fostering transparency, they make fiscal policy both nimbler and more predictable. Fiscal institutions have also been shown to be critical to help authorities establish and commit to realistic and desirable fiscal targets. In doing so, these help prevent excessive fiscal deficits and unstable debt dynamics. Fiscal institutions also contribute to improve fiscal behavior over the business cycle and encourage better risk management as building buffers in good times makes space to conduct countercyclical policies in bad times and to absorb the realization of fiscal risks. Healthy and resilient public finances in turn give policymakers the room needed to serve other objectives, including economic efficiency and growth, as well as a fairer distribution of income.

Over the last decade or so, a rapidly growing number of countries have introduced independent fiscal councils to encourage better fiscal policies. Fiscal councils are defined as independent, non-partisan agencies with an official mandate to assess fiscal policies, plans, rules, and performance (Debrun and others, 2013). Having been first adopted in the Netherlands (1945), Denmark (1962), Austria (1970), the United States (1974), and Belgium (1989), fiscal councils are becoming a more widespread feature across the IMF membership. Latest adopters include a number of European Union member states, as well as emerging and developing economies such as Colombia, Uganda, South Africa, and, more recently Peru. The number of fiscal councils has more than tripled since the global financial crisis, on the back of reforms aimed at restoring the credibility and sustainability of fiscal policies without undermining its support for macroeconomic stabilization (Debrun and Kinda, 2014).

Although they have no direct role in setting policy instruments, fiscal councils can influence policy outcomes through three main channels. First, by fostering transparency over the political cycle, a fiscal council improves democratic accountability and discourages opportunistic shifts in fiscal policy (e.g., pre-electoral spending spree). Second, through independent analysis and forecasts, such bodies raise public awareness about the consequences of certain policy paths, and raise the reputational and electoral costs of unsound policies and broken commitments. Third, a fiscal council provides direct inputs to the budget process—e.g., forecasts or assessments of structural positions—thereby closing technical loopholes that allow governments to circumvent numerical fiscal rules.

Fiscal councils come in many different forms. They differ, for instance, with respect to their remit or mandates. Some fiscal councils such as Austria's Fiscal Advisory Council, have broader remits that include preparing macroeconomic and fiscal forecasts, assessing compliance with fiscal rules or other official objectives, and providing long-term projections for public debt. Others such as Germany's Independent Advisory Board to the Stabilitätsrat

focus mostly on monitoring compliance with fiscal rules. Fiscal councils also differ in size, with the total number of staff ranging from more than 200 (full-time equivalent) in the United States' Congressional Budget Office to three in the Irish Fiscal Advisory Council. Fiscal councils also differ with respect to their degree of independence and media impact.

As more countries consider building such institutions, assessing their effectiveness and identifying good international practices have become imperative, requiring consistent and comparable cross-country data. The IMF was the first international financial institution to publish a fiscal council dataset with a wide geographic coverage (Debrun and Kinda, 2014).¹ The 2016 vintage represents the IMF's update to reflect recent developments, broaden the country coverage, and enhance the quality of the data, based on publicly available information at end-2016. Among the highlights are improvements in the country coverage, which now amounts to 39 institutions formally identified as operational fiscal councils at end-2016. Previously missing information about existing institutions was added and definitions of some key variables were refined.

This updated database has benefitted from an extensive consultation process with country authorities and fiscal council staff through IMF Executive Director Offices, and IMF country desk economists whose support was greatly appreciated. Careful consultation with the OECD Public Expenditures and Budgeting Division — to whom we are also indebted — was particularly important to ensure consistency between this latest vintage and the OECD's database on independent fiscal institutions ([OECD IFI database](#)).

The remainder of this note summarizes the contents of the 2016 vintage of the Fiscal Council Dataset. The next section reviews the key features and dimensions covered in the original dataset. Section III summarizes the updates and revisions under the 2016 vintage.

II. THE FISCAL COUNCIL DATASET: KEY FEATURES

The dataset reflects the great diversity of frameworks and practices observed among fiscal councils. Fiscal councils are the product of complex and country-specific political and economic considerations. Unlike independent central banks that operate under fairly similar frameworks across countries, the objectives, mandates and institutional forms of fiscal councils are highly heterogeneous. The dataset encompasses a broad range of institutional characteristics with a focus on capturing the impact of these features on the budgetary process and in identifying best international practices.

¹ Earlier initiatives include the [European Union \(EU\) Commission's database of independent fiscal institutions](#) last updated in 2013 and covering only EU members.

The dataset captures all active fiscal councils at end-2016. To be included in the dataset, fiscal institutions must fulfill the following conditions: (i) reflect the IMF definition specified above, (ii) be consistent with the main OECD's Principles for Independent Fiscal Institutions (von Trapp, Lienert, and Wehner, 2016), and (iii) be functional and visible institutions, as evidenced by a regularly updated website or other forms of public communication. While the dataset is cross-sectional by nature, the dates of establishment and of major reforms are mentioned.

Against this background, the dataset is divided into the following five sections covering different aspects of fiscal councils, with most variables in binary terms (0-1):

- I. General Information:** This section provides an overall description of the institutions, including their names, regions, year of establishment, year of major amendment to their mandate, tasks or governance, and the government level of their coverage.
- II. Remit:** This section reflects key elements of the mandate, such as positive and normative assessment of fiscal policy, macroeconomic or fiscal forecast preparation and assessment, analysis of long-term fiscal sustainability, and monitoring compliance with fiscal rules. Ideally, the mandate of the fiscal councils should be clearly defined in higher-level legislation and aim at fostering a meaningful public debate on fiscal policy based on objective facts and independent analysis.
- III. Task and Instruments:** This section provides indicators on councils' ability to communicate to the public and relevant stakeholders, including whether the institutions produce freely accessible publications. A judgment on their media impact is also provided. In addition, information is provided on the instruments available for the fiscal councils to directly interact with participants in the budget process. These include the use of its forecasts and policy recommendations for budget preparation, the obligation for governments to explain deviations from these forecasts and recommendations, and whether the fiscal council is able to meet regularly with decision makers.
- IV. Independence and Accountability:** Non-partisanship and independence are pre-requisites for successful fiscal councils and essential attributes to distinguish fiscal councils from government appointed ad-hoc bi-partisan or multi-partisan advisory bodies. This section looks at various aspects of the council's legal and operational independence, including whether the financial resources made available to the institution are safeguarded and commensurate to its tasks, whether the governing members of councils are selected based on technical competence, and whether access to government information is guaranteed in the legislation.

- V. Resources:** This section primarily focuses on the human resources of the fiscal councils, including the composition, term, body of appointment/dismissal of their governing members and the overall size of the councils.

Box 1 provides an overview of the dimensions covered in the dataset.

Box 1. Fiscal Council Dataset: Variable Description

Remit

- Positive analysis: The council performs positive analyses (Yes: 1, No: 0).
- Normative analysis or recommendations: The council performs normative analysis or provides recommendations (Yes: 1, No: 0).
- Forecasts preparation/assessment: The council is mandated to produce or assess macroeconomic forecasts used for budgetary projections (Yes: 1, No: 0).
- Long-term sustainability: The council evaluates long-term sustainability issues (Yes: 1, No: 0).
- Consistency with objectives: The council provides assessment of government budgetary and fiscal performance in relation to fiscal objectives and strategic priorities. Referred in previous vintages as "Optimality". (Yes: 1, No: 0).
- Costing of measures: The council is mandated to provide quantification of either short-term or long-term effects, or both, of measures and reforms affecting public finances (Yes: 1, No: 0).
- Monitoring of fiscal rules: The council is mandated to monitor compliance with numerical fiscal rules (Yes: 1, No: 0).
- Fiscal policy coordination: The council is mandated to coordinate fiscal policy across government levels in an effort to help reduce the “common pool” problems (Yes: 1, No: 0).

Task and Instruments

- Public reports: The council prepares public reports on its activities (Yes: 1, No: 0).
- High media impact: This variable reflects an IMF staff assessment based on the number of publications, media references to these reports, and in the case of EU members, the authorities’ own assessment reflected in the Fiscal Institutions Database (Yes: 1, No: 0).
- Forecast used in budget: The forecasts produced by the council is adopted in the budget process (Yes: 1, No: 0).
- Binding forecasts: The council provides binding forecasts for the budget (Yes: 1, No: 0).

Box 1. Fiscal Council Dataset: Variable Description (concluded)

- Comply or explain: Legal or constitutional obligation to use the forecasts of the fiscal council, or the freedom of the government to use its own forecasts with the obligation to justify deviations from the forecasts of the fiscal council publicly (Yes: 1, No: 0).
- Formal consultation or hearings: Formal obligation of the government to consult and/or of the parliament to audition the fiscal council during the budget process (Yes: 1, No: 0).
- Can stall the budget process: The council has the legal mandate to stall the budget process (Yes: 1, No: 0).

Independence and Accountability

- Legal independence: The council's independence from political interference is guaranteed by law or treaty (Yes: 1, No: 0).
- Operational independence: even if a council does not benefit from legal safeguards of independence from politics, it might very well operate (and be generally perceived) as an independent body because its analysis reflects its expertise and that
- Safeguards on budget: Safeguards on the council's budget are deemed to exist if the budget is (i) set by the central bank, (ii) part of the overall budget of the legislative branch (i.e. protected from executive decisions), (iii) guaranteed by budget appropriations with a separate line item in the budget, or (iv) subject to any other guarantee commonly granted to independent institutions, such as regulators (Yes: 1, No: 0).
- Own staff commensurate to tasks: Assessment of the ability to fulfill the tasks specified in the mandate qualitatively and quantitatively (Yes: 1, No: 0).
- Access to information: The fiscal council is guaranteed in legislation to have full access to all relevant information in a timely manner (Yes: 1, No: 0).

Resources

- Composition, appointment, and term of high-level staff: Various variables indicate whether or not (Yes: 1, No: 0) the high level staff of the council includes (i) non-citizens, (ii) academics, (iii) policy experts, and (iv) civil servants. Three variables also indicate whether or not (Yes: 1, No: 0) the council high-level staff is selected and dismissed by (i) the government, (ii) the parliament, or other institutions (head of state or other independent institution). An additional variable captures the length of council members' terms (in years).
- Size of the council: Number of technical and administrative staff; number of management and high level staff.

III. THE 2016 VINTAGE: SOURCES, COVERAGE, REVISIONS

Process: Sources and Review

As with the original dataset, the main sources of information for the 2016 update were the relevant legal documents, which generally contain provisions specifying the councils' remit, tasks and main operational features; the fiscal councils' official websites and annual reports; and IMF country papers. For OECD members, data was primarily sourced from background country notes used in the preparation of the OECD Principles for Independent Fiscal Institutions (von Trapp, Lienert and Wehner, 2016) and later cross-checked with the [OECD IFI database](#) to ensure consistency across datasets. For EU members, data was also verified against the [European Union \(EU\) Commission's database of independent fiscal institutions](#).

The dataset benefitted from a thorough internal and external review process. The dataset was reviewed internally by IMF country desk economists and externally by country authorities. Comments received from fiscal councils in reaction to the publication of the original dataset were also incorporated.

Country Coverage

The 2016 vintage covers 39 institutions. The following five institutions were added: the *Comite Consultivo para la Regla Fiscal* (Colombia), the *Public Sector Directorate of Parliament Research Center* (Iran), the *Malta Fiscal Advisory Council* (Malta), the *Raad van State* (Netherlands), the *Consejo Fiscal* (Peru). Major updates have also taken place for the existing fiscal councils in Estonia, Germany, Kenya, Latvia, Lithuania, Luxembourg, South Africa, and Uganda.

Five fiscal councils present in the previous vintage were removed from the new dataset. Croatia's *Fiscal Policy Commission* and Slovenia's *Fiscal Council* were taken out due to lack of evidence regarding their activity. Slovenia's *Institute of Macroeconomic Analysis and Development* does not appear in the 2016 vintage because its mandate extends well beyond the conventional remit of fiscal council. Consistent with the OECD dataset, the Fiscal System Council in Japan was also excluded as it did not meet the OECD principles set up for Independent Fiscal Institutions. Finally, the current vintage also excludes Germany's *Council of Economic Experts*. Despite enjoying complete independence and performing some of the tasks expected from an independent fiscal institution, Germany's Council does advise on macroeconomic development issues in general and does not have fiscal policy monitoring responsibilities expressly specified in its main legal mandate.

Structure

Three minor modifications to the original variables were made. The variable “optimality” under Ex-Ante Analysis was renamed to “consistency with objective” to avoid confusion between that part of the remit and the task to provide normative assessments of fiscal policy. The variables referring to the “number of publications” was deleted because it did not carry much information about the effectiveness of the council. Finally, in the Human Resources section the label “Appointment by” pertaining to senior management was redefined as “Selected by” because the entity selecting the candidates is more relevant than the one formally appointing the senior manager and these two authorities sometimes differ.

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