

Fiscal Council of Estonia: enhancing fiscal discipline since spring 2014

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Vice-Chairman of the Council

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Creation of the Council

- The new State Budget Act of 2014
 - introduced the structural budget balance rule in national legislation
 - set up an independent advisory body assessing Estonian fiscal policy: the Fiscal Council of Estonia
- The Council was designed with country-specific features in mind:
 - attached to the central bank, which provides staff and administrative assistance
 - not a full-time position for Council members
 - not an additional forecasting body
 - does not issue normative statements or recommendations on fiscal or taxation policy

Mandate of the Council

The main duties of the Council are:

- 1) to assess the soundness of the macroeconomic and fiscal forecasts produced by the Ministry of Finance twice a year
 - the MoF's forecasts are the basis for the annual budget and the state budget strategy for the next four years

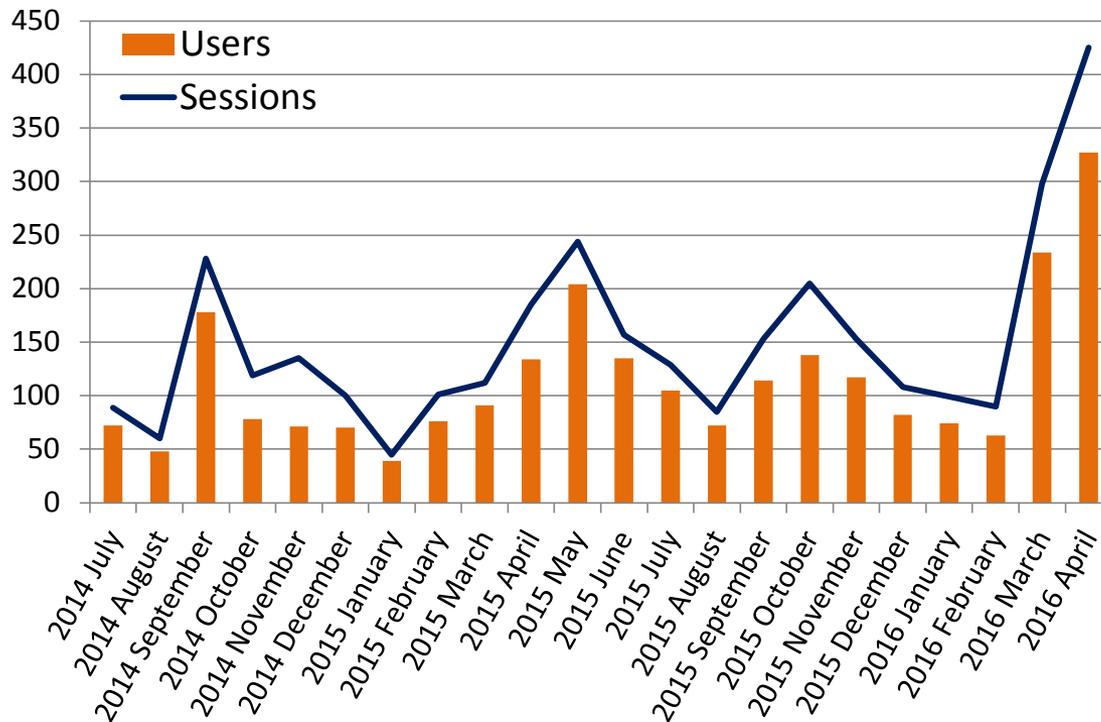
- 2) to monitor the compliance with the national budgetary rules
 - the law requires the state budget for each year to be written so that the budget for the general government is at least in structural balance

Relations with policy-makers, the media and the wider public

- Relations with the Ministry of Finance and the Government follow the ‘comply-or-explain’ principle: if an opinion of the Council is disregarded, this must be justified publicly
- No case of the ‘explain’ component has arisen so far, although some of our assessments have been perceived as quite critical
- Council members are independently well-known to the media; however, the general public and some parts of the media are not yet well-informed about the Council’s mandate and about what we do and what we don’t do

Public interest in the Council's website

- The Council's publications are made available on its website
- Interest hit record levels in the last publication round with the opinion on the spring forecast and the structural budget position targets

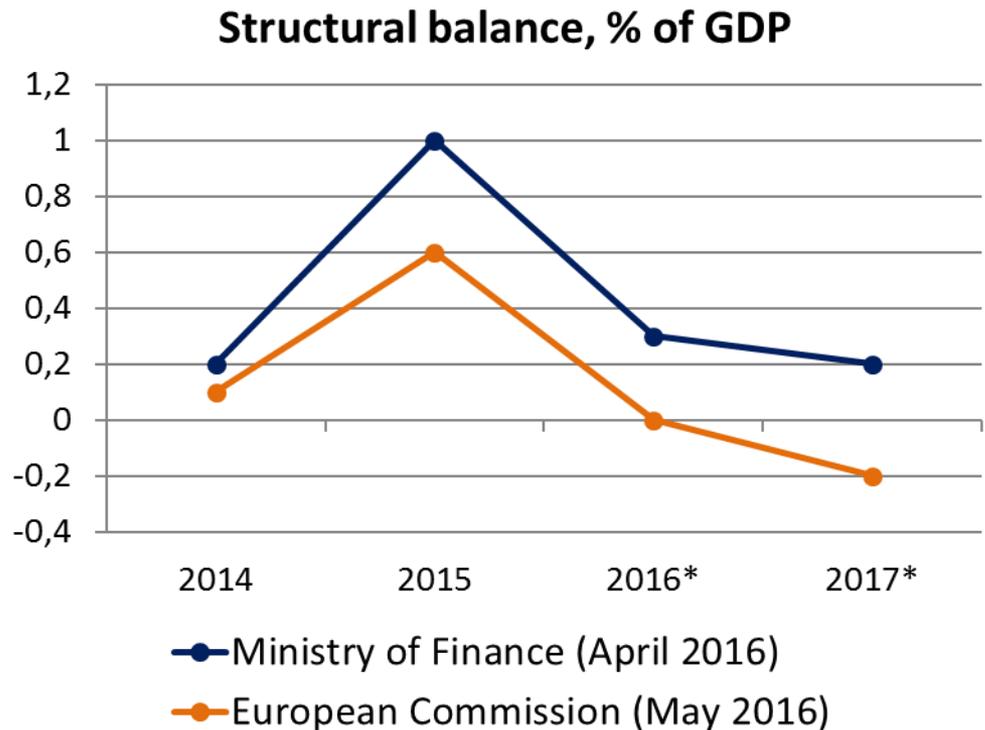


Key challenges

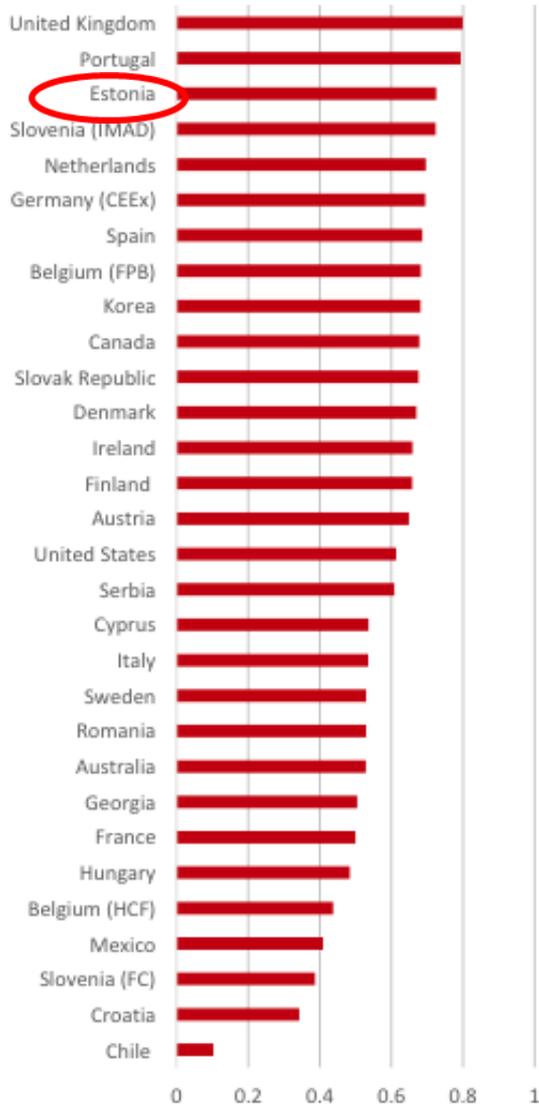
- The time schedule for providing opinions is usually very tight
- Measuring the output gap and the economic cycle is tricky
- Communication with our audience is complicated by the topics we discuss – it is difficult to communicate our messages easily or to initiate debate on issues of the output gap, the cyclical component of the budget, or the structural budget balance

Measuring the success of the Council

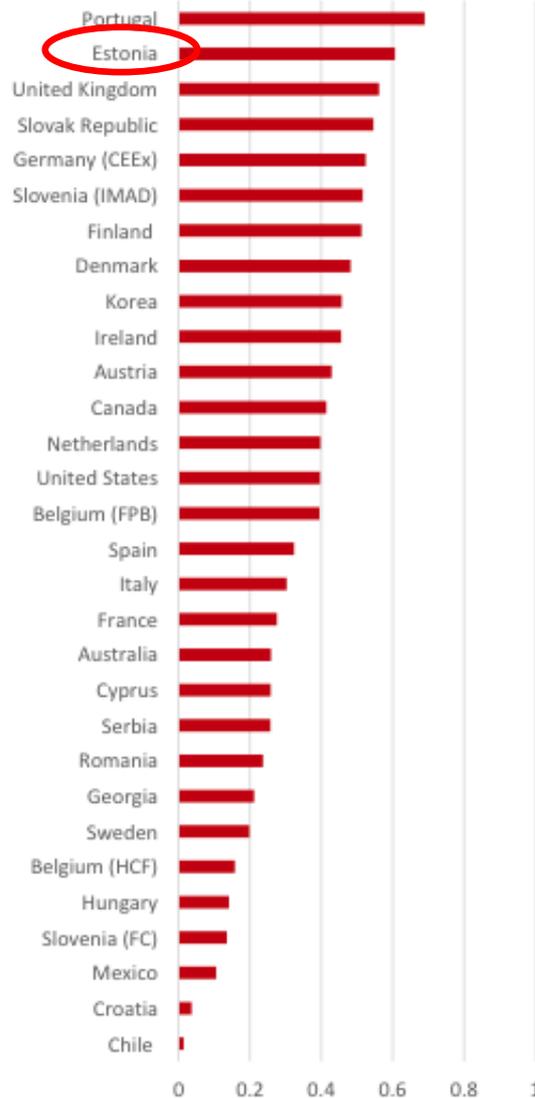
- Estonian fiscal policy can be described as conservative and with no deviations from the MTO
- The Council's main suggestion has on a few occasions been to increase the surplus target slightly so as to preserve a buffer for risks and measurement errors, but this suggestion has not always been followed



Unweighted SEC index



Independence as necessary condition



Signal-enhancement capacity: an index

(Beetsma & Debrun 2016)

- The Council's '*a priori* ability to provide clear and consistent signals about fiscal policy' is rated very highly by the authors
- Overall the track record of the Council is very short, as it has been operational for only two years, and the impact of the Council is and will remain difficult to assess

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