

## **CHAPTER 2—THE IMF’S ADVICE ON FISCAL RULES AND INSTITUTIONS**

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The views expressed in this Chapter are those of the authors and do not necessarily represent those of the IEO, the IMF, or IMF policy. The Chapter in this Background Paper reports analyses related to the work of the IEO and is published to elicit comments and to further debate.

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## EXECUTIVE SUMMARY

Fiscal rules and institutions have gained prominence in shaping policy outcomes over recent decades. In contrast, fiscal councils, which provide fiscal forecasts and oversight, remain less widespread and are a more recent development.

The IMF has played a significant role in shaping the discourse on fiscal rules and fiscal councils, with its advice evolving in tandem with academic research. Initially emphasizing simple numerical rules, the Fund's top-line guidance has since focused on balancing simplicity, flexibility, and enforceability. Recent general advice stresses countercyclical flexibility, advocating expenditure rules and fiscal anchors adjusted for economic cycles, aligning with academic thinking. The Fund's emphasis on expenditure rules has influenced how flexibility has been incorporated into fiscal frameworks in practice. A strong legal framework and institutional support are emphasized as key for enforceability of fiscal rules. One area where the Fund has notably tailored its approach to the unique circumstances of developing countries is in its macroeconomic policy framework for resource-rich developing economies. The Fund has also increasingly highlighted the value of independent fiscal councils in promoting rule adherence and forecast accuracy.

The Fund has developed comprehensive databases on fiscal rules and councils that have been vital for analysis, but these should be updated more regularly.

Attention to fiscal rules and councils in Article IV staff reports seems to have increased over time, though coverage varies across country groups. There has been a shift from advanced economies (AEs) to more focus on emerging market and middle-income economies (EMMIEs), but low-income countries (LICs) still receive limited attention. This may reflect assumptions about political will or capacity constraints in LICs, or simply a tendency to focus on countries where such frameworks already exist.

Technical Assistance (TA) has been a key channel for delivering the Fund's bilateral guidance on fiscal rules and institutions. LICs receive considerably less TA in this area compared to EMMIEs. This may stem from perceptions about enforcement challenges, staffing constraints for fiscal councils, or a lack of donor interest in funding such TA for LICs. Nevertheless, this imbalance raises questions about whether support should be more evenly distributed. TA has had mixed impact: it has contributed to rule adoption and improvements in some countries, but in others, it was either provided after rules were adopted or did not lead to implementation at all. TA seems more focused on refining existing systems than establishing new ones.

To enhance the relevance and impact of its advice on fiscal rules and institutions, the IMF could better integrate TA findings into Article IV reviews and make the assessment of fiscal rules and institutions a standard part of every review. This would ensure greater attention to these frameworks and their compliance, encourage tailored advice based on country-specific institutional capacity, and improve data collection. The Fund should also develop clearer guidance on how fiscal rules and councils should differ across varying country contexts, including

institutional capacity and income levels. Furthermore, the IMF would benefit from conducting additional comprehensive, data-driven analyses, with greater focus on rule compliance, the macro-criticality of fiscal frameworks, and the effectiveness of fiscal councils across diverse country context (e.g., institutional capacity, macroeconomic volatility) to better inform surveillance and TA.

## I. INTRODUCTION

1. **Fiscal rules and institutions are important for policy outcomes and have come in for increasing attention in recent decades.** In the early 1980s, only five countries had formal fiscal rules. As of end-2024, an estimated 120 economies have adopted at least one fiscal rule. This corresponds to 63 percent of all IMF member countries (Figure 1, Panel A).<sup>1, 2</sup>

2. **By comparison, fiscal councils (independent bodies that typically provide fiscal forecasts, advice, and monitoring) are less prevalent and more recent.** According to the IMF's Fiscal Councils Dataset, 52 countries have fiscal councils. As of 2024, these were thus present in roughly 25 percent of IMF member countries (see Figure 1, Panel B). Of 52 countries with fiscal councils, only Korea, Nigeria, North Macedonia and South Africa do not have a fiscal rule.<sup>3</sup> In a majority of cases, the introduction of fiscal rules preceded establishment of a fiscal council. In only 11 cases (Austria, Belgium, Denmark, Georgia, Iran, Mexico, Netherlands, Serbia, Uganda, United States, and Vietnam) was the reverse true. Most fiscal councils have as part of their mandate and practice monitoring compliance with fiscal rules. While Australia, Canada, Kenya, Mexico, Uganda, and the United States have both a fiscal rule and fiscal council, it is not within the mandate of the council to monitor compliance with the rule.<sup>4</sup>

3. **Fiscal rules were first adopted by advanced economies (AEs), and later by emerging market and middle-income economies (EMMIEs) and low-income countries (LICs), while fiscal councils are most prevalent in AEs.** Panel C of Figure 1 shows separately the shares of AEs, EMMIEs, and LICs with one or more fiscal rule.<sup>5</sup> It illustrates how fiscal rules were adopted earlier in AEs; their number took off in the early 1990s coincident with ratification of the European Union's (EU) Maastricht Treaty and subsequent Stability and Growth Pact and then rose

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<sup>1</sup> According to the IMF's [Fiscal Rules Dataset](#) (more on which below), 90 percent of advanced countries had one or more fiscal rule as of 2024, compared to 61 percent of emerging markets and 48 percent of low-income countries. The dataset covers 120 countries. We treat the remaining 71 IMF members as possessing no fiscal rules (on the basis of private communication from the Fiscal Affairs Department), although we also raise some questions about the accuracy of this assumption below.

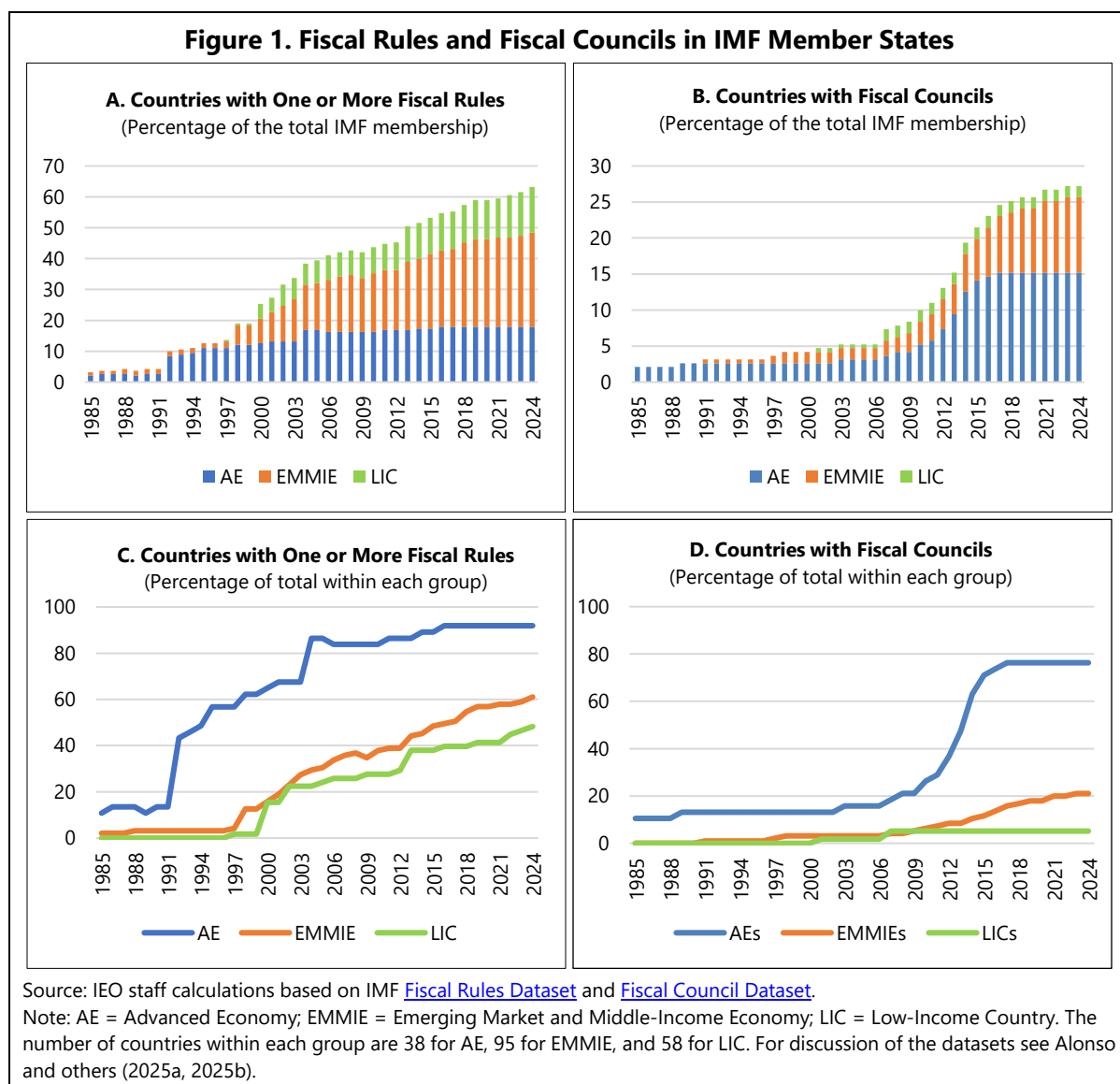
<sup>2</sup> These data, discussed further below, include both national and supranational rules, such as those applying to European Union countries and members of the Eastern Caribbean Currency Union, the East African Monetary Union, the West African Economic and Monetary Union, and the Central African Economic and Monetary Community.

<sup>3</sup> In three countries (Belgium, Chile, Netherlands), there are two institutions performing the tasks of a fiscal council. In these cases, we used the year when the older one was established. In the case of the Netherlands, the institution that was established later (2014), not the one created in 1945, is responsible for monitoring compliance with fiscal rules. Thus, 92 percent of countries that have a fiscal council also have one or more fiscal rule. Of 120 countries with at least 1 fiscal rule, 48 have a fiscal council, which is 40 percent.

<sup>4</sup> As mentioned, Korea, Nigeria, North Macedonia and South Africa do not have any fiscal rules, so there is nothing to monitor. This leaves 42 countries where fiscal councils monitor compliance with fiscal rules (81–88 percent of all fiscal councils, depending on how these four countries are categorized).

<sup>5</sup> The chart in the appendix disaggregates these shares by type of rule (expenditure rule, revenue rule, budget balance rule, debt rule).

further from there.<sup>6</sup> The adoption of fiscal rules in EMMIEs and LICs develops somewhat later, around the turn of the century; adoption rises strongly from there. As of 2024, substantial shares of these country groupings have one or more fiscal rules in place. Fiscal councils' presence in AEs rose sharply following the Global Financial Crisis (GFC) of 2008–09 (Figure 1, Panel D). They remain less common in emerging markets (EMs) and (especially) LICs, where there was nonetheless some increase in prevalence in the most recent decade.



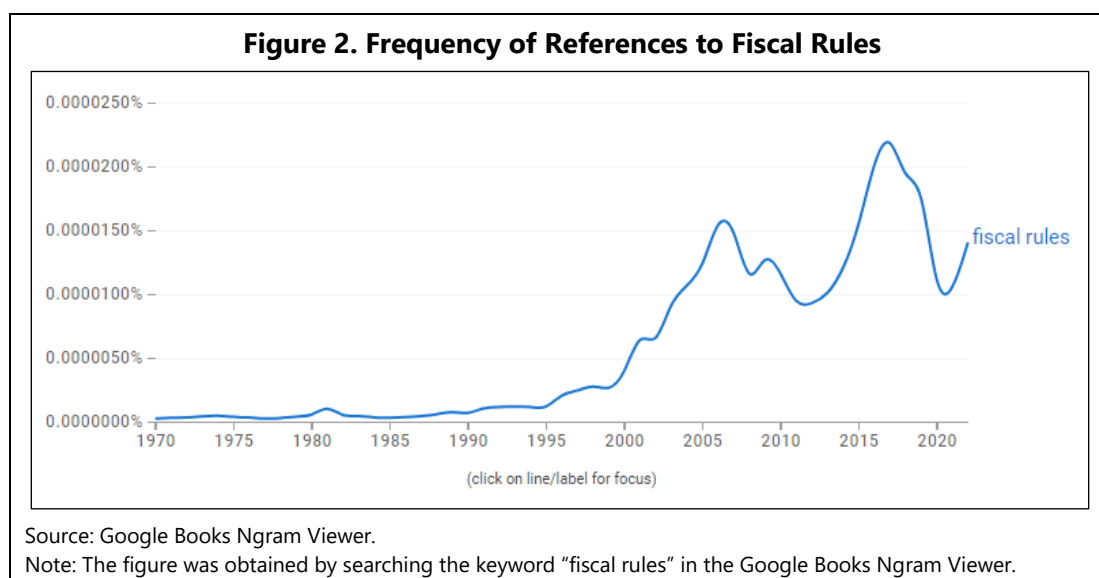
4. **This chapter evaluates the Fund's extensive analytical and policy work on fiscal rules and institutions which has been covered only marginally in previous evaluations or internal reviews.** It covers the period from 2008 to 2023 and assesses how the high level

<sup>6</sup> The second upward shift in the mid-2000s reflects accession to the EU of additional Central and Eastern European members, who became subject to these same "Maastricht rules."

analytical and policy work translated into multilateral and bilateral recommendations. The chapter examines the Fund's advice in the context of surveillance, but also considers technical assistance (TA), given its relevance for certain income groups.

## II. POLICY ISSUES AND ANALYTICAL WORK ON FISCAL RULES AND INSTITUTIONS

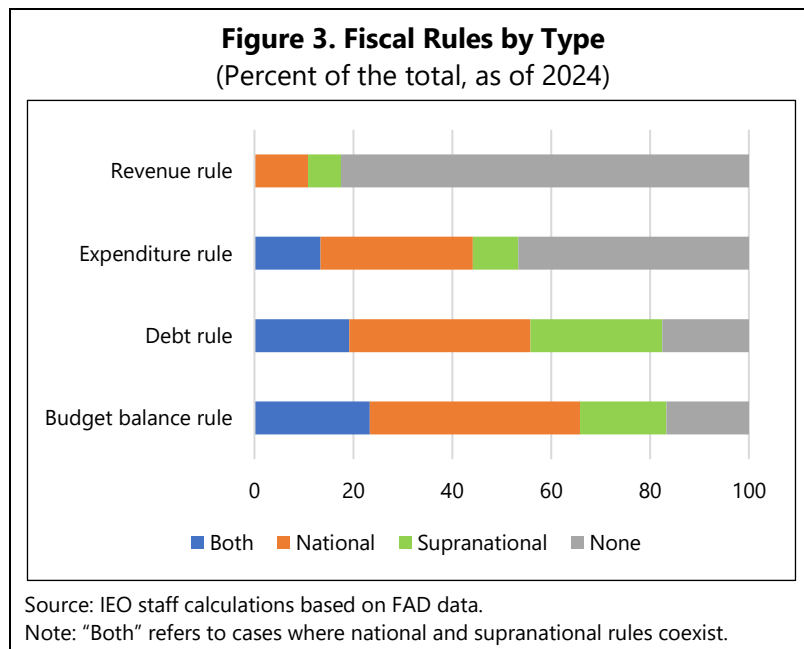
5. **The IMF's work on fiscal rules and institutions is part of broader attention paid to these aspects of fiscal management by the scholarly and policy communities.** Figure 2 summarizes the frequency of references to fiscal rules in the corpus of books digitized by Google. It shows a small increase in attention to the topic in the second half of the 1980s and first half of the 1990s, and then a sharp increase between 1996 and 2006, in part reflecting debate over the rules of the EU's Stability and Growth Pact, and in part reflecting greater attention to fiscal governance generally.



6. **The theoretical literature on fiscal rules is grounded in different workstreams.** These include the fiscal common pool problem (that the recipients of public spending fail to fully internalize the costs that taxpayers assume—see Krogstrup and Wyplosz, 2009), the political business cycle (that politicians seeking reelection or reappointment display deficit bias prior to elections, especially when electoral uncertainty is high—see Nordhaus, 1975; Tabellini and Alesina, 1990; Dubois, 2016), intergenerational burden sharing (that deficits now create burdens for future generations who lack a say in today's political process—see Wyplosz, 2012), and the so-called "debt dilution" problem (referring to the reduction in the expected repayment value of debt for existing creditors triggered by the issuance of new debt—see Hatchondo, Martinez, and Sosa-Padilla, 2016). Fiscal rules constraining the authorities' discretion are seen as militating against these deficit biases.

7. **An empirical literature seeks to quantify the incidence and strength of fiscal rules.**

Early studies focused on U.S. states, 49 of which have balanced budget rules of varying strength (Poterba, 1997), or limited samples of AEs and emerging market and development economies (EMDEs) (Eichengreen and von Hagen, 1996). The European Commission (n.d.) now maintains a detailed database on numerical fiscal rules, fiscal institutions and fiscal frameworks for EU member states.<sup>7</sup> Badinger and Reuter (2015) have constructed indices of the stringency of fiscal rules for 81 countries covering the period 1985–2012. The most comprehensive database is the IMF’s “Fiscal Rules Dataset,” initially covering the period 1985–2015 and subsequently was updated through 2024 (see Davoodi and others, 2025). This includes 120 countries and distinguishes budget balance rules, debt rules, expenditure rules, and revenue rules.<sup>8</sup> Figure 3 shows the prevalence of these rules across IMF members (both the 120 members with rules and place and other countries).



8. **Work surveyed by Brandle and Elsener (2023) analyzes the association of fiscal rules with fiscal outcomes.** Findings differ depending on country sample, period, specification, and how rules are measured (for example, whether a study distinguishes expenditure rules, revenue rules, balanced budget rules and debt rules). Brandle and Elsener summarize the literature as showing that fiscal rules are associated with improved budget balances, increased fiscal space,

<sup>7</sup> This provides retrospective measures starting in 1990.

<sup>8</sup> In addition, Ulloa-Suarez, Valencia and Guerra (2024) focus on escape-clause provisions in fiscal rules, constructing an index of the clarity of escape clauses for Latin American and Caribbean countries. There does not appear to be a comparable index for other parts of the world in the IMF database or elsewhere.

lower debts, and lower public spending volatility.<sup>9</sup> Governments subject to rules issue more accurate budget forecasts and enjoy better sovereign bond ratings. There is little evidence that rules depress public investment or increase the procyclicality of fiscal policy.<sup>10</sup>

9. **Recent research emphasizes that effects depend on the details of rule design.**<sup>11</sup>

Dubrun and others (2008), Berman, Hutchison, and Jensen (2016) and Chrysanthakopoulos and Tagkalakis (2023) find that rules that apply to the general government, provide for cyclical adjustment, include a well specified escape clause, and are subject to strict enforcement and a strong legal base have stronger disciplinary effects. Nerlich and Reuter (2016) find a strong impact on fiscal space of expenditure rules, a weaker impact of budget rules, and no impact of debt rules. Ardanaz and others (2020) find that fiscal consolidation reduces public investment in countries with rigid fiscal rules but no reduction in countries where fiscal targets are adjusted for the business cycle, rules include a well-defined escape clause, or the rule excludes capital expenditure.<sup>12</sup> An IMF paper (Bova, Carcenac, and Guerguil, 2014) concludes that second-generation rules with cyclically-adjusted targets, well-defined escape clauses and strong enforcement are associated with less procyclicality.<sup>13</sup> Hatchondo, Martinez, and Roch (2022a, 2022b) propose a spread-brake rule imposing a ceiling on the fiscal deficit when the sovereign spread is above a threshold, as the spread itself summarizes information about the country's debt-carrying capacity.

10. **Some analyses suggest that the impact of fiscal rules depends not only on rule design but on country- and period-specific circumstances and the broader institutional framework.** Bergman and Hutchison (2015) and Ardanaz, Ulloa-Suarez and Valencia (2023) find that rules improve fiscal outcomes where institutional quality is strong. Gootjes and de Haan (2022) find that rules improve outcomes only where data on fiscal variables are good. Combes, Minea and Sow (2017) find that the impact of rules varies between low- and high-debt economies. Basdevant and others (2020) find that negative effects on public investment are attenuated by strong infrastructure governance and effective budget procedures. Hartwig and Sturm (2019) find that rules increase in income inequality, whereas Combes and others (2019) find a reduction.<sup>14</sup>

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<sup>9</sup> There are exceptions, such as Caselli and Reynaud (2020) who find that the effect of fiscal rules on the fiscal balance is insignificant overall, although there is some evidence that strong, well-designed rules have a positive effect. Heinemann, Moessinger and Yeter (2017) reach similar conclusions

<sup>10</sup> Again, not all studies agree. Lim (2020) finds that fiscal rules amplify procyclicality. Keita and Turcu (2022) find fiscal rules have no impact on procyclicality for countries with fixed exchange rate regimes, but that they reduce procyclicality for countries with flexible rates.

<sup>11</sup> On the definition of the fiscal target, rigidity versus flexibility, strength of enforcement, etc.

<sup>12</sup> Blesse, Dorn and Lay (2023) review 20 empirical studies and reach similar conclusions (that rigid rules depress public investment, whereas flexible rules do not).

<sup>13</sup> Guerguil and others (2017) reach similar conclusions.

<sup>14</sup> It may be relevant that Hartwig and Sturm analyze a sample of relatively advanced (EU) countries, while Combes and others (2019) consider a panel of 84 developing countries.



11. **The policy-oriented literature, including some from the IMF (see, for example, Kopits and Symansky, 1998; Basdevant and others, 2020), supplements this focus on numerical fiscal rules with attention to fiscal institutions and procedures.** This literature suggests that transparent budgeting processes, sometimes codified in the form of fiscal responsibility laws, are conducive to positive fiscal outcomes. These may require government to present a statement of its medium-term fiscal objectives, along with a medium-term fiscal framework that specifies public spending ceilings. Requiring authorities to report fiscal outcomes in timely fashion by publishing midyear and end-year fiscal reports enables independent monitoring of fiscal conduct by elected officials, investors and the public, which may again be conducive to positive fiscal outcomes. Obliging the government to present a medium-term fiscal framework encourages the authorities to internalize the budgetary implications of fiscal measures that go beyond the yearly budgetary cycle. These procedures can be given a legal basis through the adoption of Fiscal Responsibility Laws (Corbacho and Schwartz, 2007).

12. **Part of the literature focuses on independent fiscal councils.** Those are empowered to evaluate and monitor a government's fiscal plans and performance, provide non-partisan analyses of the long-term sustainability of the public finances, and make recommendations for adjustments in fiscal policy (Beetsma and Debrun, 2016). The theoretical argument for such councils is that by informing the public about fiscal policy in non-partisan fashion, they raise the reputational cost to politicians of undesirable fiscal policies. (See Calmfors and Wren-Lewis, 2011; Calmfors, 2015; Beetsma and Debrun, 2016.) One variant holds that autonomous fiscal bodies are preferable to numerical rules: where rules can be rigid and arbitrary, council members can incorporate all relevant information about current and future circumstances, uninfluenced by partisan considerations and intertemporal distortions (Wyplosz, 2005). Another variant defends numerical rules and holds that rules and councils are complements rather than substitutes. Councils' forecasts and reports can verify the compliance of decision makers with numerical rules, again magnifying the reputational costs of noncompliance (Beetsma and Debrun, 2018).

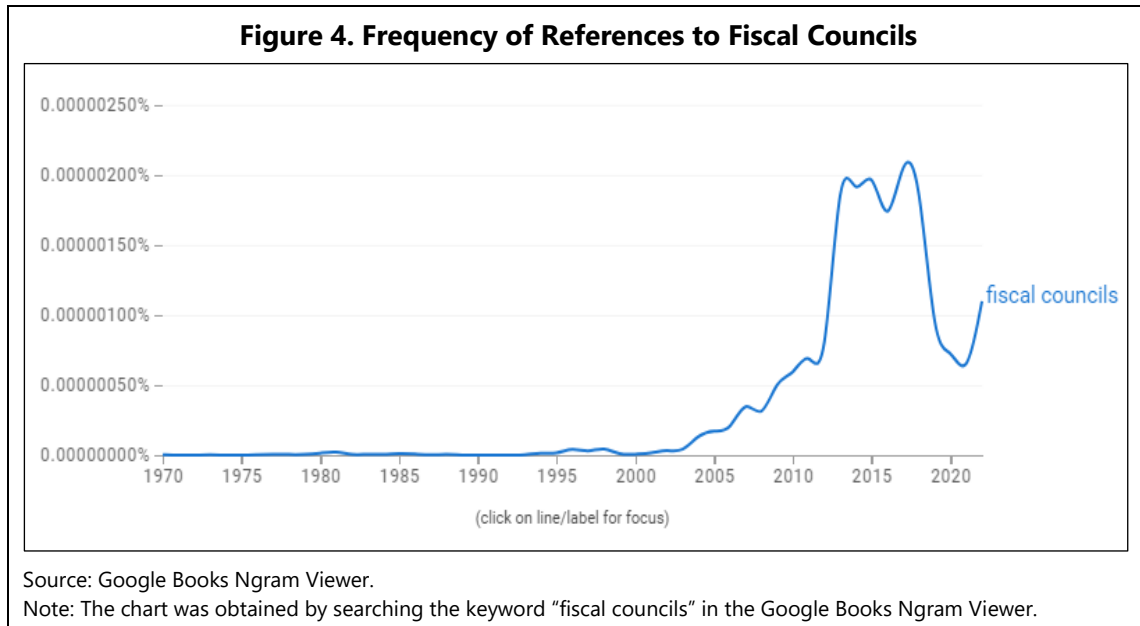
13. **Focus on fiscal councils developed later than attention to fiscal rules (Figure 4).**<sup>15</sup> As with rules, there exist several databases on the incidence and characteristics of fiscal councils. Nerlich and Reuter (2013) provide data on fiscal councils for 27 EU countries in 1990–2012. The European Commission's dataset on fiscal rules in the EU provides information on fiscal councils as well. The most comprehensive such dataset, covering the period 1985–2024, is from the IMF (Alonso and others, 2025a).

14. **A body of empirical literature has examined the impact of fiscal councils.** Nerlich and Reuter (2013), using data for the EU, find that independent fiscal councils strengthen the positive impact of fiscal rules on the fiscal balance, supporting the hypothesis that rules and institutions are complements rather than substitutes. Fall and others (2015) obtain similar results for 30 OECD countries. Debrun and Kinda (2017), in an analysis written for the IMF, find that well-

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<sup>15</sup> It can be argued that attention to fiscal councils developed *in reaction against* the earlier adaption of fiscal rules, responding to the view that rules were arbitrary, procyclical or difficult to enforce.

designed fiscal councils are associated with better macroeconomic and budgetary forecasts. Beetsma and others (2019), also in an analysis written for the Fund, find that the presence of an independent council is associated with more accurate budget forecasts and compliance with rules. They conclude that council limit overoptimism in budget forecasts.<sup>16</sup> This study includes an analysis of what structures (such as legal independence) and responsibilities (as set out by the institution's mandate) are associated with improved fiscal and forecasting outcomes. It does not, however, compare the effectiveness of fiscal councils under different country conditions (different degrees of fiscal capacity etc.).



15. **As with the literature on fiscal rules, that on councils again suggests that the details matter for outcomes.** Debrun and Kumar (2008), using data for EU fiscal councils, find that these help to secure stronger budget balances only when sufficiently independent. Also, for EU countries, Capraru and others (2022) find that the impact of fiscal councils on the budget balance and compliance with numerical rules is greater where these entities have been present for an extended period, enabling them to gain experience and reputation. Chrysanthakopoulos and Tagkalakis (2023) find that fiscal councils contribute to fiscal adjustment when they have strong mandates (independence and a clear remit) and when they are strongly accountable.

16. **In sum, recent decades have seen the growth of a large literature on the fiscal rules and institutions that paints these as militating against political-economy sources of deficit bias.** Evaluations of their impact are broadly favorable, although studies emphasize that outcomes depend on legal and institutional specifics and may be contingent on country circumstances and the broader institutional environment.

<sup>16</sup> Gilbert and de Jong (2017) obtain the same finding.

### III. IMF ADVICE ON FISCAL RULES AND INSTITUTIONS

#### General Policy Messages

17. **The Fund's views and advice on fiscal rules, fiscal councils and related matters have been disseminated through Board Papers, Staff Discussion Notes and Flagship Reports.**<sup>17</sup>

Conversely, surveillance Reviews and associated Guidance Notes have covered fiscal rules and institutions to a limited extent (Box 1). Board Papers and Staff Discussion Notes on fiscal rules often appeared in conjunction with notable fiscal events. Thus, an early Board Paper on fiscal rules (IMF, 2009) appeared during the GFC, prompted by a "sharp increase in fiscal deficits and public debt in most advanced and several developing countries [that] has raised concerns about the sustainability of public finances..." It argued strongly that fiscal rules are associated with improved fiscal performance.<sup>18</sup>

#### **Box 1. Fiscal Rules and Institutions in IMF Surveillance Reviews and Guidance Notes for Surveillance**

**Surveillance Reviews and associated Guidance Notes have covered fiscal rules and institutions only marginally.** The 2008 and 2011 Triennial Surveillance Reviews (TSR) did not discuss fiscal rules and institutions, so the associated 2009 and 2012 Guidance Notes for Surveillance were silent on the topic (IMF, 2008, 2009, 2011, 2012). The 2014 TSR, on the other hand, recognized that the Fund's advice had emphasized the importance of fiscal institutions to help transition from short-term stimulus to medium-term consolidation in the aftermath of the Global Financial Crisis, and considered the design of institutional frameworks, including binding commitments, such as fiscal rules, as "crucial for policy credibility and effective implementation" (IMF, 2014). The 2014 TSR also assessed the extent to which advice provided in Article IV reports considered fiscal institutions. The subsequent 2015 Guidance Note for Surveillance indicated that Article IVs "should discuss fiscal institutions where relevant and take these into account when designing fiscal policy advice" (IMF, 2015). However, it did not make recommendations regarding the coverage of fiscal rules and institutions in Article IV staff reports. One of the key recommendations of the 2014 TSR was that fiscal advice should be presented "in terms of a clear and well-justified anchor."<sup>1</sup> While this anchor is not necessarily an institutionalized, binding fiscal rule, this recommendation underscores Fund's view on the value of medium-term numerical targets. The 2018 Interim Surveillance Review and the 2021 Comprehensive Surveillance Review did not discuss fiscal rules and institutions (IMF, 2018a; 2021).

**The most recent Guidance Notes covered fiscal rules very briefly.** The 2022 Guidance Notes for Surveillance under Article IV Consultations listed fiscal institutions among elements that could be considered in providing policy advice, as relevant (IMF, 2022a). The most recent Staff Guidance Note on Engagement with Small Developing States, which was expressly designed to direct attention to the differentiated circumstances of such countries, made brief mention of the desirability of fiscal rules with a clear and credible fiscal anchor, provisions for adjusting targets in the event of shocks (which tend to be especially prevalent in many of these countries) and credible paths for returning to targets in the medium term (IMF, 2024a).

Source: IMF (2008, 2011, 2014a, 2015, 2018a, 2021, 2022a).

<sup>1</sup> The 2014 TSR clarified that the anchor could be specified in terms of either a fiscal (level) or adjustment (change) target to be achieved in 4–5 years.

<sup>17</sup> The latter "showcase policy-related analysis and research being developed by IMF staff..." and thus are directed at a broader audience of policy makers in member countries.

<sup>18</sup> It also emphasized the need for cyclical adjustment to limit procyclicality, the importance of comprehensive expenditure coverage, the need for effective monitoring and enforcement, and the alternative of independent fiscal institutions. A technical manual from the Fiscal Affairs Department (Bornhorst and others, 2011) then offered guidance on how to execute the cyclical adjustment.

18. **In response to the exceptional COVID-19 crisis, the Fund published timely analyses on frameworks that incorporate greater flexibility within fiscal rules.** An FAD paper focused on the need for escape clauses that provide flexibility without undermining the credibility of rules (Gbohoui and Medas, 2020).<sup>19</sup> A Staff Discussion Note (Caselli and others, 2022) highlighted how the temporary suspension of fiscal rules and heightened debt loads offered an opportunity to re-think debt rules. It cautioned that numerical rules could be either overly rigid or unrealistically complex. It recommended less reliance on annual budgets, more attention to medium-term plans, steps to enhance budgetary transparency, and strengthening the role of fiscal councils.<sup>20</sup>

19. **Of the Fund’s flagship publications, fiscal rules and institutions have received attention mainly in the Fiscal Monitor (FM) (Figure 5).** Mentions of specific country arrangements are included, as are special features considering rules, institutions and procedures more generally (special features account for most of the spikes in Figure 5).

- The April 2013 FM included a box on fiscal councils that operate independently of the government and benchmark their assessments to the government’s objectives so as to avoid being drawn into partisan debates. This discussion built on a policy paper (IMF, 2013) finding that presence of a fiscal council tends to be associated with stronger budget balances and less procyclical policies so long as the council enjoys legal and/or operational independence, is responsible for monitoring compliance with fiscal rules, has strong media presence, and follows procedures that are efficiently sequenced with the budget process.<sup>21</sup>
- The April 2014 FM included an appendix on expenditure rules, arguing that these displayed a better record of compliance than debt and balanced-budget rules, but that they might encourage cuts in public investment in bad times. This analysis was useful and important. However, there have been few subsequent analyses by Fund staff of compliance and violations, disaggregated by type of rule and macroeconomic and financial circumstances.

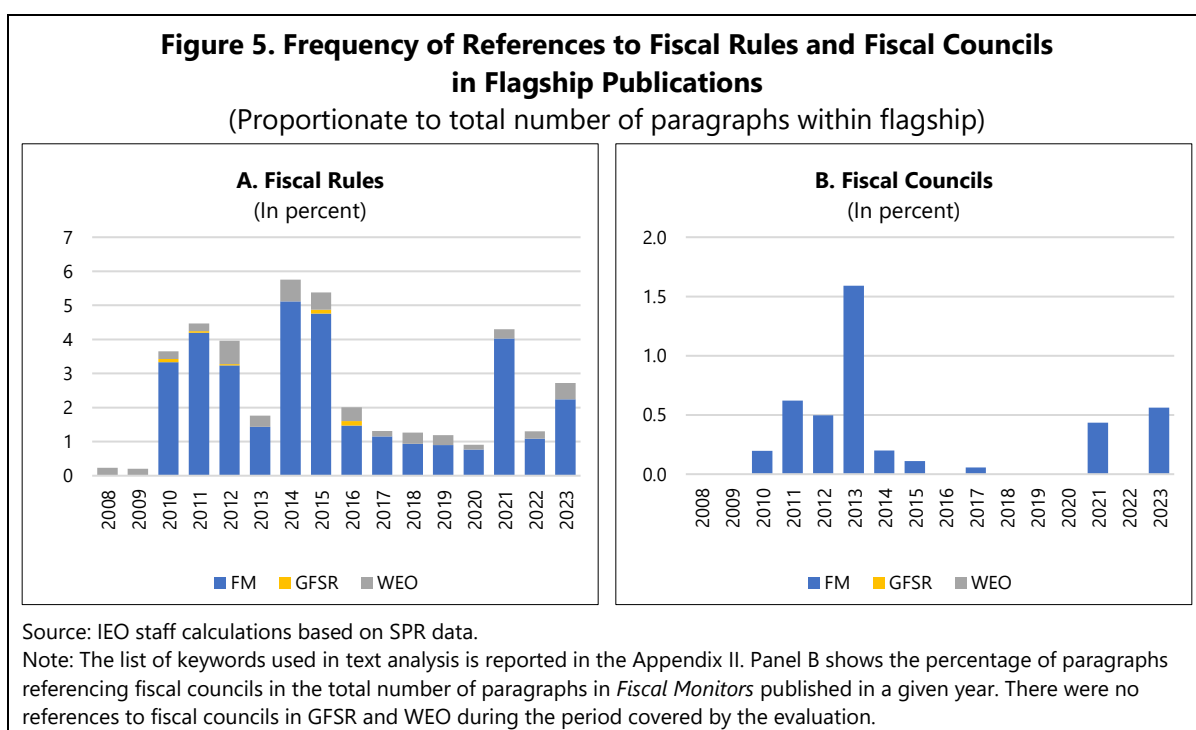
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<sup>19</sup> This paper built on a pair of earlier Staff Discussion Notes (Eyraud and others, 2018; Caselli and others, 2018) emphasizing the desirability of three properties: simplicity, flexibility and enforceability. Staff included also discussion of independent fiscal councils as a factor in improving enforceability.

<sup>20</sup> The note builds in part on an earlier working paper by some of the same authors (Davoodi and others, 2022c).

<sup>21</sup> The *Fiscal Monitor* (FM) also discussed caveats. It cautioned that fiscal councils are effective only if policy makers have already internalized the merits of fiscal discipline (without, however, alluding to the possibility that presence of a fiscal council is only capturing the effects of this internalization). It observed further that councils are effective only when they possess a critical mass of expertise and resources (without explicitly alluding to the fact that this institutional approach may be least effective in low-income countries). Moreover, whereas some academic literature (e.g. Fatas and others, 2003; Wyplosz, 2005) had suggested substituting fiscal councils with decision making powers for fiscal rules, IMF (2013) expressed skepticism about the political viability of fiscal councils “with teeth.” It suggested that fiscal councils are better thought of as complements than substitutes for fiscal rules, effectively as monitoring technologies for the government’s compliance with its fiscal rules. It observed that as of 2013 about 80 percent of countries with fiscal councils also had numerical rules, that in most cases the establishment of fiscal councils followed the adoption of numerical rules, and that in three-quarters of these cases the council is mandated to monitor compliance with those rules.

- The October 2015 FM then focused on commodity exporting countries, highlighting how fiscal rules could limit procyclicality in response to resource booms, and indicating that rules should take account of volatility and uncertainty about commodity prices.<sup>22</sup>
- The April 2021 FM highlighted the flexibility and temporary suspension of fiscal rules during the pandemic and recommended strengthening rules in light of heavier debt loads.
- The October 2021 FM emphasized the need to restore fiscal balance and credibility following the pandemic, highlighting the desirability of restoring temporarily suspended fiscal rules.<sup>23</sup>



20. **IMF working papers discussing fiscal rules have been fairly numerous (Figure 6).**<sup>24</sup> Attention to rules increased around the time of the GFC and the Greek and Euro Area debt crisis and remained fairly stable until the outbreak of the COVID-19 pandemic.<sup>25</sup> Analysis of fiscal councils was more sporadic and generally came later.

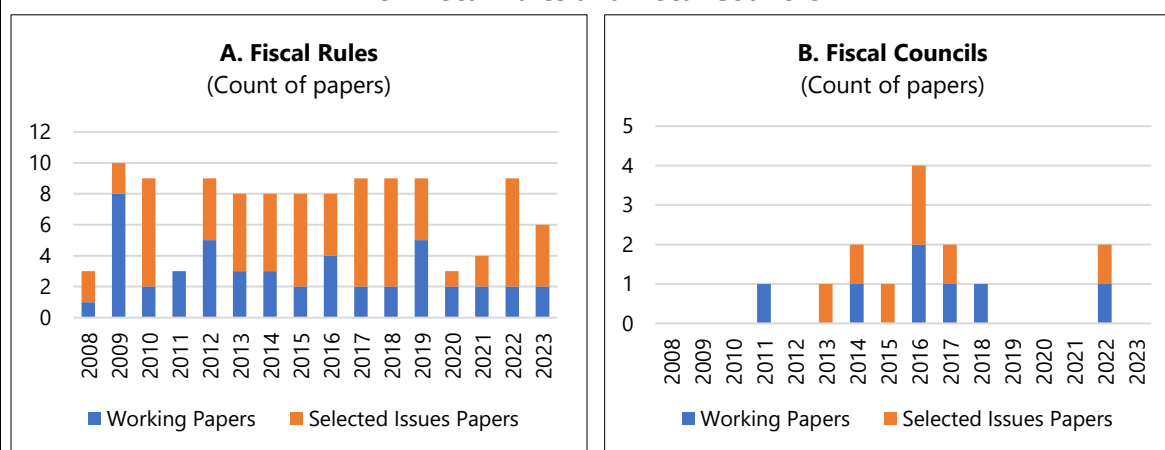
<sup>22</sup> These passages account for the 2014 and 2015 spikes in Figure 4.

<sup>23</sup> Recently, and beyond the period covered by this evaluation, the October 2024 FM provided evidence that countries with fiscal rules have lower debt-at-risk (defined as the 95th quantile of projected debt) and smaller unidentified debt during periods of banking crisis.

<sup>24</sup> Expressing this as a percentage of all working papers in the year shows the same pattern.

<sup>25</sup> The spike in 2009 corresponds to initial publication of the IMF's fiscal rules database.

**Figure 6. IMF Working Papers and Selected Issues Papers on Fiscal Rules and Fiscal Councils**



Source: IEO staff calculations.

21. **The Fund has gone some way in distinguishing the position and response of AEs, EMs and LICs.** A 2009 Board Paper (IMF, 2009) noted that AEs are more likely to have a fiscal council or other independent monitoring agency, while EMs are more likely to have a fiscal responsibility law. It observed that LICs were least likely to adjust the budget balance for the cycle and most likely to exclude investment spending from the fiscal target. It did not, however, provide an explanation or analysis of these differences. Nor did it analyze whether such differences were appropriate to differing national circumstances. In its analysis of compliance with fiscal rules, the spring 2014 *FM* distinguished the compliance of AEs and EMs, without however providing an explanation for observed differences.<sup>26</sup> The fall 2021 *FM*, in its discussion of escape clauses and the reactivation of fiscal rules following COVID-19, did not devote significant attention to differences between AEs and EMDEs. Area departments (e.g., the African Department (AFR) and the Asia and Pacific Department (APD)) have produced papers analyzing fiscal rules in certain regions (Comelli and other, 2023; Flores and others, 2024).

22. **One area where the Fund has paid special attention to the differentiated circumstances of developing countries is in its macroeconomic policy framework for resource rich developing countries (RRDCs) (Baunsgaard and others, 2012; IMF, 2012).** This report, a collaboration between multiple IMF departments and the World Bank, considered advice tendered to 29 developing countries rich in non-renewable natural resources. The report noted that in only about half of RRDCs had the Fund recommended the introduction of a fiscal rule to smooth spending volatility. The Fund's advice on short- to medium-term rules focused mainly on non-resource fiscal balance rules, and less on price-based rules that relate the fiscal balance to resource-price fluctuations. While some 40 percent of the RRDCs considered used a

<sup>26</sup> The Fall 2015 *Fiscal Monitor* distinguished resource-rich countries, providing a separate discussion of the appropriate design of fiscal rules. Although there are both advanced and emerging market/low-income countries under this heading, in practice the question of managing the fiscal implications of natural resource wealth is disproportionately an emerging market/low-income country issue.

resource reference price when budgeting, their practices did not in general extend to the adoption of an explicit fiscal rule (they do not adopt explicit deficit targets). Attention was paid in Fund advice to RRDCs on how to strengthen public financial management, including creating a resource fund or sovereign wealth fund and adopting a medium-term expenditure framework for multi-year budgeting, but there does not appear to have been much if any discussion of the possible creation of fiscal councils in this context.<sup>27</sup> A more recent working paper revised the advice to resource-rich countries calling instead for establishing fiscal buffers and a medium-term anchor, based either on net financial assets as a share of annual commodity revenues, or on outstanding public debt (Eyraud and others, 2023).

23. **A Staff Discussion Note (Eyraud and others, 2018) presented a comprehensive view on the design and effects of fiscal rules.** It presented informal evidence that well-designed rules are effective in constraining excessive deficits. It defined well-designed rules as simple, flexible and enforceable. It found that recent rules moved in the direction of increased flexibility, broader sanctions and stricter oversight, but also greater complexity. It recommended combining a medium-term debt target or anchor with a single operational rule for annual fiscal policy; an expenditure rule, a revenue rule, or a balanced-budget rule—though it did not endorse one of these alternatives as preferable to the others. It recommended provisions allowing for flexibility over the cycle, which led to a preference for expenditure rules (placing a ceiling on expenditure while allowing revenue to fluctuate as a way of providing countercyclical flexibility). Though now more than five years old, this formulation appears to summarize the current internal state of play.<sup>28</sup>

## Bilateral Advice

24. The IMF provides bilateral advice on fiscal rules, procedures and institutions in conjunction with Article IV missions and reports and via TA.

## Surveillance

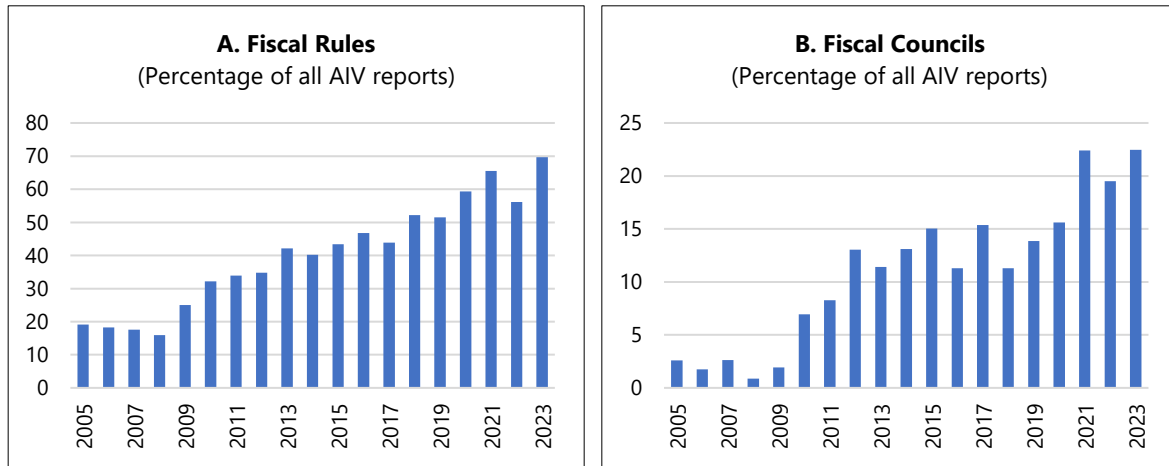
25. **Attention to fiscal rules and councils in Article IV staff reports seems to have increased over time.** One way of gauging IMF engagement is to ask in what share of Article IV reports there is any mention of fiscal rules and councils. Figure 7 shows the relevant percentages. This shows an ongoing if unsteady increase from 2009. Again, references to fiscal councils rise later. Notice also the contrasting scales of the two panels; fewer Article IV reports mention fiscal councils.

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<sup>27</sup> In a small number of the cases considered, the Fund pointed to the possible adoption of a fiscal responsibility law (in the context of which a fiscal council might be created). But the report concluded (p. 43) that “The Fund could also do more to help RRDCs build the necessary institutions, including fiscal responsibility laws.”

<sup>28</sup> To provide more operational guidance on fiscal rules and institutions, FAD prepared two hands-on How-To-Notes, focusing on how to select fiscal rules in AE, EMMIEs, and LICs and rule calibration, respectively (IMF, 2018b; 2018c). Akanbi, Gbohoui, and Lam (2023) provided a tool in calibrating fiscal rules considering natural disaster risks. FAD also produced a How-to-Note on how to develop and implement medium-term fiscal frameworks (IMF, 2024).

**Figure 7. Article IV Reports Containing At Least One Reference to Fiscal Rules and Fiscal Councils**



Source: IEO staff calculations based on FDET data.

26. **Text analysis indicates that the frequency of references to fiscal rules and councils in Article IV reports varies across country group (Figure 8).**<sup>29</sup> In the first part of the period, 2008 to 2013, reference was made most frequently in AE Article IV reports, followed by EM Article IVs, and relatively infrequently in LIC Article IVs. This early period featured the GFC, which centered disproportionately on those same AEs, many of which responded by applying significant fiscal stimulus, followed by efforts at fiscal consolidation. Subsequently, more regular mention is made of fiscal rules in EMs, but attention to fiscal rules in LICs remains infrequent. This imbalance may be influenced by the fact that AEs were early adopters. The Fund turned its attention to the design and operation of fiscal rules in emerging markets as the EMs in question put such rules in place. Similarly, the Fund may devote relatively little attention to fiscal rules in LICs because few LICs have adopted them. Article IV reports appear to devote more attention to how members might strengthen and refine existing rules than to how members lacking such rules might design and implement them, though TA supported adoption of fiscal rules in some cases (see below). Figure 8 also shows that discussion of fiscal councils focused relatively heavily on AEs in the period 2009-11, when the Fund seems to have paid particular attention to the institution in bilateral surveillance. Subsequently, the proportion of Article IV discussion devoted to the arrangement declined, while the focus shifted to EMs.

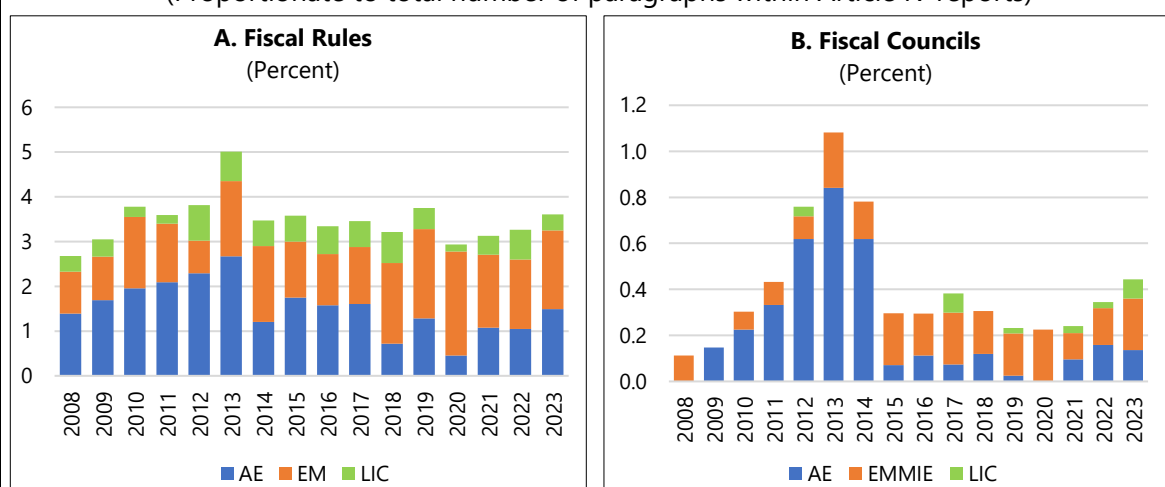
27. **Country cases suggest that treatment of fiscal rules and procedures in Article IVs is uneven (Box 2).** In some cases where rules exist, they are discussed extensively, and detailed recommendations for refinement are provided. In other cases, in contrast, they are not discussed at all. In addition, we took a selection of advanced, emerging and low-income countries that repeatedly breached their national fiscal rules over the period starting in 2015. In some cases,

<sup>29</sup> Figure 7 includes references in Article IV reports but excludes references in Special Issues Papers (SIPs). The number of Special Issues Papers (attached to Article IV reports) that discuss fiscal rules again show a similar temporal pattern.



Staff pointed to violations of their fiscal rules, but in others the existence of rules was not mentioned. The latter was the case of Pakistan and Sri Lanka, for example. Pakistan was in Extended Fund Facility (EFF) programs in 2013–16 and 2019–22, respectively. Staff consultation reports for Pakistan in this period focused on evaluating whether or not the country was meeting its annual targets. Similarly, for Sri Lanka reports focused on budgeted deficits and whether the authorities were able to meet these. In Nigeria, the Staff did not account for the country's fiscal rules in the 2015 to 2020 period analyzed.

**Figure 8. Frequency of References to Fiscal Rules and Fiscal Councils in Article IV Reports by Country Group**  
(Proportionate to total number of paragraphs within Article IV reports)



Source: IEO staff calculations based on SPR data.

Note: The figure shows the percentage of paragraphs referencing fiscal rules or fiscal councils in the total number of paragraphs in all Article IV reports published in a given year. AE = Advanced Economy; EM = Emerging Market; EMMIE = Emerging Market and Middle-Income Country; LIC = Low-Income Country.

28. **The Fund has provided advice also on supranational rules, most notably on the EU fiscal governance.** Advice to the EU was offered as part of the IMF annual consultation with EU institutions as well as through the *FM* and other publications.<sup>30</sup> Most recently, the Fund has expressed its recommendation for the EU fiscal framework in a major inter-departmental project (Box 3). However, Article IV reports on EU member states generally make only very brief mention of EU fiscal rules when assessing members' fiscal plans and performance. Other economic and monetary unions (the Eastern Caribbean Currency Union, the East African Monetary Union, the West African Economic and Monetary Union, and the Central African Economic and Monetary Community) also have fiscal rules in place, either anchors for debts and/or operational rules for revenues or deficits. Mention of these fiscal rules in Article IV reports are uneven. We reviewed 35 available Article IV reports in the period 2015–20, finding that supranational rules are mentioned in 16 of them (46 percent).

<sup>30</sup> See, for example, *FM* November 2010 (Box 3.2), April 2011 (Box 4.1), April 2012 (Box 5), October 2012 (Box 6).

## Box 2. Country Cases in Article IV Reports

**Country cases suggest that treatment of fiscal rules and procedures in Article IVs is uneven.** Consider Bahamas and Vietnam.

- **Bahamas** introduced a fiscal rule and established a fiscal council in 2018. A first mention of this possibility in an Article IV comes in 2017, when staff welcomed “the authorities’ intention of adopting a fiscal rule” and provided a paragraph on basic design concepts.<sup>1</sup> The 2018 Article IV then described appropriate calibration of the rule, recommending a debt ceiling or anchor of 50 percent of GDP, an annual deficit target of ½ percent of GDP and a cap on the growth rate of current expenditure of 3 percent. It noted that legislation was being prepared with Fund technical assistance (IMF, 2018d). Although the legislation adopted differed from these particulars, the 2019 Article IV report, in a box describing the new Fiscal Responsibility Law, noted that the country’s fiscal rules were “consistent with previous staff advice.” There was little discussion of the country’s fiscal council, however.
- **Vietnam** saw rapidly rising government debt around the middle of the last decade. The country maintained a rule limiting public and publicly guaranteed debt to 65 percent of GDP. FAD prepared a detailed analysis of this rule; this analysis recommended lowering the debt limit from 65 percent to 55 percent and supplementing it with an expenditure rule (IMF, 2017). The analysis was presented at a seminar at the Ministry of Finance. Yet there was no reference to this recommendation, and indeed no mention of the country’s fiscal rule, in Article IVs for this or surrounding years.

**The IMF has not been reticent about drawing attention to imperfectly designed fiscal rules.**

- **Germany** 2024 Article IV criticized the country’s debt-brake rule as requiring an “unnecessarily fast pace of debt reduction, especially when debt sustainability risks are low” and “excessive adjustment in years like 2024 when the escape clause is not activated...” It recommended raising the deficit limit to make more room for public investment. That said, the Fund was relatively late to the game: similar recommendations had already been issued by the German Council of Economic Experts and the Deutsche Bundesbank. The Fund did not criticize or otherwise comment on the debt brake in its 2010 and 2011 Germany Article IVs, the first such consultations after the debt brake was adopted.
- **Peru** 2019 Article IV provided analogous advice. This emerging market has had a Fiscal Responsibility and Transparency Law since 2003 and a fiscal council since 2016. Staff suggested that the country’s 1 percent of GDP headline deficit target was constraining infrastructure investment. It recommended a “modest” increase in that deficit target while retaining existing rules limiting the growth of current expenditure, ensuring that the additional space under the revised deficit rule was used for investment.<sup>2</sup> No numbers defining “modest” were provided, however.
- **Brazil** 2023 Article IV staff report is another example. The country has had fiscal rules since 1988 and a fiscal responsibility law since 2000. IMF staff proposed enhancements to the new rule proposed by the authorities to replace an earlier constitutional spending ceiling (passed by the Brazilian National Congress a few months after the Article IV consultation). The report recommended reforming limits on spending to render them consistent with separate targets for the primary budget balance; adding a binding multi-year target path to guide the budget process over a longer horizon with an explicit fiscal anchor; reducing procyclicality by linking spending growth to sustained increases in revenues; computing and publishing separate cyclical and structural components of revenues; introducing an escape clause to be invoked in response to major shocks; and taking steps to strengthen the existing independent fiscal “watch dog,” with adequate resources and independence. This is an ambitious set of reforms to propose to any country. It could be argued that it lacks a sense of prioritization.

Sources: IMF (2017, 2081d); Article IV Reports.

<sup>1</sup> It recommended a ceiling for the deficit, a cap on current expenditure growth, the formulation of medium-term fiscal projections, and an escape clause.

<sup>2</sup> As an alternative, the staff report suggested replacing the headline deficit ceiling with a structural deficit ceiling. In fact, Peru had replaced an earlier structural balance rule with a headline deficit rule in 2016 “against previous IMF advice,” according to the 2017 Article IV report. While cautioning that the new rule could add procyclicality, the 2017 report commended it for transparency and inclusion of appropriate escape clauses. In addition, it is not obvious that these alternative recommendations are in fact alternatives, since enabling more infrastructure investment addresses a secular need, while targeting the structural deficit addresses cyclicity.

### Box 3. IMF Advice on EU Fiscal Rules and Institutions

**IMF advice on EU fiscal rules and institutions does not fall neatly under either multilateral or bilateral headings.** A recent paper (IMF 2022b), a collaboration of the European, Fiscal Affairs, and Strategy, Policy and Review Departments, became the official IMF submission to the European Commission on reform of the Union's fiscal rules. The paper criticized the EU's existing fiscal rules for failing to contain fiscal risks while also failing to stabilize output. But it also affirmed the desirability of retaining the EU's existing 3 percent and 60 percent reference values for the deficits and debts of member states.

**When considering the desirable pace of convergence to these ratios, it put a proposal for a new and independent European Fiscal Council at the center of its advice.** This council, it suggested, should be tasked with developing a common methodology for assessing the debt sustainability of member states, and then with producing recommendations for the speed and ambition of fiscal consolidation based on the fiscal risks indicated by that methodology. This EU-level or EU-wide analysis would be a vehicle for taking into account negative externalities across member states when programming the speed and ambition of consolidation—negative externalities not accounted for in the preexisting framework.

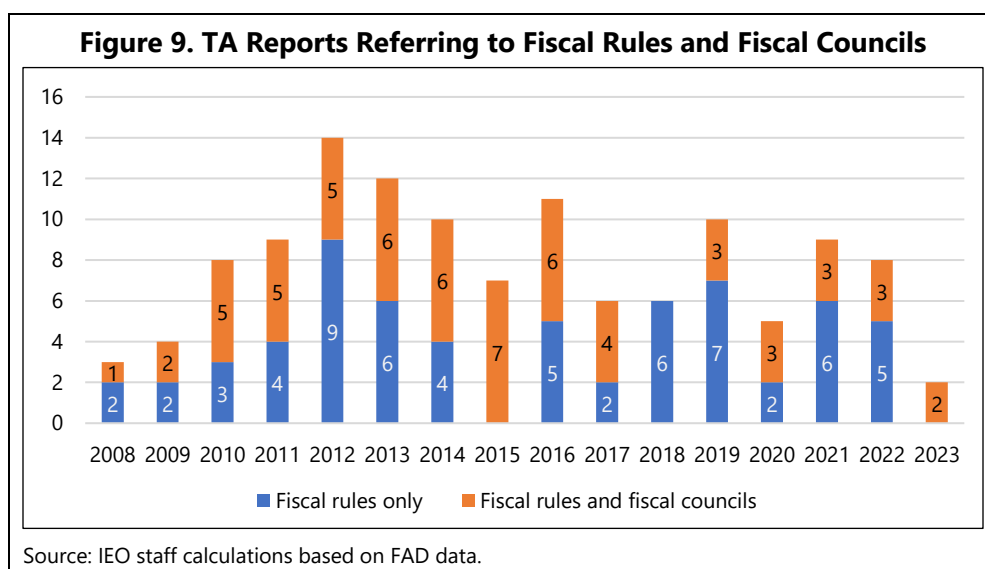
**Building on the advice of this European Fiscal Council, member states would then enact multi-year medium-term fiscal frameworks consistent with convergence to the EU's debt and deficit reference values.** These frameworks would be operationalized by setting an expenditure ceiling at the national level. They would be monitored by strengthened and upgraded independent national fiscal councils tasked with undertaking or endorsing macroeconomic projections and performing their own debt sustainability analyses. The European Commission for its part would continue to conduct surveillance and would now also coordinate a peer network of national fiscal councils.

**The recommendation of the IMF (and others) to supplement the EU's 60 percent and 3 percent debt and deficit anchors with a single operational expenditure rule was then adopted in the most recent revision of the EU's fiscal rules.** The recommendation to create a European Fiscal Council was not acted upon. The EU has, however, established and renewed a more limited European Fiscal Board charged with advising on the prospective fiscal stance appropriate for the euro area as a whole, providing ex post evaluations of the implementation of the EU's fiscal governance framework and Stability and Growth Pact (including on appropriateness of activating and extending its general escape clause), and making suggestions for the future evolution of the fiscal framework.

Source: IMF (2022b).

## Technical Assistance

29. **TA has served as an important instrument for delivering the Fund's bilateral advice on fiscal rules and institutions.** Fund's TA in this area covers a variety of issues, including, for instance, the identification and calibration of the more desirable rule, the legal requirements for the integration of the fiscal rule into the budgeting process, as well as the institutional design and related legal aspects for the creation and functioning of fiscal councils. We are aware of 126 TA reports in the review period that mention fiscal rules. The list was provided by FAD and meant to be exhaustive. Nearly half of these reports also referred to fiscal councils (Figure 9). There is no obvious trend or pattern when these TAs were conducted. For example, as many TAs were completed in the first half of the period (2008–15) as in the second (2016–23).

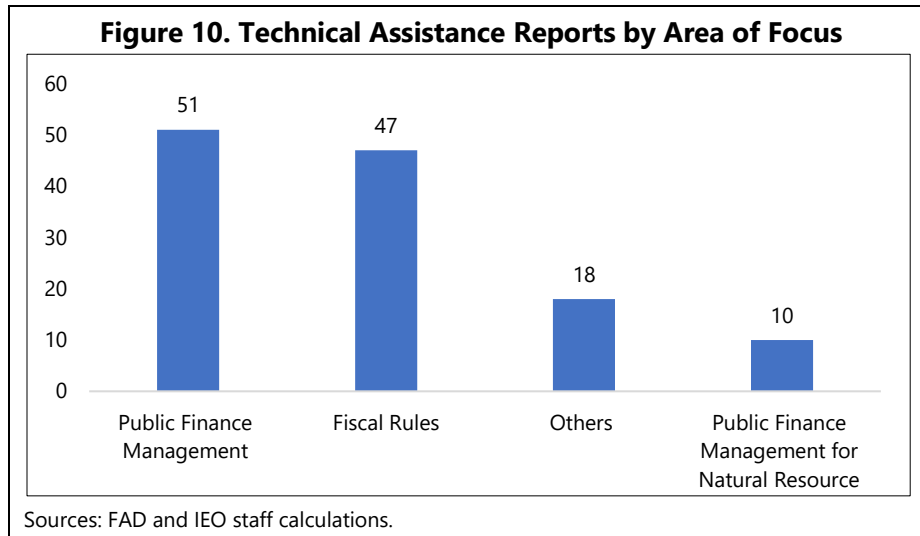


30. **Overall, 68 countries (about one-third of total IMF membership) received TA on these issues over 2008–23.** Some sought TA multiple times, while others received it only once. Peru received TA touching on these issues five times between 2011 and 2014; Serbia received it five times between 2010 and 2017. Another 13 countries received TA 3 to 4 times; 20 countries took TA twice; and the remaining 33 countries received TA only once.

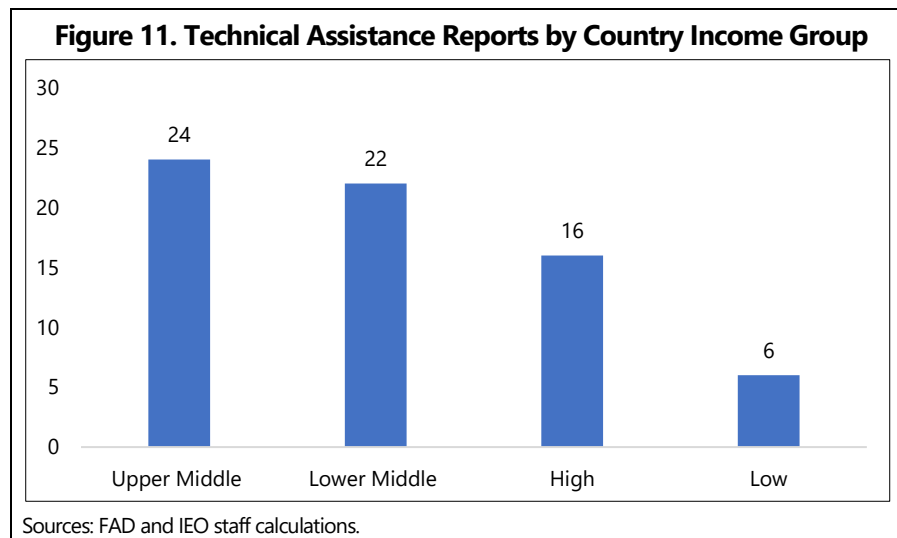
31. **Of these TA reports, about 40 percent are primarily concerned with fiscal rules or fiscal councils.** The rest focus on Public Finance Management (PFM) but include a reference or passing advice regarding fiscal rules and councils. For example, the TA report on India in July 2018 is called “Reinforcing the Budget as a Main Policy Instrument.” It does not provide specific recommendations on fiscal rules or fiscal councils. It only goes as far as advising a top-down budgeting process and recommending setting aggregate expenditure limits in the budget in line with policy priorities, macro-fiscal projections, and medium-term fiscal rules (not specified).

32. **These TA reports can be placed in four categories.** They comprise (i) those concerned with PFM; (ii) those concerned with fiscal rules, some of which also make reference to fiscal councils (there are no separate TA reports on fiscal councils); (iii) those concerned with public finance for natural resource dependent economies; and (iv) those concerned with other issues (examples include “Colombia—A Framework for Analyzing Long-Term Fiscal Projections and Pension Reforms, June 2012;” “Indonesia- Resolving End-of-the-year Cash Pressures, May 2017;” and “Panama- Fiscal Advice on Establishing A Sovereign Wealth Fund, April 2011”). Of 126 TAs, 51 were on PFM, 47 on fiscal rules, 10 on managing public finance for natural resource dependent economies, and 18 on other issues (see Figure 10). There is no obvious time pattern in their relative importance.

33. **Nearly half of TAs were provided in conjunction with an IMF program.** Members must request TA in order for it to be provided. It may be that the existence of a program alerts country officials to the availability of advice, or that IMF staff involved in the problem encourage the request.



34. **Utilization of TA on fiscal rules and fiscal councils by member countries is uneven.** High income countries have received TA on these aspects more often than LICs. Use of TA by LICs has not increased over time. Of countries which have received TA touching on fiscal rules, 16 were high income, 24 upper-middle-income, 22 lower-middle-income, and only 6 low-income (Malawi, Mozambique, Sierra Leone, South Sudan, Tanzania, and Uganda) (Figure 11).<sup>31</sup> The fact that TA reports touching on fiscal rules are less common among LICs parallels what we find for Article IV reports. This may reflect the limited effectiveness of fiscal rules in these economies, where weak PFM capacity or political economy constraints prevail. In such contexts, Article IV consultation discussions and TA are more often directed toward strengthening PFM and developing—or introducing—medium-term fiscal frameworks.



<sup>31</sup> Income groups are as per the World Bank's classification in 2015. In 2015, low income economies are those with a GNI per capita of \$1,045 or less; middle-income economies are those with a GNI per capita of more than \$1,045 but less than \$12,736; high-income economies are those with a GNI per capita of \$12,736 or more; low-middle-income and upper-middle-income economies are separated at a GNI per capita of \$4,125.

(<https://documents1.worldbank.org/curated/en/408581467988942234/pdf/WPS7528.pdf>)

35. **In some cases, TA led to significant improvement and refinement of members' fiscal rules and framework.** Boxes 4 and 5 describe the positive examples of St. Vincent and Grenadines and of Jamaica. More broadly, however, it is difficult to determine how frequently advice provided via TA was implemented by recipient countries. One can compare advice in TAs to the IMF's databases on fiscal rules and fiscal councils (Davoodi and others, 2022c). Based on the timing of the TA and the implementation of fiscal rules and fiscal councils, one can draw plausible causal link in only a few cases. A positive example is Uganda, which was provided TA four times between 2010 and 2019.<sup>32</sup> It first adopted a fiscal rule in 2013. The 2019 TA recommended changes to the existing fiscal rule (specifically, setting an interim debt to GDP target and adding a mechanism to manage oil revenue flows). These recommendations were then added to Uganda's Charter for Fiscal Responsibility starting in fiscal year 2021–22.

#### **Box 4. Technical Assistance on Fiscal Rules: The Case of St. Vincent and Grenadines**

**St. Vincent and Grenadines was the subject of a pair of TA missions in quick succession in 2021 and 2022 which helped to strengthen the existing framework.**<sup>1</sup> The first TA, provided by FAD in April 2021, outlined measures to enhance the execution of the FRF. Recommendations related to technical issues such as coverage and definitions of key terms, strengthening the role of the Medium-Term Economic and Fiscal Outlook (MTEFO) in the budget process by formalizing the budget calendar, and ensuring underlying Public Financial Management systems and procedures were enshrined in legislation. With regard to the escape clause for the fiscal rule, the TA recommended that the Minister be required to submit to the Parliament the confirmation of suspension events, their impacts, and supporting data.

**Economic distress in the aftermath of a volcanic eruption in 2021 led the government to seek a second TA in August 2021 which ended in January 2022.** The TA reported that some progress had been achieved and provided additional recommendations on improving budgetary processes. These recommendations were taken on board by the authorities. It provided further recommendations on improving recurrent and capital budgeting processes, enhancing the role of the MTEFO, and clearly establishing the role of the FRM in transparent, timely, and comprehensive review of compliance with fiscal targets. It also suggested revising the debt target to align with the Eastern Caribbean Central Bank guideline of 60 percent debt/GDP ratio by 2035.

**Following this, the government released its first FRM Report in November 2022, incorporating the recommendation of the 2022 TA on debt rule.** In line with FAD's suggestion of increasing the role of the Cabinet in enforcing fiscal constraints, the report mandated a charter for budget management where all extra-budgetary funding requests involving resource implications would require the legal approval of the Budget Review Sub-Committee of the Cabinet. The report reiterated certain earlier recommendations such as enforcing a formal budget calendar (FRM Report, 2022).

**The 2024 IMF staff Article IV report praised the authorities' continued commitment to reaching the debt target and the medium-term fiscal strategy set out in 2021.** It acknowledged the country's efforts to build more efficient and equitable expenditure frameworks, to enhance revenue administration, and strengthen fiscal institutions while maintaining further improvements in the FRF are required to stabilize the path to multi-year fiscal discipline.

Sources: IMF TA reports.

<sup>1</sup> These were entitled, respectively, "Operationalizing the Fiscal Responsibility Framework." and "Reviewing the Fiscal Responsibility Framework."

<sup>32</sup> These included "Towards an Integrated Legal Framework for Public Financial Management, December 2010;" "Developing the Charter for Fiscal Responsibility, April 2015;" "Fiscal Management of Oil Resources, January 2019;" "Advancing the Fiscal and Legal Framework for Petroleum Revenue Management, October 2019."

### Box 5. Technical Assistance on Fiscal Rules: The Case of Jamaica

**A case study of IMF assistance in the design of fiscal rules that turned out positively is Jamaica in 2010–14.** This case also illustrates the evolution of IMF advice in this area.

**In 2010 Jamaica adopted a Fiscal Responsibility Framework (FRF) as amendments to existing laws governing public financial management.** This required the Minister of Finance to take measures to reduce, by the end of fiscal year 2016: the fiscal balance to zero, the debt/GDP ratio to 100 percent; and public sector wages as a share of GDP to 9 percent. The framework was tightened in 2014 to require the Minister, by the end of 2018, to specify a multiyear fiscal trajectory bringing the debt/GDP ratio down to no more than 60 percent by fiscal year 2026. These numerical rules came with an escape clause to be activated in response to natural disaster, other emergency or severe economic downturn, after verification by the Auditor General.

**In May 2010, after a first set of draft amendments had been passed by the Jamaican parliament, FAD provided TA describing measures to strengthen the FRF (IMF, 2010).** This document staked out a cautious position on the desirability of numerical rules, noting that these might encourage procyclicality, incentivize low-quality measures, distract from more important reforms, and incentivize creative accounting. It emphasized more generally that their advisability depended on country circumstances. It recommended clarifying definitions, strengthening the independence and capacity of the Auditor General, publishing more comprehensive budgetary information, specifying the contents of the Fiscal Policy Paper providing macroeconomic and fiscal projections, tightening the escape clause, and introducing sanctions for non-compliance.

**A 2013 TA report (IMF, 2013a) by FAD then took a more positive position on rules, describing design options and providing detailed recommendations for reforms to strengthen their implementation.** It noted the absence from the FRF of clear operational guidance for formulating a medium-term framework, omission of contingent liabilities and off-budget activities, potential for abuse of the escape clause, weaknesses in budget practices such as optimistic revenue forecasts and expenditure overshoots, and recommended further legislative and procedural reforms to correct these defects. After comparing debt, overall balance, expenditure and revenue rules, it recommended a debt rule together with an overall balance rule to anchor fiscal sustainability and provide operational guidance, respectively. It also advocated the establishment of an independent fiscal commission as a medium-term objective. A 2014 TA report (IMF, 2014b) by FAD built on this earlier 2013 document, echoing its recommendations. Following the mission in January 2014, the Government issued a draft act to align the country's legislation with the recommended framework, including only some relatively minor deviations from the IMF's recommendations (pp. 6–7).

**The resulting fiscal rules have been pointed to as an example of high-quality design and effective outcomes for other countries to follow (Arslanalp, Eichengreen and Henry, 2024).** Moreover, the Independent Fiscal Commission Act was enacted in 2021 and the commission became operational in January 2025.

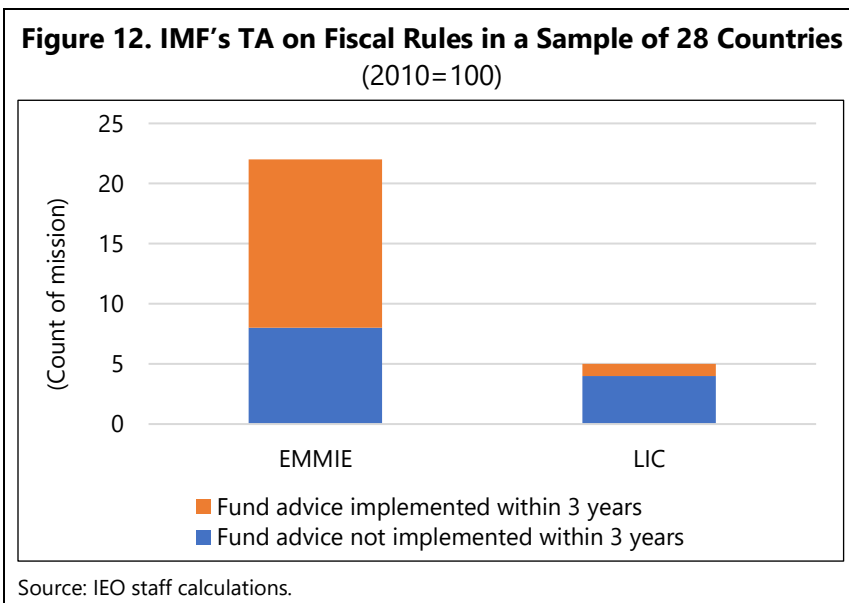
Sources: IMF (2013a); Arslanalp, Eichengreen and Henry (2024).

36. **In other countries, TA did not lead to adoption of a fiscal rule.** An example is Sierra Leone, which received four TA reports in 2012–14.<sup>33, 34</sup> Sierra Leone adopted a Public Financial Management Act in 2016 and central government targets for revenue, expenditure, debt and deficits in subsequent years, but these were not embedded in statute or law. Hence, they are not regarded as formal fiscal rules, for instance by the IMF's Fiscal Rule Database, for example.

<sup>33</sup> These included "Public Financial Management- Reform Priorities in the New Fiscal Environment, March 2012," "Determination and Implementation of a Fiscal Rule, December 2012," "Improving the Legal Framework for Fiscal Responsibility and Public Financial Management, June 2013," "Drafting the Public Financial Management Legal Framework, July 2014."

<sup>34</sup> Sierra Leone passed the PFM Act in 2016, and in subsequent years they started setting specific fiscal targets for revenue, expenditure, debt and deficit that the Central Government was expected to meet. <https://mof.gov.sl/wp-content/uploads/2023/10/FISCAL-STRATEGY-STATEMENT-FSS.pdf>.

37. **In a sample of 27 countries where the Fund provided TA on fiscal rules, nearly 60 percent implemented the advice within three years.**<sup>35</sup> To evaluate the impact of the IMF-provided TA, we analyzed a sample of 27 TA reports published between 2008 and 2023. To identify the reports in which the Fund provided advice on fiscal rules, we first selected a sample based on their title, and then we verified their content. The 27 reports comprised 22 TA missions to EMMIEs and 5 to LICs. We then analyzed whether the recipient country adopted or modified fiscal rules broadly in line with the recommendations formulated in the TA report within three years of its publication. The information regarding the adoption or amendment of fiscal rules was sourced from the IMF's Fiscal Rules Dataset and Article IV reports. The results of the analysis are summarized in Figure 12. Overall, 15 (56 percent) of the analyzed TA missions were followed by either implementation or amendment of fiscal rules. Among EMMIEs, in 14 cases (64 percent) Fund advice was adopted within the 3-year period, whereas for LICs, only 1 mission (20 percent) led to either an implementation or amendment of fiscal rules within three years. In addition, the analysis indicates that some countries implemented the Fund's TA advice with delays, which is not captured in Figure 12. Poland, which was visited by the IMF's TA mission in 2008, implemented the Expenditure Rule in 2012. Guyana, which received TA advice on fiscal rules in 2018, implemented it in 2023.



38. **In a number of cases, TA was provided only subsequent to adoption of a fiscal rule.** An example is India, where the FR was adopted in 2003. Despite repeated violations of the rule, no TA was requested until 2018. This TA report entitled "Reinforcing the Budget as a Main Policy Instrument, July 2018" focused on budgeting processes, with scant attention to fiscal rules. There was no recommendation on how to improve compliance with rules.<sup>36</sup> Another example is Chile, where TA

<sup>35</sup> From the 47 TA reports focusing on fiscal rules, 27 distinct countries were identified. The number of countries is smaller than the total reports because, in some cases, multiple reports pertain to the same country.

<sup>36</sup> Detailed advice was provided only much later in the Article IV report for 2023.



was provided in 2021 ("Fiscal Transparency Evaluation, October 2021") whereas the country's fiscal rules and fiscal council had been established much earlier (in 2001 and 2014, respectively). This suggests that TA sometimes helps to refine the operation of fiscal rules and fiscal councils where they exist, rather than to support their establishment in countries where they are absent.

39. **When examining the timing of TA and implementation of recommendations, we found that the IMF's Fiscal Rules database had somewhat patchy coverage of smaller and/or poorer countries.** At least a few such countries, such as Albania and Ghana, other documentation indicated that there were fiscal rules in place, but these are not listed in the database. Their rules may have been overlooked. Alternatively, it may be that the dataset includes only countries with formal, codified rules that meet specific criteria set by the IMF, and that rules in countries such as Albania and Ghana are not regarded as rising to this level.

#### IV. ASSESSMENT

40. **The IMF has played a prominent important role in the development of literatures on fiscal rules and councils.** Its advice on fiscal rules, institutions and procedures has evolved, mirroring developments in the scholarly literature. Whereas early analytical work at the Fund (Kopits and Symansky, 1998) focused on "a permanent constraint on fiscal policy through simple numerical limits on budgetary aggregates," subsequent advice emphasized the need to balance simplicity, flexibility and enforceability. Recent advice (Caselli and others, 2018; Davoodi and others, 2022c) has highlighted the importance of adjusting budgetary aggregates for the cycle, or else supplementing well-defined debt rules ("fiscal anchors") with a single operational rule focusing on the expenditure side of the budget, thereby introducing a degree of countercyclical flexibility. This emphasis on flexibility mirrors conclusions in the scholarly literature, while the Fund's focus on expenditure rules has played a role on how such flexibility has been enhanced in practice (such as in the case of Europe). Further, the Fund has increasingly emphasized the advantages of supplementing fiscal rules with independent fiscal councils.

41. **By implication, the Fund in its recent advice has done a good job of acknowledging potential costs (in terms of rigidity, complexity, procyclicality, negative investment impacts, creative accounting) as well as potential benefits (in terms of fiscal discipline).** It has described characteristics of well-designed rules that may increase the benefit/cost ratio, labelling rules with these features "second-generation fiscal rules" (Caselli and others, 2018). It has similarly identified the characteristics of fiscal councils most strongly associated with adherence to rules and accuracy of forecasts (Beetsma and others, 2019). In terms of enforceability, the Fund's recent advice has emphasized the need for a strong legal framework in the form of a financial responsibility law, and the role of institutions such as fiscal councils in enhancing budgetary transparency and raising costs of noncompliance. IMF advice has thus kept pace with the scholarly literature.

42. **The Fund has assembled useful databases on fiscal rules and fiscal councils.** These resources have played an important role in enabling in-house and independent analyses of the impact of these institutions. However, these databases have not been updated since 2021.<sup>37</sup> Both the IMF's own analytics and members' learning from peers would be enhanced by up-to-date data and more comprehensive information on institutional aspects of fiscal management. It would be important to check for gaps in coverage, specifically of relatively small and/or poor countries, and to clarify the precise criteria used to categorize countries as possessing or lacking fiscal rules and councils. Annual updating should be routine; doing so would be straightforward with the cooperation of Area Departments. Below we recommend that attention to fiscal rules and fiscal institutions should be an obligatory component of Article IV missions. This would make addition of up-to-date information to the database even more straightforward.

43. **The IMF has engaged with member countries extensively in the area of fiscal rules, as part of both its surveillance and TA activities.** TA on fiscal rules and procedures is extended much less frequently to LICs than EMEs, however. It may be that officials in LICs, who request such assistance, are of the view that fiscal rules are difficult to enforce and that independent fiscal councils are difficult to staff in their setting. Another factor may be that donor funding for TA to LICs is not targeted at this question. It is important to ask whether this imbalance should be rectified.

44. **In some countries, TA has led to the adoption of new fiscal rules and improvements in the design of existing fiscal rules and frameworks.** In other cases, however, even repeated TA did not lead to adoption of fiscal rules. In a number of countries, TA was provided only subsequent to adoption of a fiscal rule. In fact, it appears that TA in some cases tends to be oriented toward refining the operation of fiscal rules and fiscal councils where they exist, rather than establishing them where they do not.

45. **Fiscal rules and procedures are covered frequently in Article IV reports, but coverage is uneven.** The IMF has shifted over time from a relatively heavy focus on fiscal rules in AEs in its Article IV reports to a heavier focus on EMs. Fiscal rules continue to receive relatively little attention in Article IVs for LICs. A significant number of Article IV reports for LICs make no mention of fiscal rules and procedures. It could be that staff is of the view that fiscal rules are only effective where there exists a political commitment to enforce them and that such commitment is absent in LICs. Or their view could be that fiscal councils are difficult to staff and operate in LICs (smaller LICs in particular), where an adequate supply of independent experts is lacking.<sup>38</sup> Or it could simply be that there is a tendency for staff to pay more attention to the design and impact of fiscal rules and councils where these are already in place.

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<sup>37</sup> An update is now ongoing and should be available by end-2025.

<sup>38</sup> The IMF's own Staff Guidance Note on engagement with small developing states (IMF, 2024a) suggests that inadequate capacity is not uniformly a problem in small economies, writing that small developing countries "can also further strengthen the credibility and transparency of their fiscal frameworks by setting up fiscal councils—where capacity allows—and encouraging independent analysis and forecasts."

## Possible Ways Forward

46. **To enhance the relevance and impact of advice on fiscal rules and institution, the Fund could consider the following suggestions:**

47. **Where TA on fiscal rules and institutions has been provided, its recommendations could be routinely incorporated into Article IV reviews.** More generally, the IMF could do more to prepare the ground for the adoption of appropriate fiscal rules, institutions and procedures. Building on the conclusions of TA reports in Article IV consultations is one way of going about this. This approach aligns with the conclusions from the 2024 review of the Fund's Capacity Development (CD) strategy, which stressed the importance of further deepening CD integration with the Fund's surveillance and lending activities (IMF, 2024c).

48. **Consideration of fiscal rules, institutions and procedures (their current state and desirable reforms, if any) could be flagged as an obligatory element of every Article IV report, just as the aggregate fiscal accounts (the debt and deficit as a share of GDP) are an obligatory element of every report.** Staff may conclude that numerical fiscal rules and independent fiscal institutions are inappropriate to country circumstances.<sup>39</sup> Where it would be appropriate to establish fiscal rules and procedures, staff may signal their macro-criticality but defer deeper coverage, e.g., if more time is needed to reconcile pre- and post-COVID era fiscal rules or to improve understanding and conduct empirical studies on how to take into account country-specific context, i.e., political economy, development needs, multiple shocks. But making the question a standard component of Article IV reviews would have the salutary effect of directing the attention of country economists and Article IV missions to the state of rules and institution, which have not always been top of mind. There are many competing calls on staff resources, but the time and effort involved would be limited. The observation that such rules and institutions sometimes remain unchanged for extended periods does not weaken the case. The alternative of delegating the monitoring and updating of fiscal rules and institutions to a dedicated unit in FAD is less appealing. This would have the effect of walling off attention to these issues and encouraging country economists and Article IV teams to assume that they are some else's responsibility. Where fiscal rules and procedures are in place, staff should routinely discuss compliance and violations and analyze how such rules and procedures affected fiscal planning and outcomes.

49. **Staff should make further efforts to tailor advice on fiscal rules and institutions to country circumstances.** A positive example of this is the Fund's proposed framework for fiscal rules in resource rich economies. But resources riches are not the only dimension along which country circumstances differ. More thought could be given to other country characteristics whose presence or absence warrants an adjustment in the content of recommendations.

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<sup>39</sup> For example, LICs and fragile and conflict affected states often do not have the fiscal institutions nor data required for effective fiscal rules.

50. **Specifically, staff could do more to articulate appropriate differences in fiscal rules, fiscal councils and related arrangements between countries with high and low institutional capacities.** This is important since the effectiveness of fiscal rules and procedures depends on the broader institutional context. Should countries with relatively low institutional capacity adopt no rules, or relatively simple rules? Should they start with fiscal rules and only subsequently, as their institutional capacity develops, add fiscal councils? At what point is institutional capacity sufficient to proceed from simple to more complex fiscal rules? At what point is it appropriate to supplement the fiscal rule with a fiscal council? These operational specifics, needed to provide concrete guidance to IMF country desks and Article IV missions, have not been addressed in the IMF's analytical reports and flagship reports.

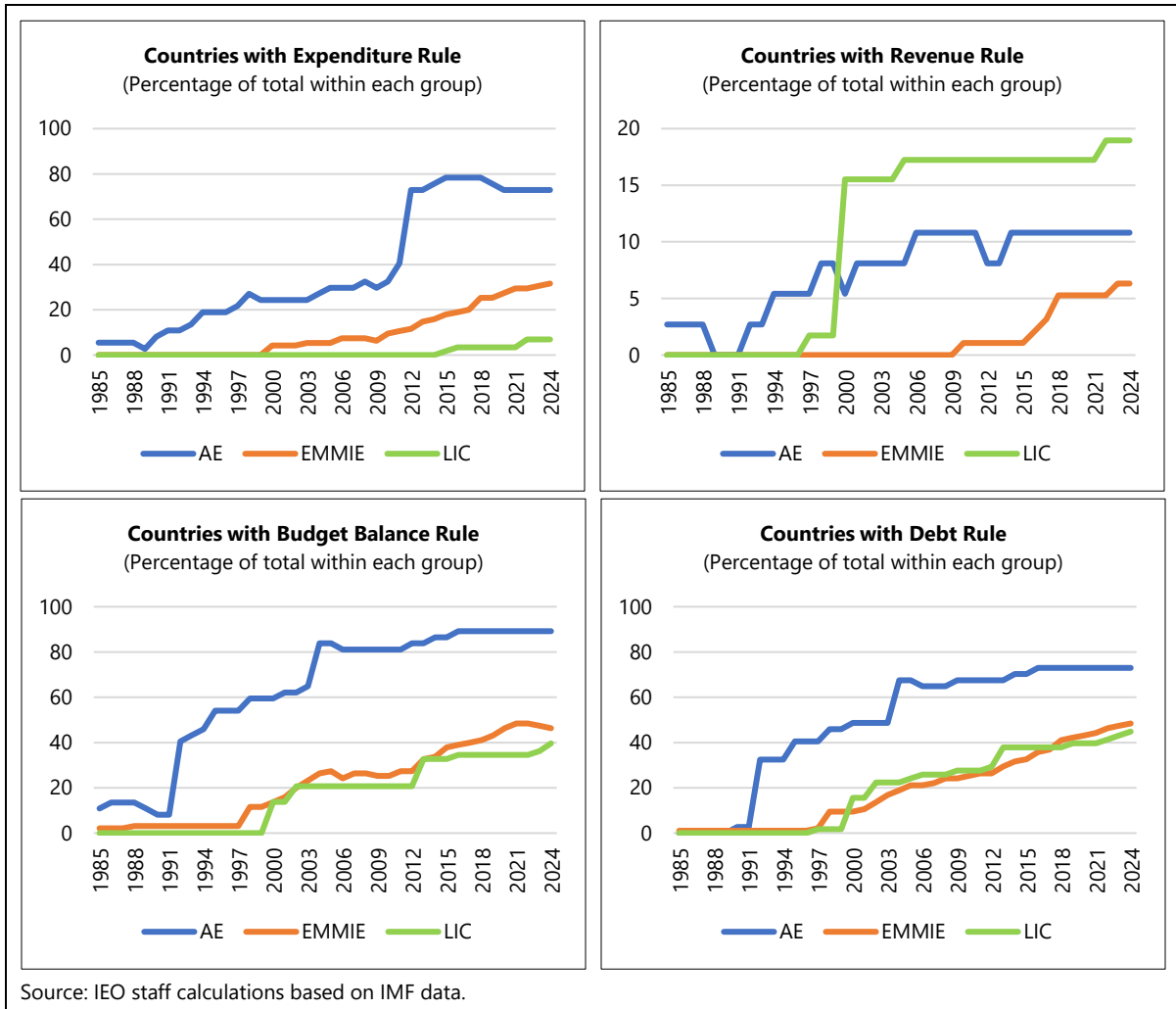
51. **A thorough analysis of compliance with different kinds of fiscal rules in countries with different institutional capacities and different per capita incomes would be key to providing more tailored guidance to countries.** The OECD has done work on compliance with rules in AEs; the IADB has analyzed compliance in 14 Latin American countries. We are not aware of a comprehensive analysis of compliance and its correlates for IMF members.<sup>40</sup> An analysis of compliance with rules could usefully distinguish the economic circumstances under which rules are adhered to versus being violated (in good versus bad times, for example). It could pay attention to the specificities of fragile countries, if relevant. It could distinguish compliance (whether a specified numerical rule is strictly met) from effectiveness, that is, whether the existence of a rule encourages convergence toward that numerical target even if it is not strictly met (as in Caselli and others, 2018). It could undertake these analyses separately for expenditure rules, revenue rules, balanced budget rules and debt rules. It could ask whether fiscal rules are macro-critical. Can one attribute major fiscal problems to their absence, inadequacy or failure?

52. **It would be beneficial for the Fund to undertake a comprehensive examination of the benefits of fiscal councils across diverse country contexts.** We are not aware of systematic analysis of the impact of fiscal councils on budgetary outcomes and forecast accuracy in different country settings (in small versus large countries, in countries with higher and lower institutional capacity, in countries subject to different levels of macroeconomic volatility etc.). Such an analysis would be important for informing staff recommendations regarding the establishment and design of such arrangements in the context of both TA and Article IV reports.

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<sup>40</sup> The closest approximation is Caselli and Reynaud (2019), who examine the impact of fiscal rules on fiscal balances using a version of the IMF Fiscal Rules Dataset through 2015 (finding no causal effect). This study does not however consider variations across countries with different structural characteristics.

## APPENDIX I. SHARES OF COUNTRIES WITH SPECIFIC FISCAL RULES



**APPENDIX II. LIST OF KEYWORDS USED IN TEXT ANALYSIS**

**Figures 5 and 7 – Panel A:** Fiscal rule, fiscal rules, fiscal responsibility law, fiscal target, fiscal targets, fiscal indicator, fiscal indicators, fiscal stabilizer, fiscal stabilizers, revenue rule, revenue rules, budget balance rule, budget balance rules, expenditure rule, expenditure rules, debt rule, debt rules, national rule *and* fiscal, national rules *and* fiscal, supranational rule *and* fiscal, supranational rules *and* fiscal.

**Figures 5 and 7 – Panel B:** Fiscal council, fiscal councils, independent fiscal institution, independent fiscal institutions.

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