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Fiscal governance in the Western Balkans:

An analysis of fiscal rules, fiscal councils, and medium-term budgetary frameworks

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Abstract

This paper presents a detailed analysis of fiscal frameworks across the six Western Balkan economies utilizing a newly compiled dataset based on the European Commission's Fiscal Governance Database. The analysis reveals that although all six Western Balkan countries have implemented some form of fiscal rule, these rules are generally less robust than those in EU member states in Central, Eastern, and Southeastern Europe. Independent fiscal councils are operational only in Serbia and North Macedonia, as well as in one entity in Bosnia and Herzegovina, while other Western Balkan economies are still in the process of planning or implementing similar bodies. Across the region, medium-term budgetary frameworks are largely indicative in nature. Statistical and econometric analysis indicates that fiscal rules and councils in the Western Balkans may have had positive effects on reducing deficits and maintaining sustainable public debt dynamics, but only sporadically and to a limited degree. The political-economy challenges facing economies in the region may be inhibiting the adoption of fiscal rules and impairing the operation of fiscal councils. An evaluation of recent changes to EU fiscal rules and their implications for the Western Balkans highlights the need to improve the technical and analytical capabilities of fiscal institutions, as the new rules could negatively affect public investment in the region unless spending can be prioritized effectively and supported by improvements in domestic revenue mobilization.

Keywords: fiscal governance, fiscal rules, fiscal councils, MTBF, Western Balkans

JEL classification: E62, H3, H6

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1. Introduction

Around the world, fiscal rules have become an increasingly common policy tool to address political-economy challenges, reinforce debt sustainability, and mitigate the volatility and procyclicality of discretionary fiscal policy. The adoption of fiscal councils and rules has accelerated in recent decades (Davoodi et al. 2022, 2). The European Union (EU) has recently reformed its fiscal governance system, and in 2024 it introduced changes designed to enhance fiscal flexibility and sustainability by simplifying rules, increasing transparency, and improving enforcement mechanisms. These reforms emphasize stronger national ownership of medium-term fiscal plans, promote risk-based surveillance, and focus on reforms and investments to support the green and digital transitions (European Commission, 2024).

The six Western Balkan economies (WB6) are striving to improve their fiscal governance in line with the EU accession criteria. As part of the accession process, the WB6 economies must establish independent fiscal institutions, adopt national fiscal rules consistent with EU standards, and implement medium-term budgetary frameworks (MTBFs). These and other requirements are stipulated in Chapter 17 of the EU Acquis.

This report examines the fiscal frameworks of the WB6, including the fiscal rules, fiscal councils, and MTBFs in place across the region, drawing upon a comprehensive dataset assembled for this analysis. Following the format of the DG-ECFIN fiscal governance database,[1] the dataset covers fiscal rules, independent fiscal institutions, and MTBF as of 2022. Comparing fiscal frameworks in the WB6 with those in the EU countries of Central, East and Southeast Europe is used to benchmark progress, while an analysis of changes in fiscal outcomes over time reveals the impact of fiscal rules, fiscal councils, and MTBFs within the WB6. Evaluating trends in public expenditures, revenues, deficits, and debts, as well as unemployment, poverty, inequality, and social and education spending yields insights into how WB6 economies can maximize the positive impact of their evolving fiscal frameworks. Finally, the report outlines the main points of the EU's recently adopted fiscal governance reforms and considers how these changes may affect the WB6.

The paper is organized as follows. Section 2 provides an overview of the literature on fiscal rules, councils, and frameworks, both generally and in developing countries such as the WB6. Section 3 offers an overview of the current state of fiscal governance in the Western Balkans, and Section 4 presents the methodology used for assessing the fiscal governance frameworks in the region. Section 5 discusses the results of the analysis and compares the quality of fiscal governance in the WB6 and to that of EU countries in Central, Eastern, and Southeastern Europe. Section 7 evaluates the effects of fiscal rules and councils on fiscal and macroeconomic outcomes in the Western Balkans. Section 8 examines the EU's new fiscal governance system, and Section 9 discusses how to strengthen fiscal governance frameworks in the WB6. Section 10 presents conclusions and policy recommendations.

[1] Available at: https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database_en

2. The International Literature on Fiscal Rules and Councils

Fiscal rules and councils have become an essential part of fiscal governance in a growing number of countries. Creating ex ante rules and independent institutions to guide fiscal policy offers several advantages. For example, historical evidence suggests that some governments have had short planning horizons, which encourages them to take on more debt (Blanchard, Leandro, and Zettelmeyer 2021, 198). In other cases, discretionary fiscal policy tends to amplify, rather than mitigate, cyclical fluctuations in economic output (Larch, Orseau, and van der Wielen 2021, 1). Moreover, policymakers who face near-term spending pressures may struggle to build adequate fiscal buffers to guard against unpredictable macroeconomic shocks. Fiscal rules and councils can help ensure that excess resources generated during economic expansions are available to finance larger deficits during subsequent recessions (Blanchard, Leandro, and Zettelmeyer 2021, 206).

Fiscal policy tends to be more volatile among emerging markets and developing economies (EMDEs) and commodity exporters than among advanced economies and non-commodity exporters. Several studies have argued that fiscal volatility over the last 30 years can explain 8 percent of the income gap between EMDEs and advanced economies. By mitigating volatility, fiscal rules and councils can reduce its negative impact on growth (Marioli, Fatás, and Vasishtha 2023, 3).

The design features of individual fiscal rules and the sets of rules adopted by policymakers have evolved over time, but countercyclical stabilization and long-term sustainability remain their core objectives (Marioli, Fatás, and Vasishtha 2023, 1). Modern fiscal rules often combine a debt rule with operational limits on expenditures and/or the budget balance (Davoodi et al. 2022, 25). The following table broadly summarizes the analytical, practical, and debt-related characteristics of some of the most common fiscal rules.

Fiscal rules are often designed to limit official discretion over fiscal policy and mitigate or reverse its tendency toward procyclicality. A recent empirical study found evidence that compliance with fiscal rules was associated with countercyclical fiscal policy, while deviating from fiscal rules was linked to procyclicality and the accumulation of debt (Larch, Orseau, and van der Wielen 2021, 1–29). However, fiscal rules based on nominal aggregates that fail to account for the economic cycle may prove excessively binding during crises. Blanco et al. (2020, 113) found empirical evidence that an expenditure rule can reduce the procyclicality of spending by up to 40 percent. Despite the effectiveness of expenditure rules, the number of countries with a cyclical-adjustment component to their fiscal rules has declined over time (Davoodi et al. 2022, 25).

Figure 1 / Design Features of the Most Common Fiscal Rules

Aspect	Budget balance rules	Structural balance rules	Debt rules	Expenditure rules	Revenue rules
Analytical aspects					
Effect on fiscal sustainability	Strong	Weak	Strong	Medium	Weak
Effect on output stabilization	Negative	Positive	Depending on the actual debt level	Positive, if includes an escape clause	Negative
Welfare and social insurance impacts	Negative	Positive	Negative	Positive	Negative
Type of shocks in which rule is more effective	Highly persistent and asymmetric	Transitory and symmetric	Highly persistent and asymmetric	Transitory and symmetric	Transitory and symmetric
Practical aspect					
Technical and institutional requirements	Low	High	Low	Low	Low
Simplicity and transparency, monitoring and communication	Easy	Difficult	Easy	Easy	Easy
Initial debt conditions					
High debt levels	Suitable	Less suitable	Suitable	Neutral or less suitable (on its own)	Less suitable

Source: Blanco et al. 2020, 36.

To ensure sufficient levels of investment, the so-called "golden rule" can complement other fiscal rules. The golden rule states that long-term borrowing should finance only investment projects, not current expenditures (Andrew Davies et al. 2023, 21). Capital spending should be incorporated in the design of fiscal rules to ensure that public investment is acyclical. The negative effects of fiscal rules on investment could be further mitigated by improving the effectiveness and quality of investment (Schwartz et al. 2020, 106–11). Moreover, sufficient levels of investment spending are necessary to attenuate the long-term volatility caused by climate change. Sustainability-oriented fiscal rules should support greater investment in climate and disaster resilience and also ensure that adequate resources are available to counter the effects of climate-related shocks, including diminished revenue collection from affected firms and households (Caselli et al. 2022, 18). While adhering to the golden rule is consistent with inter-generational equity and long-run fiscal sustainability, it may require running relatively high deficits, which can pose a challenge in the medium term. Policymakers must also prioritize investments effectively and resist pressure to reclassify current expenditures as capital spending (Darvas and Anderson 2020, 36–37). Portes and Wren-Lewis (2015, 83) propose establishing dedicated targets for public investment to protect it from fluctuations in the available fiscal space.

Expenditure rules and fiscal-effort rules can also help protect investment. Expenditure rules anchor capital expenditures to medium-term fiscal objectives, although recurrent spending is often harder to cut than investment spending. Fiscal-effort rules rely on a cyclically adjusted (structural) balance to set flexible expenditure ceilings, which help protect investment spending (Schwartz et al. 2020, 113–14). Expenditure rules tend to perform best in terms of reducing macroeconomic volatility, making them the most welfare-enhancing fiscal rules (Wright, Grenade, and Scott-Joseph 2017, 1). Expenditure rules also have at least four distinct advantages over structural-balance rules: (i) public expenditures are observable in real time and can be controlled directly; (ii) medium-term potential growth estimates are subject to less certainty, and anchoring expenditure ceilings to debt-reduction target reduces their reliance on such estimates; (iii) cyclical stabilization is embedded in the design of expenditure rules; and (iv) expenditure rules mitigate the procyclicality of the fiscal framework (Darvas and Anderson 2020, 36).

Flexibility concerns have led to the wide use of conditional escape clauses and new design ideas. During the pandemic, escape clauses in fiscal rules provided the flexibility to increase emergency health and stimulus spending, but they also weakened the effectiveness of fiscal rules, leading to increased deficits and persistently high debt levels (Davoodi et al. 2022, 2). To minimize the use of escape clauses, fiscal rules themselves must be better able to adjust to unpredictable macroeconomic circumstances. For example, members of monetary unions or countries with fixed exchange rates may include stabilization terms in their fiscal rules—e.g., adjusting the deficit target to reflect domestic inflation relative to the monetary union’s average inflation level (Portes and Wren-Lewis 2015, 83).

Modern fiscal governance increasingly goes beyond single rigid rules to encompass broader medium-term fiscal plans and/or fiscal standards. After the pandemic and subsequent cost-of-living shock, inflexible fiscal rules are widely regarded as unsuited to address long-term challenges, while medium-term fiscal plans underpinned both by rules and institutions are considered a better option to prepare for future crises (Caselli et al. 2022, 20). An effective medium-term fiscal strategy must balance flexibility and credibility, and stochastic debt sustainability analysis can be used to define an excessive deficit without the use of a numerical fiscal rule. In the WB6 economies, however, such strategies are rarely well designed, reliably enforced, or anchored in debt sustainability, and their large investment needs prevent them from running large surpluses during expansions (Kóczán 2016, 482). A more tailored approach could be achieved by replacing fiscal rules with fiscal standards, i.e., general objectives, coupled with predefined criteria and a clear process for determining whether these objectives have been met (Blanchard, Leandro, and Zettelmeyer 2021). The assessment should be conducted by an independent fiscal council, and disputes between involved government entities should be resolved by the judiciary. Accountability and transparency are necessary but not sufficient to ensure effective fiscal standards, and qualitative assessments of those standards must incorporate a wider range of information than would a quantitative fiscal rule (Blanchard, Leandro, and Zettelmeyer 2021, 195–223).

Recent literature on fiscal policy in small states could inform a new fiscal governance framework for the WB6. All WB6 economies except Serbia can be considered small states, because their population is below the global median of 4.1 million (Blanco et al. 2020). Small states tend to have more volatile, asymmetric business cycles and greater exposure to terms-of-trade downswings, natural disasters, and other economic shocks. Their fiscal revenues are typically more volatile, and their fiscal policy is generally more procyclical. Small states also tend to have greater trade openness, less economic diversification, less access to international capital markets, and less flexible exchange-rate regimes. Terms-of-trade shocks are aggravated by fixed exchange-rate regimes, high levels of trade openness, and more concentrated production structures, and fiscal rules for small states should consider these factors. Moreover, the implementation and monitoring requirements of structural-balance rules may exceed the technical capacity of small states with limited resources. Combining an expenditure rule with a debt rule or budget-balance rule could provide a simpler, more transparent alternative to a structural-balance rule that still fulfills its core functions. Flexible provisions and escape clauses are also crucial in small states, which tend to face more frequent natural disasters (Blanco et al. 2020, 7–35).

The design of fiscal rules influences compliance. Empirical evidence from Latin America and the Caribbean over the last two decades shows that some fiscal rules are more likely to be adhered to than others. Debt-ratio and structural-balance rules enjoy the highest compliance rates, while fiscal-balance and expenditure rules have the lowest (Larch, Orseau, and van der Wielen 2021, 29). Moreover, compliance with quantitative rules may be overestimated due to discretion as to how targets are measured. Combining fiscal rules can improve compliance, especially when a balance rule is paired with a debt or spending rule (Ulloa-Suarez and Valencia 2022, 1–9). Changes in macroeconomic and political contexts are associated with improved compliance. The institutional design of fiscal rules has no significant effect on compliance, which may be due to the absence of sanctions for non-compliance (Ulloa-Suárez 2023, 31–32). Empirical research suggests that compliance with fiscal rules is linked to the quality of their design and the existence of an EU or IMF adjustment program (Mohl et al. 2021, 23). Finally, evidence from Latin America and the Caribbean shows that smaller states are less likely to adhere to fiscal rules (Blanco et al. 2020, 22).

The political system influences compliance too. For example, compliance rates tend to be lower in election years, when spending pressures are especially high (Mohl et al. 2021, 23). Government decentralization, fragmentation, and budget cycles all tend to weaken compliance due to the deficit bias associated with them. Moreover, frequent amendments to fiscal rules tend to undermine their transparency and credibility (Davoodi et al. 2022, 25). By contrast, there is no significant evidence that the economic environment, the business cycle, or forecasting errors affect compliance (Reuter 2019, 145). The threat of financial sanctions does not appear to improve compliance, and positive incentives are more likely to prove effective (Larch, Orseau, and van der Wielen 2021, 29).

Independent fiscal councils can monitor fiscal rules and verify compliance. About half of all countries that have fiscal rules have also established independent fiscal councils (Caselli et al. 2022, 19). These councils are associated with rising levels of adherence over time, due in part to stronger enforcement and monitoring (Davoodi et al. 2022, 25). A recent survey of the Network of EU independent fiscal institutions (EUIFIs) found that most are tasked with assessing compliance with fiscal rules, producing forecasts, and analyzing discretionary measures. Only a few estimate the costs of policies or proposals or apply the comply-or-explain principle. Most IFIs meet regularly with the European Commission (EC) and national ministries, have a communication strategy in place, and are legally authorized to access fiscal information, but only a few have an enforcement mechanism. Common challenges facing EU IFIs are insufficient or incomplete information access and shortages of skilled staff (Network of the EU Independent Fiscal Institutions 2023, 34). Only half of all fiscal councils have a mandate to monitor the implementation of escape clauses for fiscal rules (Caselli et al. 2022, 19).

The presence of fiscal councils can strengthen the effectiveness of fiscal rules. Empirical evidence from EU member states shows that independent monitoring and enforcement bodies increase compliance with fiscal rules, e.g. by issuing real-time alerts (Reuter 2019, 125). IFIs can also enhance the impact of fiscal rules on fiscal adjustments, but only when budget transparency is high (Gootjes and Haan 2022, 18). Moreover, tentative empirical evidence suggests that IFIs can improve the accuracy of fiscal forecasts and limit bias, though these results should be interpreted with caution, as a causal relationship is hard to establish (Beetsma et al. 2019, 53). Fiscal councils can offer especially significant benefits for low-income countries by providing independent forecasts, timely information, and risk assessments (Caselli et al. 2022, 20). Between 1990 and 2020, IFIs with sufficient funding, appropriate remits, and strong accountability mechanisms helped mitigate procyclicality (Chrysanthakopoulos and

Tagkalakis 2022, 1–4). IFIs can also make political constraints more binding and help mitigate policy volatility (Marioli, Fatás, and Vasishtha 2023, 3).

The effectiveness of fiscal councils hinges on their independence, access to timely information, and funding. There is still scope to increase the funding of fiscal councils (Davoodi et al. 2022, 25) and strengthen their independence. OECD IFI database assesses the degree of independence of IFIs based on an index with four dimensions: leadership independence, access to information and transparency, operational independence, and legal and financial independence.

The EU's national fiscal councils are well-established institutions that have recently become part of the EU fiscal governance reform process. National fiscal councils have important advantages, especially in calculating structural budget balances, costing discretionary measures, and identifying ex ante risks in draft budgets. The European Fiscal Board, a supranational fiscal council for the EU, could benefit from greater cooperation with member countries' fiscal councils (Beetsma and Debrun 2018, 110), while national IFIs could also be improved by raising minimum standards for tasks, resources, and independence safeguards (Axioglou, Grevesmühl, and Hoogeland 2023, 18–19). The EC's April 2023 reform proposal suggested: (i) extending budgetary forecasting or endorsing budget forecasts outside the euro area, and (ii) implementing a comply-or-explain principle. Other concrete proposals included: (i) enhancing ex post evaluations of macroeconomic and budgetary forecasts; (ii) strengthening IFI independence by ensuring sufficient resources and communications capacity, a transparent nomination and appointment process for members, and extensive and timely access to information; (iii) tightening compliance monitoring both for domestic and EU fiscal rules; and (iv) increasing the accountability of IFIs by conducting regular independent external evaluations and holding hearings by the relevant legislative committee (Axioglou, Grevesmühl, and Hoogeland 2023, 18–19).

In the EU, the presence of IFIs is correlated with improved adherence to fiscal rules. However, the effect is greatest when IFIs have high levels of transparency, timely access to information, adequate resources, strong independence, a wide remit, and significant media visibility. Conversely, a larger number of fiscal rules tends to weaken the impact of IFIs, suggesting that a simpler, more flexible EU fiscal governance framework could improve compliance (Network of the EU Independent Fiscal Institutions, 2023).

Transparency and media visibility play an especially important role in determining how effectively IFIs improve compliance with fiscal rules. When budget transparency is low, fiscal rules may not improve the government budget balance, but when transparency is sufficiently high, fiscal rules can make successful fiscal adjustments more likely, with positive impacts on debt dynamics (Gootjes and Haan 2022). Media visibility improves the effectiveness of fiscal rules when budget transparency is low and tends to foster numerical compliance with EU fiscal rules, except for debt rules (Gootjes and Haan 2022, 17–18). Media visibility contributes to an informed debate and strengthens reputational incentives to adhere to fiscal rules. While national media have a significant effect on compliance, regional media do not. News articles referring to sustainability tend to have a greater impact. Media visibility among IFIs has also fostered compliance with EU fiscal rules, and the establishment of a fiscal council is associated with an average 30 percent increase in media reporting. The effect of media visibility on compliance is sensitive to the macroeconomic cycle: media coverage of debt sustainability tends to be broader during bad times and narrower during good times (Mohl et al. 2021, 24–26).

3. The Current State of Fiscal Governance in the Western Balkans

Recent analytical work has identified important shortcomings in the fiscal policy framework of the Western Balkan countries. Historically, fiscal policy in the WB6 has been procyclical, i.e., marked by overspending expansions and underspending during contractions. However, this pattern has changed in recent years, due largely to the COVID-19 pandemic and subsequent cost-of-living crisis, which was exacerbated by Russia's invasion of Ukraine. Public debt levels have risen, and bringing them down is an urgent priority given the increased cost of debt financing. Meanwhile, noncompliance with ESA2010 fiscal statistics standards—including for off-budget spending, tax expenditures, and the accumulation of arrears—undermines efforts to monitor fiscal rules effectively. Further, overoptimistic growth and revenue assumptions further weaken compliance. Citizens and other stakeholders are not sufficiently involved in fiscal policy (International Budget Partnership, 2021), and the use of low-quality instruments compromises the budget process (Andrew Davies et al. 2023, 11–52). Finally, Chapter 17 of the EU Acquis requires the introduction of quantitative fiscal rules and the establishment of independent fiscal councils, underscoring the importance of strengthening IFIs and fiscal frameworks among the WB6.

Fiscal policy is especially important in the WB6 economies, which have limited capacity to implement independent monetary policy due to either the use of the Euro, currency board, or a tightly managed exchange rate regime with high euroization. Only Albania and Serbia use floating exchange rates, and both are tied to the euro within a narrow band. Bosnia and Herzegovina (BIH) explicitly pegs its currency to the euro, while North Macedonia operates a de facto fixed exchange rate. Montenegro and Kosovo have unilaterally introduced the euro as their official currency (European Commission 2022). The narrower the scope for independent monetary policy, the more important the role of fiscal policy as a tool of macroeconomic stabilization.

3.1. ALBANIA

Albania introduced fiscal rules in 2016, including a debt rule and a budget-balance rule. The debt rule requires that the target for the public-debt-to-GDP ratio must be lower than the actual ratio estimated for the preceding year until it reaches 45 percent. The budget-balance rule stipulates that when the real GDP growth rate exceeds 5 percent, the total deficit cannot exceed 2 percent of GDP. In 2024, this rule was augmented with a provision that the primary balance cannot be in deficit. While some EU member countries have included fiscal rules in their constitutions, all WB6 economies have embedded their fiscal rules in ordinary legislation. In Albania, the fiscal rules are included in an organic Law on the Management of the Budget System. Under the law, the requirements of both rules cannot be changed or suspended except through predefined escape clauses. Albania has complied with its fiscal rules since their introduction, but the government activated the escape clause during the COVID-19 pandemic. Compliance with the fiscal rules is monitored by the Parliament and the Court of Auditors, not by an independent fiscal council. Monitoring is performed on an annual basis, with no ex-ante assessment. IMF forecasts for GDP underpin the fiscal rules, and the nominal GDP figures used to calculate the debt-to-GDP ratio cannot exceed the respective values from the most recent IMF World Economic Outlook.

The medium-term fiscal framework projects macroeconomic and fiscal developments on a three-year rolling basis. The framework is produced by the government, and while the Parliament discusses the framework, it does not vote on it. The framework document includes a detailed breakdown of expenditure and revenue projections, explanations for these projections, and estimates of the impact of reforms over the forecast horizon, but they do not include a detailed assessment of the budgetary impact of alternative macroeconomic scenarios. In addition, the framework does not encompass the entire general government (GG), and a 2016 IMF Fiscal Transparency Evaluation noted that about 27 entities of the GG are excluded from standard reporting requirements. Moreover, the medium-term ceilings are merely indicative, with no requirement that deviations be explained. The annual budget references the medium-term fiscal framework, but these references may not be relevant because the framework is prepared and modified by the Ministry of Finance prior to the annual budget.

The EC's 2023 Country Report rated Albania's preparedness for EU accession as moderate to good. The government has improved its policy coordination and consultation mechanisms with nongovernmental stakeholders. A smaller number of budget revisions has increased the credibility of budget planning: in the first half of 2023, the budget was amended using the ordinary legislative process, unlike in 2022 when the budget was amended four times with secondary legislation. The national accounts are more closely aligned with ESA2010, and Albania now publishes 12 of 14 indicators for the Medium-Term Macroeconomic Imbalances Procedure (MIP). Notifications for Excessive Deficit Procedures have also improved, although questionnaires have not been fully completed. While Albania has complied with its fiscal rules since 2016 and the Supreme State Audit Institution regularly assesses budget implementation, there is still no independent fiscal council. The government regularly publishes a medium-term fiscal framework, debt projections, macroeconomic forecasts, and fiscal-risk statements with a horizon of three years, but budget planning uses the previous year's actual fiscal outcomes instead of the budget plan.

Further improvements are needed to strengthen coordination and consultation with nongovernmental stakeholders, as their involvement in fiscal policy remains limited. The government must also achieve full compliance with ESA2010 and establish a mechanism for reporting on the long-term fiscal sustainability of the social security system. Moreover, the budget framework lacks detailed expenditure plans for local governments (LGs). Finally, the authorities must lift the embargo on publishing government finance statistics submitted to Eurostat.

3.2. BOSNIA AND HERZEGOVINA

BIH has fiscal rules at the national level as well as rules for specific government entities. At the national level, a fiscal rule specifies that the BIH Ministry of Finance and Treasury can issue long-term debt only if total debt-service costs do not exceed 18 percent of the consolidated revenue for the previous fiscal year. A fiscal council has monitored compliance with this rule since 2008, but the council is not independent, as its members are the prime ministers and the ministers of finance of BIH and its entities. It is tasked with coordinating the fiscal policy in BIH with the aim of ensuring the macroeconomic stability and fiscal sustainability of BIH, the Federation of BIH, the Republika Srpska (RS), and the Brčko District.

The Federation of BIH employs two fiscal rules. The first specifies that the current fiscal balance cannot be in deficit. In the event of a deficit, the government must plan to run a compensatory current surplus within the next three years. Natural disasters or emergencies declared by the legislature can trigger an escape clause if damages exceed 20 percent of executed expenditures in the previous year.

The second rule prescribes that long-term debt can be issued only if the total debt-service cost does not exceed 18 percent of the consolidated revenues of the Federation and its cantons from the previous fiscal year. These rules are monitored by a Fiscal Coordination Body, which is established for the entity of Federation of BIH in 2013, but it is not an independent body. It consists of the ministers of finance of the Federation and its cantons, as well as representatives of the Association of local government units, and it has a mandate to coordinate fiscal policy.

The RS has adopted three fiscal rules. The first stipulates that the public debt stock at the end of the fiscal year may not exceed 55 percent of actual GDP for that year. The second mandates that the consolidated budget deficit at the end of the fiscal year may not exceed 3 percent of actual GDP for that year. The third rule specifies that the short-term debt cannot exceed 8 percent of the regular revenue generated in the previous fiscal year and that total exposure to issued guarantees in a year cannot exceed 15 percent of actual GDP for that year. The National Assembly has approved escape clauses that may be triggered by natural disasters, economic recessions, or the implementation of major infrastructure projects. A Fiscal Council that reports to the National Assembly has monitored the first two rules since 2015. The Council is an independent institution that assesses the credibility of fiscal policy based on the enforcement of entity-level fiscal rules. There is also a fiscal rule for LGs, which specifies that: (1) they may issue long-term debt only if their total debt-service costs do not exceed 18 percent of the revenue earned in the previous fiscal year; (2) short-term debt cannot exceed 5 percent of the regular revenue generated in the previous fiscal year; and (3) total exposure to issued guarantees cannot exceed 30 percent of the regular revenue generated in the previous fiscal year. The RS Ministry of Finance monitors compliance with this rule.

At the national level, a Global Framework for Fiscal Balance and Policies aims to coordinate fiscal policy over a three-year horizon. The framework is revised every year and adopted in the form of an agreement between the governments of the Federation of BIH, the RS, and Council of Ministers of BIH. The RS and the Federation of BIH both have MTBFs in place, but they are weak, as the annual budgets can deviate from the medium-term targets with no corrective mechanism. Also, the framework is sent to the Federation of BIH legislature solely for informational purposes, and it is not sent to the RS legislature at all. However, in the RS an independent fiscal council is involved in preparing the framework.

BIH is still in the early stages of preparing for EU accession, and the latest EC Country Report found that no progress had been made during 2023. One of the biggest challenges it faces is the limited coordination of macroeconomic and fiscal policy both at the national and entity levels. Reporting related to the EU's Excessive Deficit Procedure has moderately improved, but fiscal rules at the entity level are not monitored by a fiscal council. The adoption of the MTBF has been delayed due to political disagreements, and the framework itself is underdeveloped and underutilized. Statistical capacity remains limited, with institutional fragmentation and a lack of cooperation preventing an agreement on the sectoral classification of the public accounts. Macroeconomic forecasts are produced by the central bank and the Directorate for Economic Planning, but the latter lacks a published methodology. Forecasts are limited by poor quality and lags in the submission of country-wide statistics.

BIH must improve cooperation and coordination between government levels, strengthen the analytical capacity of public institutions, especially the state-level Ministry of Finance and Treasury, and build its administrative capacity to implement reforms. The budgetary framework's alignment with ESA2010 standards is limited yet progressing. However, weak cooperation between fragmented institutions has led to long delays in publishing data.

3.3. KOSOVO

Kosovo has rules pertaining to the debt, the deficit, and government spending. A 2009 Law on Public Debt limits the public and publicly guaranteed debt of the GG to 40 percent of GDP. In 2013, the debt rule was supplemented by a rule restricting the GG's overall cash deficit to 2 percent of forecasted GDP (Law on Public Financial Management and Accountability). In 2016, this deficit rule was relaxed by excluding investment spending financed by foreign donors and privatization proceeds. This exclusion, which expires at the end of 2025, applies only while the GG's debt is below 30 percent of GDP. The expenditure rule mandates that the growth of the public-sector wage bill does not exceed the nominal GDP growth rate. In addition, a 2017 amendment to the Law on Kosovo Liberation Army War Veterans established a cap on veterans' pensions equal to 0.7 percent of GDP, but the cap has not been implemented, as it requires reclassifying pension beneficiaries into three new subcategories. Since 2017, the government has frozen benefit levels for veterans' pensions, and their total cost is declining due to natural attrition.

The government cannot alter or suspend the legally defined parameters of fiscal rules. The budget-balance rule and the expenditure rule are subject to escape clauses that may be triggered only by the Parliament. Adherence to fiscal rules is not monitored by an independent authority, since an independent fiscal council does not exist, but the monitoring is carried out by the Parliament or the National Audit Office. The rules are not subject to real-time monitoring or ex ante assessment.

The medium-term fiscal framework forecasts macroeconomic and fiscal developments on a three-year rolling basis. The Parliament discusses medium-term fiscal plans, but an independent institution is not involved in preparing them. These plans include a detailed breakdown of expenditure and revenue projections, explanations for these projections, and estimates of the impact of reforms over the implementation period, but they do not include a detailed explanation of the budgetary impact of alternative macroeconomic scenarios. As in other WB6 economies, the targets of the plans do not encompass the entire GG. Annual budgets may differ from the medium-term targets because the ceilings included in the fiscal strategy are only indicative; they are not fixed in advance for the implementation period; and they are changed before every budget cycle.

Kosovo is moderately prepared for EU accession. According to the 2023 EC Country Report, Kosovo has made some progress in terms of data collection and transmission to Eurostat, but improvements are still needed in multiple areas. The Ministry of Finance has strengthened its capacity for macro-fiscal modeling, planning, forecasting, and policy impact assessments, although the brain drain continuously presents the challenge. However, Kosovo is in the early stages of introducing program-based budgeting. Annual national accounts data have become more timely and complete, and some progress has been made on enhancing government deficit and debt statistics. Kosovo now provides the full set of required government finance statistics, but the quality of those statistics could be improved.

Kosovo needs to increase its reporting of government finance statistics in line with the ESA2010, ensure regular monitoring of standards, and improve the quality of the forecasts used in the budget process. There is scope to enhance the coverage and timeliness of the Excessive Deficit

Procedure notification tables, as well as the completion of the related questionnaires. Public investment execution must also be improved.

3.4. MONTENEGRO

Montenegro has rules regarding the public debt, the primary and current balances, and government spending, albeit with some exceptions for investment. These rules were introduced in 2014 through the Law on Budget and Fiscal Responsibility, which has since been amended several times, most recently in 2023, when an independent fiscal council was established. The debt rule requires that the GG's debt must be less than 60 percent of GDP. The budget-balance rule specifies that the GG's cash deficit cannot exceed 3 percent of GDP at market prices, while the primary cash balance should be in surplus. The expenditure rule specifies that current expenditures and transfers may not exceed current income and grants; the growth rate of current spending may not exceed the anticipated real GDP growth rate; and the growth rate of capital spending and budgetary reserves may not exceed the nominal GDP growth rate. Escape clauses may be triggered by natural disasters, economic recessions, or the implementation of strategic investment projects.

Once established, the fiscal council will monitor compliance with the rules, both ex ante and ex post. The legal preconditions for creating an independent fiscal council were passed in 2023, and the council should have become operational in early 2024. The process for appointing the council members was announced in April 2023 but was halted by the presidential and parliamentary elections.

The MTBF is anchored by the fiscal strategy but is relatively weak. It does not cover the whole public sector, and annual budget targets may differ from the targets in the fiscal strategy. No clear corrective mechanism is in place in case the annual budget deviates from the medium-term targets, which are only indicative. On the positive side, the fiscal strategy must be formally adopted by the Parliament, and the government should involve the fiscal council during its preparation.

Montenegro made limited progress toward EU accession during 2023, and the latest EC Country Report defines it as moderately prepared. The government has timely adopted the Economic Reform Programme (ERP) but lacks a medium-term fiscal consolidation strategy. The budget framework is not yet aligned with Council Directive 2011/85/EU or ESA2010 standards; the introduction of accrual accounting has been delayed; and the quality of finance statistics needs improvement. Cooperation between the Ministry of Finance and Social Welfare, the central bank, and the national statistics agency will be necessary to align government finance statistics and fiscal notifications with ESA2010 standards. The revised action plan for harmonizing national systems with the EU Acquis should also continue to be implemented.

3.5. NORTH MACEDONIA

As of end-2023, North Macedonia had effectively established a fiscal rule for LGs but not for the GG. The fiscal rule states that the projected own-source revenue growth of LGs must be limited to no more than 15 percent of the average revenues realized in the last three years. This rule was adopted in 2018 to prevent the accumulation of LG arrears, which amounted to 0.4 percent of GDP at end-2023. The limit on planned revenue growth was initially set at a nominal 10 percent, then increased to 20 percent, then revised downward to 15 percent. The rule is defined in the Law for Financing of the Local

Self-Government Units, and adherence is monitored by the Ministry of Finance on an annual basis. The correction mechanism is triggered automatically, and the revenue side of the municipal budgets must comply with the rule. The rule contains an escape clause that can be triggered if an LG's actual own-source budgetary revenues exceed 75 percent of its planned revenues.

In September 2022, North Macedonia adopted a new Organic Budget Law that prescribes numerical fiscal rules for the public debt and deficit. Under the debt rule, the public debt stock will be limited to 60 percent of GDP and publicly guaranteed debt to 15 percent of GDP. The deficit rule will allow for a fiscal deficit equal to 3 percent of GDP, with relatively broadly defined escape clauses for natural disasters, economic recessions, and strategic investment projects (limited to 0.5 percent of GDP a year). In the event of deviations from the public debt and deficit rules, the government should propose and adopt corrective measures that will lead to achievement of the rule ceilings within five years.

The law also provides for the establishment of an independent fiscal council starting in 2023. The council's three members are to be selected by the State Audit Office, the Macedonian Academy of Sciences and Arts, and the central bank and appointed by the Parliament. The fiscal council should monitor both ex ante and ex post compliance with the fiscal rules, report on fiscal risks, provide opinions on the Fiscal Strategy and budget documents, and assess the fiscal impact of policies that may hinder compliance with the rules. As of mid-2024, the fiscal council had already issued two opinions, one on the 2024 budget and one on compliance with the rules for Q1 2024, but the secretariat had still not been constituted.[2]

An MTBF is in place, along with a fiscal strategy that provides its medium-term targets. However, the targets do not cover the entire GG. The 2018 IMF Fiscal Transparency Evaluation for North Macedonia found that GG statistics should, but do not, include the activities of 12 state-owned enterprises (SOEs) with combined spending equal to about 3 percent of GDP. The fiscal strategy is adopted by the government, and it is sent to the Parliament for information purposes only, with no formal presentation. The fiscal council is not involved in preparing the fiscal strategy. The strategy contains a detailed breakdown of expenditure and revenue projections, with explanations for each, as well as a quantification of the impact of the reforms over the plan's implementation period and detailed assessments of the budgetary impact of the alternative macroeconomic scenarios. However, the annual budgets can differ from the fiscal strategy, which gets revised to realign with the new budget proposal, and there is no correction mechanism in place if this occurs.

The new budget law also strengthened the medium-term fiscal framework by having the fiscal council give its opinion on it. In addition, the fiscal strategy is now being prepared for five years at a time and will be discussed by the Parliament. However, the strategy is still at risk of deviating from the annual budget, as the ceilings included in the strategy are only indicative and are not fixed in advance for the period of the strategy but may be changed before every budget cycle.

North Macedonia has made progress in its preparedness for EU accession, and the 2023 EC Country Report rated its readiness as moderate to good. In September 2022, the Parliament adopted a new Organic Budget Law and began preparing for its implementation. This law outlines numerical fiscal guidelines for the GG's deficit and debt. The 2023 budget reflects the medium-term fiscal consolidation strategy, supported by a rule-based budget framework. In September 2023, three members were appointed to the newly established fiscal council, which is anchored in the 2024-2028

[2] For more information, see www.fsovet.mk.

fiscal strategy. The information provided on the fiscal strategy has been enhanced, but the monitoring of fiscal risks related to SOEs, public-private partnerships, and LGs could be improved. The budget law includes a plan for a comprehensive SOE registry and a fiscal risk assessment methodology.

The government should implement the Organic Budget Law, fully apply the fiscal rules, strengthen the MTBF, and manage fiscal risks prudently. The fiscal council should receive the support necessary to begin operations and assess the 2024 budget and the new fiscal strategy.

3.6. SERBIA

Serbia's organic Budget System Law establishes fiscal rules for the GG and for LGs. The fiscal rule for LGs has been in place since 2006. It states that LGs can run deficits only due to public investments and must not exceed 10 percent of the LG's own-source revenue for that year. The Ministry of Finance monitors the rule and can stop the transfer of the funds to the LG in case of deviations.

Fiscal rules for the GG were introduced in 2011 and redesigned in 2022, but their implementation has been delayed until 2029. As a result, Serbia has no effective fiscal rules at the GG level, but only the limits and targets set forth in the fiscal strategy. The pending fiscal rules will restrict the public debt, including obligations based on restitution, to no more than 60 percent of GDP and establish a maximum medium-term fiscal deficit of 0.5 percent of GDP. Additional rules will define the size of the correction in the case of deviation from the rule. If the public debt exceeds 60 percent of GDP, the fiscal position must be balanced. If the public debt is between 55 and 60 percent of GDP, the fiscal deficit cannot be higher than 0.5 percent of GDP. If the public debt is between 45 and 55 percent of GDP, the fiscal deficit must be no more than 1.5 percent of GDP. If the public debt is below 45 percent of GDP, the fiscal deficit must not exceed 3 percent of GDP. The adjustment path is also defined. Namely, if the fiscal deficit determined by the general fiscal rule is exceeded, the Government, on the proposal of the Ministry of Finance, must propose measures to correct the deficit in the medium term. After obtaining the opinion of the fiscal council, the proposal must be submitted to the National Assembly for information purposes. If the public debt exceeds or is predicted to exceed 55 percent of GDP, the government is obliged to submit to the National Assembly, together with the budget for the next year in the Fiscal Strategy, as well as in the revised Fiscal Strategy, a program for reducing the debt-to-GDP to below 55 percent, with subsequent reports on the implementation of the program and updates as necessary.

An expenditure rule has also been introduced. The rule aims to refocus public spending from current spending to public investment. Spending on the public-sector workforce will be capped at 10 percent of GDP, though this percentage may be adjusted if the definition of the public sector is broadened or narrowed. If the total expenses for pensions are less than 10 percent of GDP, the pension will be adjusted according to the change in the average salary without taxes and contributions, in the manner defined by the law regulating pension and disability insurance. If total pension expenses are between 10 and 10.5 percent of GDP, pensions will be indexed by the sum of half of the change in the average salary (without taxes and contributions) and half of the change in consumer prices. If total pension expenses are equal to or greater than 10.5 percent of GDP, pensions will be adjusted according to the change in consumer prices. The application of these special fiscal rules cannot jeopardize the general fiscal rules. There are escape clauses for natural disasters, national security, or economic crises declared by the government that must be explained to the Parliament.

The fiscal council has been in place for more than a decade. It is tasked with monitoring all fiscal rules at the GG level, both ex ante and ex post. As in other IFIs in the WB6, monitoring is done on an annual basis. The fiscal council also assesses the government's macroeconomic and budgetary forecasts, provides opinions based on quantitative policy costing, undertakes initiatives to improve fiscal transparency, and provides normative recommendations. While it is fully operational, the members have been nominated by the president, the minister of finance, and the governor of the central bank, which does not fully ensure their independence. However, the new members are to be approved by the National Assembly for a period of six years.

The fiscal strategy sets targets on a three-year rolling basis, while the fiscal council endorses both macroeconomic and budgetary forecasts and provides opinions. The strategy is reviewed by the Parliamentary Committee for Finance, the National Budget, and Public Expenditure Control, but it is not formally approved by the Parliament. The fiscal strategy includes a detailed breakdown of expenditure and revenue projections, explanations for these projections, and a quantification of the impact of reforms over the plan's duration. However, a detailed explanation of the budgetary implications of alternative macroeconomic scenarios is not included. Moreover, the plan does not encompass the entire GG, as some SOEs performing public functions and majority financed from the budget are excluded from the GG statistics. The medium-term ceilings are merely indicative and are not fixed in advance for the strategy period but are adjusted before each budget cycle.

The EC's 2023 Country Report for Serbia rated its preparedness for EU accession as moderate to good. In December 2022, Serbia adopted a new system of fiscal rules through amendments to the Law on the Budget System. The law introduced a deficit ceiling, a cap on the public wage bill at 10 percent of GDP, and a modified indexation of pensions. However, the credibility of the latter was severely compromised by an extraordinary pension adjustment. There have also been issues with Parliamentary debates on the draft budget, and financial transfers to SOEs remain opaque. The government has repeatedly introduced ad hoc measures such as extraordinary pension and wage increases and one-off payments to certain households, the fiscal impact of which has not been accounted for in the budgetary planning framework. While fiscal reporting has become more closely aligned with ESA2010 standards, further progress is necessary. Mechanisms for correcting the deficit also need to be improved, and the new rules must be better enforced. Serbia's fiscal council is well established, and it continues to produce independent fiscal assessments and recommendations in line with its mandate. The macro-fiscal frameworks are also sufficiently comprehensive.

Serbia should further align its budget system with Directive 85/2011 on macro-fiscal projections by adopting a three-year expenditure perspective, improving transparency, raising accounting standards, and enhancing statistical reporting. Capital transfers and guarantees to SOEs should be made transparent in the budget. Program-based budgeting needs to be strengthened, and administrative capacity should be expanded.

4. Fiscal Governance Scoring Methodology

The dataset on fiscal rules, fiscal councils, and medium-term budgetary frameworks for the WB6 countries has been constructed based on the DG-ECFIN fiscal governance scoring methodology.[3] Following the DG-ECFIN approach, separate index scores are calculated for the performance of fiscal rules, fiscal councils, and MTBFs in the WB6 economies. Information on national legislation was collected through desk research and discussed with government representatives at the Conference on Fiscal Rules and Councils organized by the World Bank in December 2023.[4]

4.1. FISCAL RULES STRENGTH INDEX

The dataset covers all types of numerical fiscal rules—budget balance, debt, expenditure, and revenue—at all levels of government. The information includes the description and definition of each fiscal rule, its scope, and five specific criteria: (1) the statutory/legal basis of the rule; (2) the room for setting or revising objectives; (3) the body in charge of monitoring compliance; (4) the presence of correction mechanisms in case of deviations from the rule; and (5) the extent of resilience to shocks or events outside the government’s control. Criteria 3 and 5 each consist of four sub-criteria.

The Fiscal Rules Strength Index (FRSI) measures the strength of each fiscal rule. It is derived from the scores for each of the five criteria according to the following formula:

$$FRSI = \sum_{i=1}^{5} \frac{Cr_i}{MV_i} w_i$$

where Cr_i represents the score for each criterion, with the scores for criteria 3 and 5 calculated as aggregates of their sub-criteria; MV_i is the theoretical maximum score for each criterion; and w_i is the weight of each criterion under an equal-weighting scheme. More specifically:

$$FRSI = \frac{Cr_1}{3} \cdot 0.2 + \frac{Cr_2}{3} \cdot 0.2 + \frac{Cr_{3a} + Cr_{3b} + Cr_{3c} + Cr_{3d}}{7.5} \cdot 0.2 + \frac{Cr_4}{4} \cdot 0.2 + \frac{Cr_{5a} + Cr_{5b} + Cr_{5c} + Cr_{5d}}{4} \cdot 0.2$$

The scoring pattern for each criterion is presented in Annex Table A.1. The final FRSI index can take values between 0 and 10, with higher values signifying a stronger rule.

[3] Available at: https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/fiscal-governance-database_en

[4] Details about the conference are available here: https://www.worldbank.org/en/region/eca/brief/strengthening-fiscal-governance-in-the-western-balkans#2

Because a country can have several fiscal rules, the FRSI may be calculated as an average. The DG-ECFIN approach calculates each country's FRSI (C-FRSI) as a weighted sum of all fiscal rules FRSI values for that country using the following formula:

$$C - FRSI = \sum_{j=1}^{N} 10 \cdot FRSI_j \cdot Cv_j \cdot \frac{1}{IR_j}$$

where N is the number of all fiscal rules in the country, $FRSI_j$ is the index value of the j-th fiscal rule in the country, Cv_j represents its coverage of GG finances, and IR_j represents its ranking of the fiscal rules.

A key parameter for calculating the C-FRSI is the share of GG finances that are covered by the rules (Cv_j). Some public entities that should be part of the GG are excluded from the GG budget. The IMF's Fiscal Transparency Evaluation reports contain such data only for Albania and North Macedonia. According to these reports, the difference between total public-sector expenditures and recorded GG expenditures is 5.6 percent of GDP for Albania and 4.1 percent of GDP for North Macedonia, which means that the established fiscal rules cover 84 and 89 percent of the public sector, respectively. For the rest of the countries, in absence of the FTE reports, the coverage of the GG finances is estimated using the EBRD data on employment in SOEs. The level of SOE employment in these countries is compared to that of Albania and North Macedonia, and it is assumed that the ratio of public finances not covered by the GG budgets is proportional to SOE employment (Table 1). Based on this methodology, the imputed coverage of GG finances ranges from 84 percent in Albania to 87 percent in Montenegro and BIH and 89-90 percent in North Macedonia, Kosovo, and Serbia. In BIH, the imputed coverage for Federation of BIH accounts for 53 percent of GG spending, the RS for 29 percent, while the Institutions of BIH 5 percent.

Table 1 / The Share of General Government Finances Covered by Fiscal Rules

	GG spending	Public spending	Difference between GG spending and public spending (% of GDP)	GG spending as a share of public spending	SOE employment	SOE employment difference, public sector versus GG
MK	34.5	38.6	4.1	89%	13.6	3.32
AL	28.9	34.5	5.6	84%	12.2	2.18
XK	29.035	32.5	3.5	89%	9.6	2.75
ME	44.829	51.6	6.8	87%	18.6	2.75
RS	46.561	51.5	4.9	90%	13.5	2.75
BA	39.868	45.8	5.9	87%	16.2	2.75

Note: General government expenditures are based on the IMF's World Economic Outlook for October 2023; public-sector expenditures are authors' estimates; SOE employment figures are from the European Bank for Reconstruction and Development (2021).
Source: Authors' calculations.

The second required parameter for calculating the C-FRSI is the ranking of the fiscal rules, IR_j. The fiscal rules in each GG subsector are ranked to account for the fact that multiple fiscal rules could overlap. The ranking reflects the FRSI value of each rule, with the highest FRSI given the rank of 1, since the top-ranked rule would plausibly drive the fiscal performance of the country. For example, Montenegro has three rules covering the GG and one rule covering LGs, so in this case the GG rule with the highest FRSI receives a rank of 1, while the two GG rules with the same FRSI values receive ranks of 2. The rule covering LGs receives a rank of 1. In addition, the rules in BIH are ranked separately for each entity, as they do not overlap.

4.2. SCOPE INDEX OF FISCAL INSTITUTIONS

The IFI dataset covers the main characteristics of IFIs, their mandates and functions, the composition of their governing boards, their formal status vis-à-vis the government or parliament, and their media visibility and influence on public debates around fiscal policy. The six core functions of IFIs are: (1) monitoring compliance with fiscal rules; (2) macroeconomic forecasting; (3) budgetary forecasting and policy costing; (4) analyzing the long-run sustainability of the public finances; (5) promoting fiscal transparency; and (6) making normative recommendations on fiscal policy. Tasks 4, 5, and 6 are binary, while tasks 1, 2, and 3 involve more complex considerations. A grade for each task reflects whether it is legally mandated or undertaken as an initiative of the IFI.

The Scope Index of Fiscal Institutions (SIFI) derived from the dataset measures the breadth of tasks covered by IFIs. For each institution, the index reflects the specific values for the six separate groupings of tasks described above:

$$SIFI = \sum_{i=1}^{5} \frac{T_i}{MV_i} L_i w_i$$

where T_i represents the score for each task, while scores for tasks 1, 2, and 3 are calculated by aggregating the main criteria and sub-criteria; MV_i is the theoretical maximum score for each task; L_i is the legal-force coefficient for each task; and w_i is the weight of each task based on the EU-oriented weighting scheme. More specifically:

$$SIFI = \frac{T_1}{3} \cdot L_1 \cdot 30 + \frac{T_2}{3} \cdot L_2 \cdot 25 + \frac{T_3}{3.5} \cdot L_3 \cdot 20 + T_4 \cdot L_4 \cdot 10 + T_5 \cdot L_5 \cdot 5 + T_6 \cdot L_6 \cdot 10$$

The scoring pattern for each task and legal-force coefficient is presented in Annex Table A.2. The final SIFI index score can take values between 0 and 100, with higher values signifying an institution with greater scope. No country in the WB6 has more than one IFI, making the SIFI equivalent to a country index.

4.3. THE MEDIUM-TERM BUDGETARY FRAMEWORKS INDEX

The MTBF dataset covers the content of the national fiscal plan, its connectedness with the annual budget (including supplementary and corrective budgets) and the extent to which other institutions scrutinize it. It consists of five criteria: (i) the coverage of the targets/ceilings included in the national medium-term fiscal plans; (ii) the connectedness between the targets/ceilings included in the national medium-term fiscal plans and the annual budgets; (iii) the involvement of the legislature or the use of a coalition agreement in the preparation of the national medium-term fiscal plans; (iv) the involvement of IFIs in the preparation of the national medium-term fiscal plans; and (v) the level of detail included in the national medium-term fiscal plans. Criteria 1, 2 and 5 are granular, and their index scores are averages.

The index score for the quality of MTBFs is calculated according to the following formula:

$$MTBF = \sum_{i=1}^{5} \frac{Cr_i}{MV_i} w_i$$

where Cr_i represent the score of each criterion, while criteria 1, 2, and 5 are aggregates of their sub-criteria; MV_i is the theoretical maximum score for each criterion; and w_i is the weight of each criterion using the equal-weighting scheme. More specifically:

$$MTBF = \frac{Cr_{1a} + Cr_{1b}}{4} \cdot 0.2 + \frac{Cr_{2a} + Cr_{2b} + Cr_{2c}}{6} \cdot 0.2 + \frac{Cr_3}{3} \cdot 0.2 + \frac{Cr_4}{4} \cdot 0.2 + \frac{Cr_{5a} + Cr_{5b} + Cr_{5c} + Cr_{5d}}{4} \cdot 0.2$$

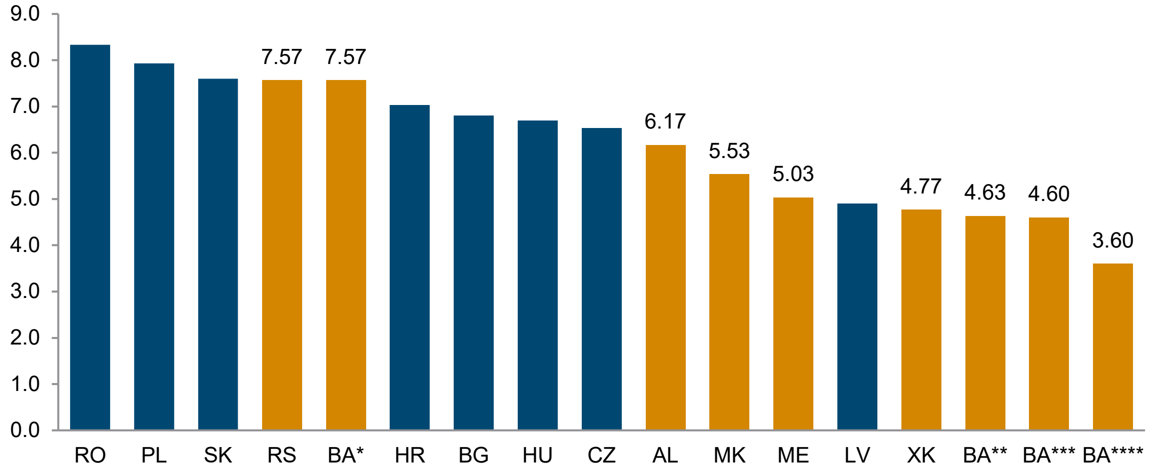
The scoring pattern for each criterion is presented in Annex Table A.3. The final MTBF index can take values between 0 and 1, with higher values representing a stronger medium-term framework.

5. The Quality of Fiscal Governance in the Western Balkans and Comparison with EU Peers

This section presents the indices for the fiscal rules, fiscal councils, and MTBFs in the WB6, and compares them with the EU peers. Unless otherwise stated, all values are for 2022. A comparison of specific fiscal rules across countries is presented first, focusing exclusively on rules related to the GG public debt and budget balance. This is followed by a comparison of the Fiscal Rules Strength Index by Country (C-FRSI), which encompasses all existing rules at all levels of government, including LGs.

The C-FRSI scores for public debt rules in the WB6 are generally weaker than those of the Central, East, and Southeast Europe (CESEE) countries. Only Serbia's public debt rule and the debt-to-GDP ratio rule for the RS come close to the scores for the CESEE (Figure 2). Moreover, the former is not envisaged to enter into force until 2029, while the latter applies only to one entity in BIH that accounts for just 29 percent of the GG's finances. The WB6 rules tend to be weaker than the rules in the EU CESEE countries because: (i) they are not defined in the constitutions of each country but in ordinary or organic laws; (ii) compliance with the rules is monitored only on an annual basis, not on a monthly or quarterly basis; (iii) no correction mechanism is triggered automatically if the rules are broken; (iv) the rules do not account for the macroeconomic cycle, which allows for procyclicality; (v) no budgetary safety margins (e.g., spending targets set below expenditure ceilings) are defined in relation to the rules; and (vi) the rules do not exclude items that fall outside the authorities' immediate control.

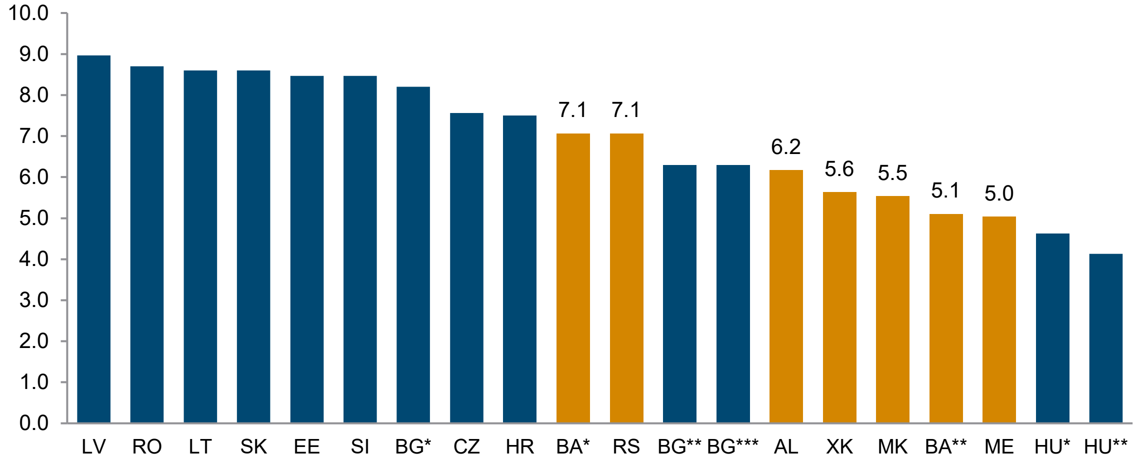
Figure 2 / Fiscal Rule Strength Index for Public Debt Rules in the WB6 and CESEE Countries



Note: The fiscal rule in Serbia will become operational only in 2029. The other fiscal rules refer to 2022. BA* refers to the debt-to-GDP ratio rule for Republika Srpska, BA** to the debt ceiling related to repayment capacity for Republika Srpska, BA*** to the debt rule for Federation of BiH, and BA**** for the debt rule for the general government in Bosnia and Herzegovina.
Source: DC-ECFIN for EU member states, authors' calculations for WB6.

Similarly, index scores for budget-balance rules are also much lower in the WB6 than among the CESEE countries. Indeed, budget-balance rules are even weaker than debt rules (Figure 3). However, the reasons for this are same.

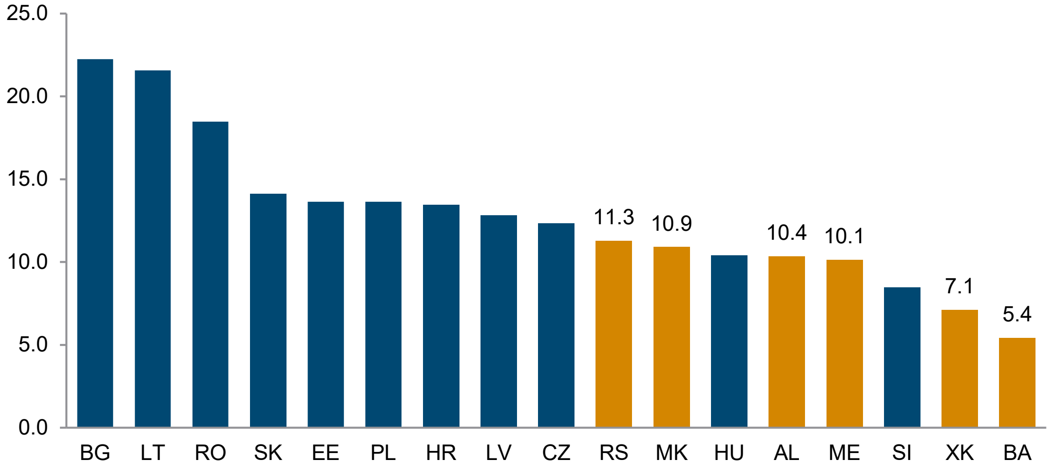
Figure 3 / Fiscal Rule Strength Index for Budget-Balance Rules in the WB6 and CESEE Countries



Note: The fiscal rule in Serbia will become operational only in 2029. The other fiscal rules refer to 2022. BA* refers to the budget balance rule in Republika Srpska, BA** to the budget balance rule in Federation of BIH. BG* refers to the rule on structural balance as % of GDP in Bulgaria, BG** and BG*** to the two nominal budget balance rules. HU* refers to the structural balance rule in Hungary, HU** to the nominal balance rule.
Source: DC-ECFIN for EU member states, authors' calculations for WB6.

The aggregate C-FRSI score for all GG-level fiscal rules is also much lower in the WB6 than among the CESEE countries. The index values vary from 5.4 to 11.3 in the WB6 economies, while the highest WB6 index value is in the bottom of the CESEE interval, which is 8.5 to 22.3.

Figure 4 / Aggregate Fiscal Rule Strength Index for the WB6 and CESEE Countries

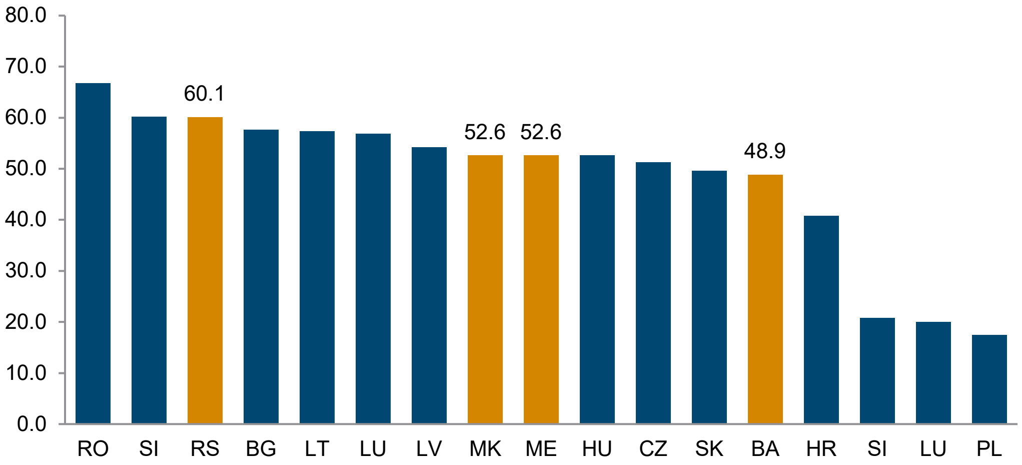


Note: The fiscal rules in Serbia will become operational only in 2029, respectively. The other fiscal rules refer to 2022.
Source: DC-ECFIN for EU member states, authors' calculations for WB6.

In addition to the reasons outlined above, the C-FRSI scores for the WB6 are lower than those of the CESEE due to the more limited coverage of budgets in the Western Balkans. All GG budgets in the region exclude SOEs, and thus they cover only an estimated 84-90 percent of the public finances. The exclusion of SOEs may understate the levels of deficit and debt stock, as SOEs often have low revenues and high expenditures and debt levels. The WB6 economies could strengthen their public finance frameworks by including SOEs in their budget documents and reported data per the ESA2010 methodology.

The scope index for IFIs presents a slightly different picture. The few fiscal councils in the WB6 have a comparable scope to those in the CESEE (Figure 5). The Serbian Fiscal Council has the highest score in the WB6 and among the highest in the CESEE, due largely to its active promotion of transparency and the occasional normative recommendations on policy that it provides. The scores for the Montenegro and North Macedonia fiscal councils are close to the regional average, but their scores are theoretical, as Montenegro's council is not operational, while North Macedonia's is not fully operational. Looking at the individual scores, the WB6 fiscal councils fall short of the CESEE councils because they: (i) do not produce macroeconomic forecasts and at most assess the forecasts of the ministries of finance; (ii) do not assess the accuracy of the official macroeconomic and fiscal forecasts; (iii) do not conduct long-run sustainability analyses; (iv) do not actively promote transparency; and (v) do not offer normative recommendations on how fiscal policy should be conducted.

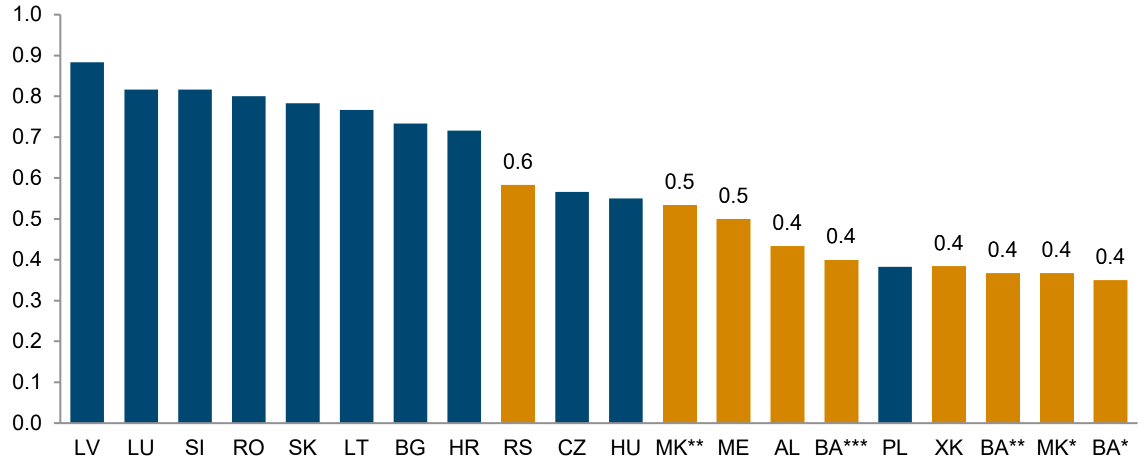
Figure 5 / Scope Index for Independent Fiscal Institutions in the WB6 and CESEE Countries



Note: Fiscal councils in Montenegro will become operational only in 2024. Other fiscal institutions refer to 2022. The fiscal council in Bosnia and Herzegovina covers only Republika Srpska. Albania and Kosovo do not have fiscal councils.
Source: DC-ECFIN for EU member states, authors' calculations for WB6.

MTBFs are also weaker in the WB6 economies than in the CESEE. The frameworks in the WB6 fall short of those in the CESEE because: (i) there is no clear connection between the medium-term fiscal plans and the annual budgets; (ii) no correction mechanisms are in place to reconcile differences between the two; and (iii) the macroeconomic and fiscal forecasts used in the medium-term plans are not prepared or endorsed by the fiscal councils and are at most assessed by them (Figure 6).

Figure 6 / Medium-Term Budgetary Framework Index Scores in the WB6 and CESEE Countries



Note: BA* refers to the MTBF that refers to whole Bosnia and Herzegovina, BA** to the MTBF that refers to Federation BiH, BA*** to the MTBF for RS. MK* refers to the existing MTBF in North Macedonia, MK** to the new MTBF, that will enter into force in 2025. Other MTBF's rules refer to 2022.
Source: DC-ECFIN for EU member states, authors' calculations for WB6.

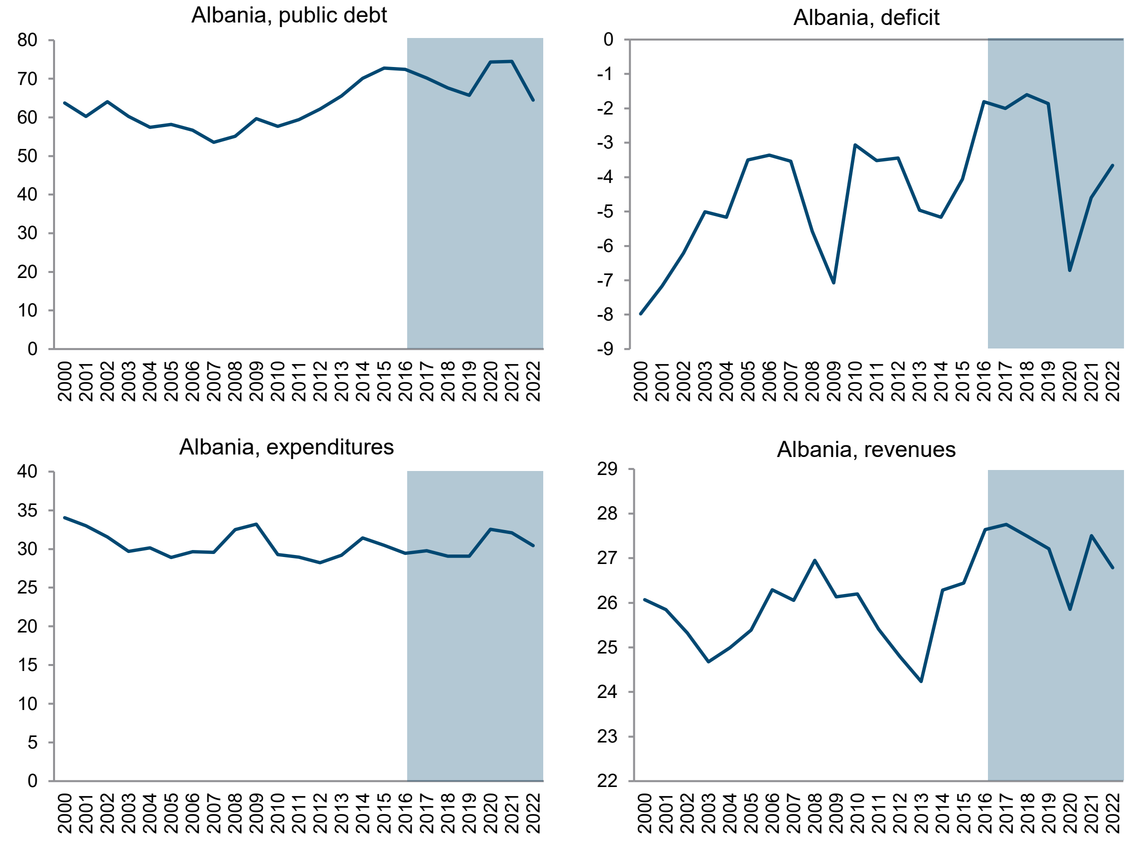
6. The effects of fiscal rules and councils on fiscal and macroeconomic outcomes in the Western Balkans

The following section presents a descriptive event analysis showing how changes in fiscal frameworks have affected the public debt, budget balance, public expenditures, and public revenue in the WB6. A correlation analysis examines how the C-FRSI, the SIFI, and the MTBF are related to public debt and deficit indicators. Finally, an econometric analysis evaluates the effects of introducing fiscal rules and councils on various fiscal and economic indicators.

6.1. DESCRIPTIVE EVENT ANALYSIS FOR THE WESTERN BALKANS

Albania made a significant change to its fiscal framework in 2016, when it introduced its first set of debt and deficit rules. Before 2016, the public debt was increasing, but after 2016 it began to fall—albeit with a temporary resurgence during the COVID-19 pandemic. The deficit remained broadly stable at about 2 percent of GDP for several years prior to the pandemic. Public spending slightly decreased after the rules were put in place, though it spiked during the pandemic (Figure 7).

Figure 7 / Public Debt, Deficit, Expenditure, and Revenue Indicators in Albania, before and after the Changes in the Fiscal Framework in 2016

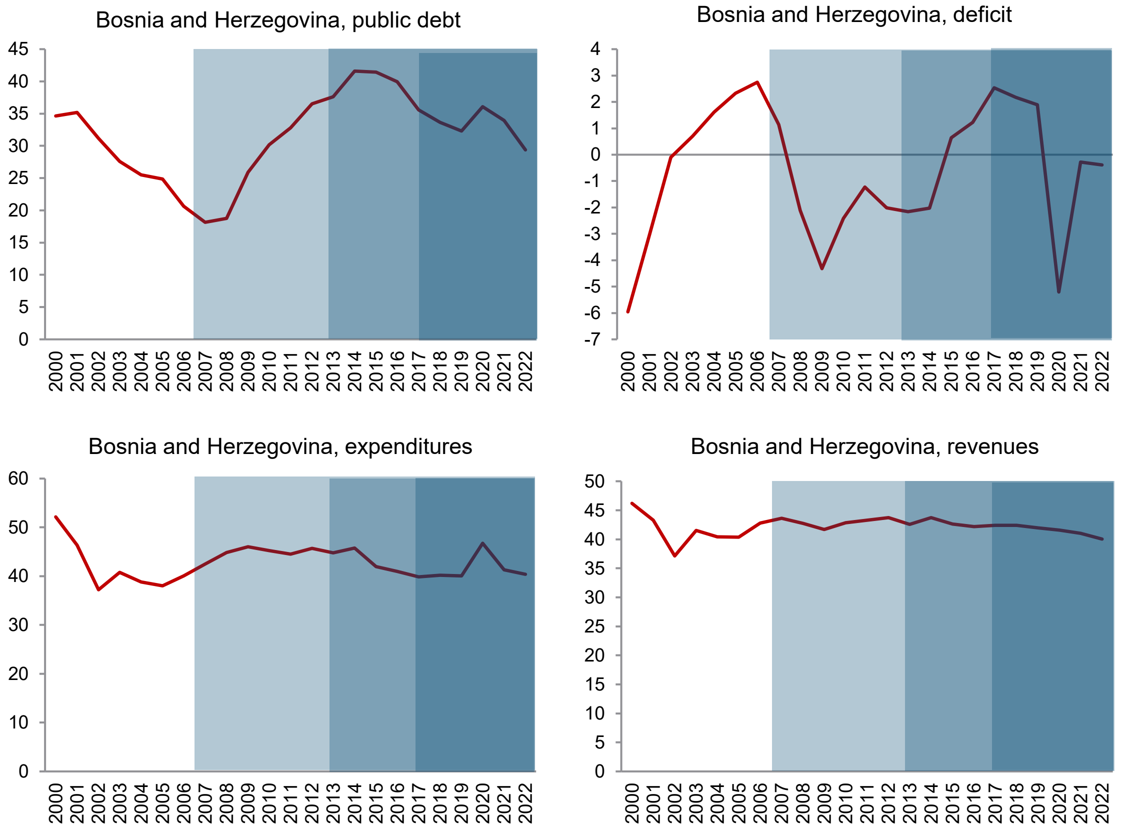


Note: The grey area marks the time period after the changes in the fiscal framework in 2016 (i.e. the introduction of the debt and budget balance rules).
Source: Ministry of Finance, SSO, authors' calculations.

BIH experienced three key changes to its fiscal framework during the period. In 2007, a general debt rule was introduced. While the rule covers just 5 percent of GG finances, it applies to the main institutions in BIH. In the same year, the Federation of BIH introduced its first debt rule. In 2012/13, the RS introduced its first debt rule, and the Federation of BIH implemented its first budget-balance rule. In 2017, the RS established a fiscal council. There was also one intermediate change in 2015, when the RS adopted its budget-balance rule and amended its debt rule.

The enactment of the country's first debt rule in 2007 does not appear to have significantly influenced fiscal outcomes. The public debt, which had been decreasing, began to rise following the rule's introduction, while the budget balance turned negative. Expenditures increased, while revenues remained constant. The 2012/13 changes appear to have had a greater effect on fiscal outcomes. The public debt, which had been rising, started to decrease after the new rules were introduced, and the budget deficit also narrowed. Expenditures fell slightly, while revenues remained steady. The introduction of the RS fiscal council in 2017 does not appear to have had a substantial impact. The public debt decreased slightly, continuing its downward trend. The fiscal deficit widened, but this was primarily due to the pandemic. Public expenditures rose slightly, again influenced by the pandemic, while revenues marginally decreased.

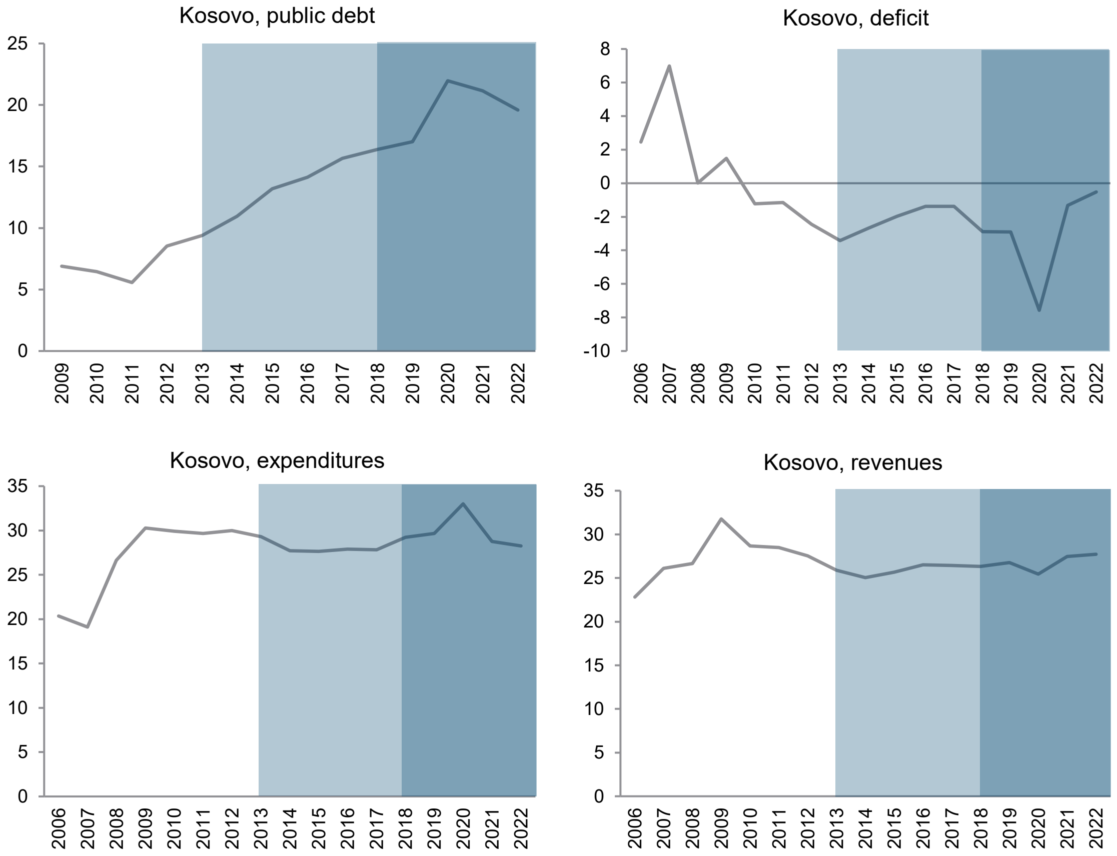
Figure 8 / Public Debt, Deficit, Expenditure, and Revenue Indicators in Bosnia and Herzegovina, before and after the Changes in the Fiscal Framework in 2007, 2012/2013 and 2017



Note: The light grey area marks the time period after the changes in the fiscal framework in 2007 (i.e. the adoption of the first rules on public debt in the country). The medium dark grey area marks the period after the adoption of the first fiscal rules in Republika Srpska, and the introduction of the budget balance rule in Federation BiH in 2012 and 2013 respectively. The dark grey area marks the period of the establishment of the fiscal council in Republika Srpska in 2017.
Source: Ministries of Finance, SSO, authors' calculations.

Kosovo's fiscal framework has undergone two significant changes. The first was in 2013, when the first debt and deficit rules were adopted. The second was the implementation of the expenditure rule in 2018. The 2013 reforms appear to have affected fiscal outcomes, particularly the deficit and public expenditures. The deficit narrowed from 2.4-3.4 percent of GDP in 2012-23 to less than 2 percent in subsequent years. Public expenditures fell from about 30 percent of GDP during 2009-2012 to about 27-28 percent during 2014-2017. However, there were no significant changes in debt dynamics, and the debt continued to grow even after the rule was implemented. Revenue patterns remained largely unchanged as well. By contrast, the 2018 reforms did not result in any notable changes in fiscal outcomes. The public debt kept increasing after the adoption of the expenditure rule. The deficit widened and expenditures rose, while revenues stayed mostly stable. This lack of significant change likely reflects the onset of the COVID-19 pandemic shortly after the rule was adopted.

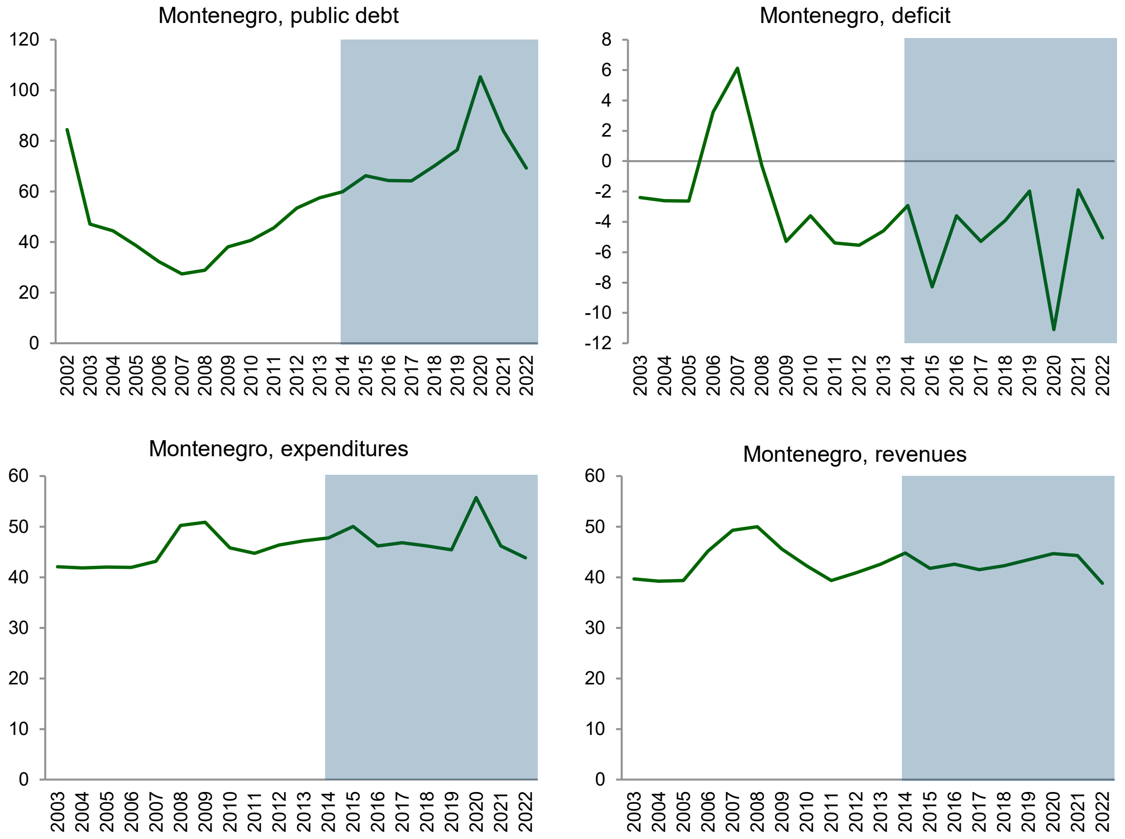
Figure 9 / Public Debt, Deficits, Expenditures, and Revenues in Kosovo before and after the Changes in the Fiscal Framework in 2013 and 2018



Note: The light grey area marks the time period after the changes in the fiscal framework in 2013 (i.e. the adoption of the first rules on debt and deficit). The dark grey area marks the period after the adoption of the government expenditure rule.
Source: Ministry of Finance, SSO, authors' calculations.

Montenegro's fiscal framework changed significantly in 2014, when fiscal rules for the public debt, deficits, and expenditures were introduced. However, these changes do not appear to have had any major impact on fiscal outcomes. The public debt continued to increase, while the deficit remained large and even widened a bit. Expenditures first rose, then declined modestly but remained broadly in line with the previous period. Revenues were largely stable.

Figure 10 / Public Debt, Deficits, Expenditures, and Revenues in Montenegro before and after the Changes in the Fiscal Framework in 2014



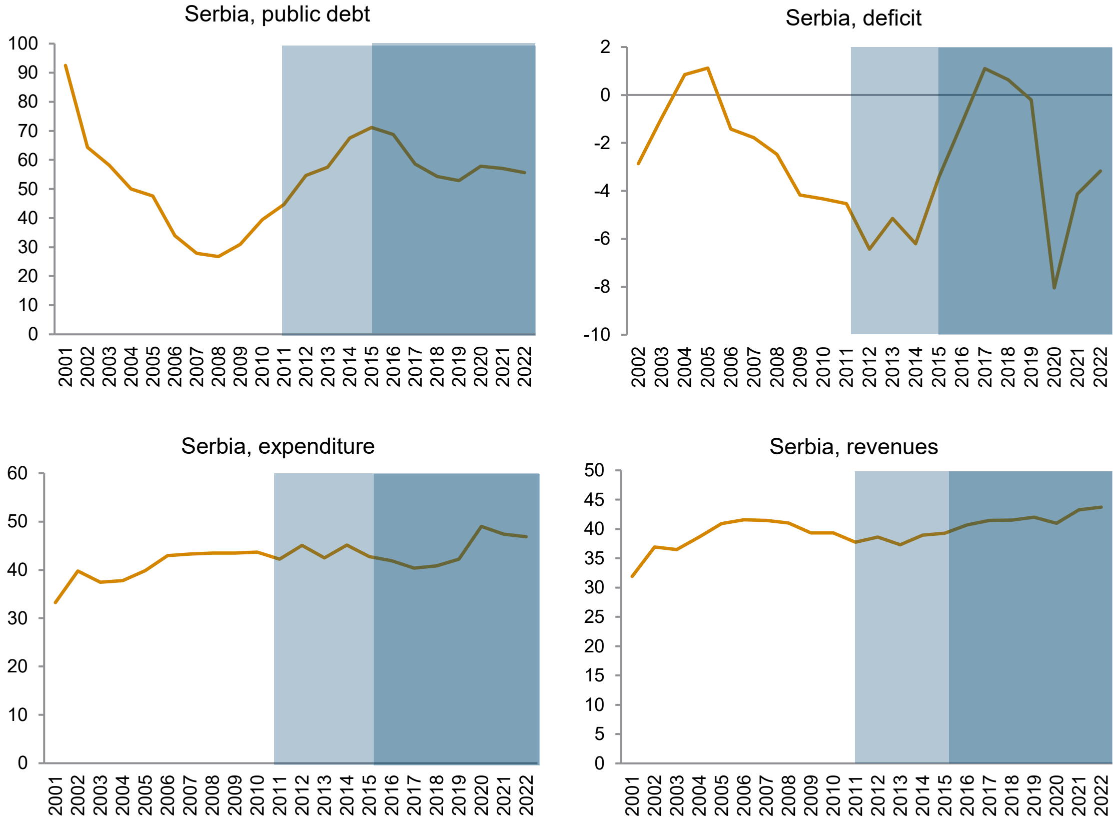
Note: The grey area marks the time period after the changes in the fiscal framework in 2014 (i.e. the introduction of the debt, budget balance, and expenditure rules).
Source: Ministry of Finance, SSO, authors' calculations.

North Macedonia's fiscal framework experienced no significant changes during the analyzed period. Its fiscal council was established in 2023, and its fiscal rules will not take effect until 2025.

Serbia has seen two significant developments in its fiscal framework in recent years. The first was in 2011, when the fiscal council was established, and the first debt and budget-balance rules were introduced. The second change was the adoption of the expenditure rule in 2015.

The 2011 reforms do not appear to have significantly affected fiscal outcomes. The public debt, which was already increasing, rose from 45 percent of GDP in 2011 to over 70 percent by 2015. Similarly, the deficit, which was around 4.5 percent of GDP in 2011, continued to expand, averaging 6 percent in 2012-14. Total government expenditures also rose slightly, occasionally exceeding 45 percent of GDP during 2012-14, while revenues remained relatively stable. By contrast, fiscal outcomes changed following the introduction of the expenditure rule in 2015. Government expenditures decreased slightly from 45 percent of GDP in 2014 to 40-42 percent in subsequent years. Meanwhile, the deficit began to narrow significantly and briefly turned to surplus during 2017-18. The public debt also started to decline, falling below 60 percent of GDP. However, it is unclear how much of the improvement in fiscal indicators can be ascribed to the expenditure rule as opposed to the broader change in government priorities at the time, as the authorities pivoted toward austerity.

Figure 11 / Public Debt, Deficits, Expenditures, and Revenues in Serbia before and after the Changes in the Fiscal Framework in 2011 and 2015



Note: The light grey area marks the time period after the changes in the fiscal framework in 2011 (i.e. the establishment of the fiscal council, and the adoption of the first rules on debt and deficit). The dark grey area marks the period after the adoption of the government expenditure rule.
Source: Ministry of Finance, SSO, authors' calculations.

In sum, the changes in the fiscal frameworks may have affected some fiscal outcomes in some of the analyzed countries, but these relationships are limited and inconsistent. Many factors could explain why the improvements in the fiscal frameworks did not have a greater impact on fiscal outcomes, but two are particularly important: the rules and councils that have been introduced have tended to be relatively weak, and the authorities have not always complied with them. Both explanations underscore the need to strengthen fiscal rules and councils in the Western Balkans, as even well-designed policies and institutions require compliance to be effective.

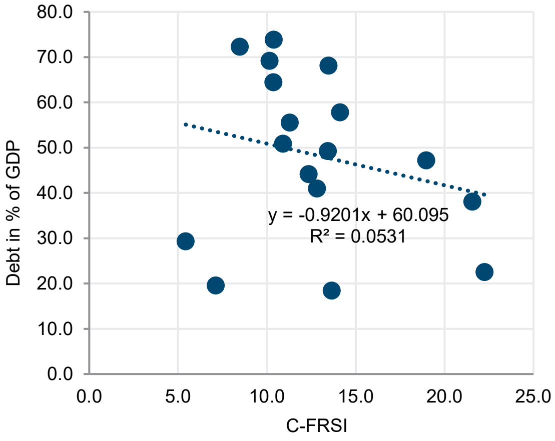
6.2. DESCRIPTIVE ANALYSIS OF THE CORRELATION BETWEEN THE FISCAL FRAMEWORK INDICES AND PUBLIC DEBT AND DEFICIT

To examine the correlation between fiscal frameworks and fiscal outcomes, scatterplots are used to compare the strength indices for fiscal rules, fiscal institutions, and MTBFs with indicators of the public debt and budget balance across all CESEE countries. Comparisons with the public debt are for 2022, the latest year for which data are available, while comparisons with the budget balance are based on averages for 2017-2022. Unfortunately, this analysis could not be done exclusively for the WB6 due to insufficient data on the fiscal framework indices, as there are only six data points for the region.

The scatterplots comparing the C-FRSI with the public debt reveal a negative correlation. A higher C-FRSI score is associated with a lower public debt level (Figure 12). Although this correlation does not necessarily indicate causation, it does suggest that CESEE countries with more robust fiscal rules had lower levels of public debt in 2022.

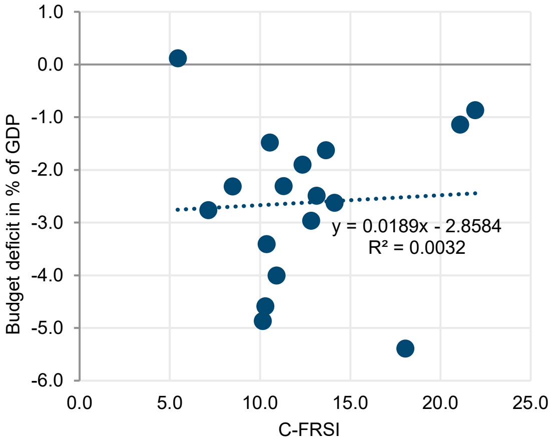
The correlation between C-FRSI scores and average budget balances during 2017-2022 is positive but relatively weak. This finding suggests that stronger fiscal rules are associated with more positive fiscal balances (Figure 13). The low intensity of this correlation is likely due to the extensive fiscal support involved in the pandemic response, which required the triggering of escape clauses.

Figure 12 / C-FRSI Scores and Public Debt in CESEE Countries, 2022



Source: Authors' calculations.

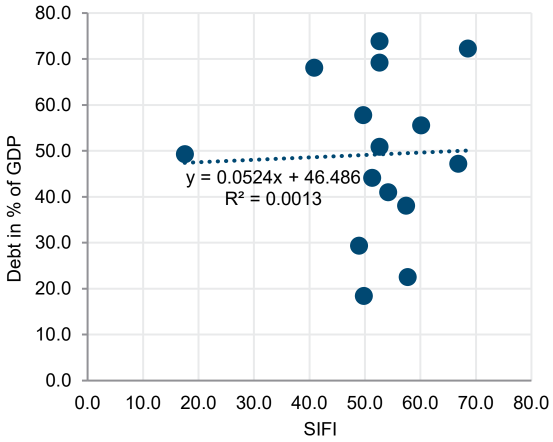
Figure 13 / C-FRSI Scores and Average Budget Deficits in CESEE Countries, 2017-2022



Source: Authors' calculations.

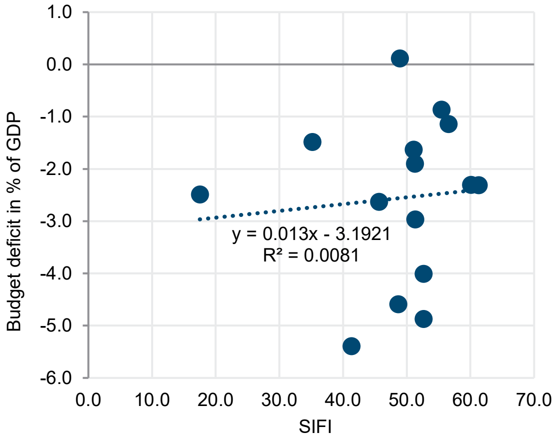
Stronger fiscal councils are associated with improved fiscal balances but are not correlated with the public debt. SIFI scores have no clear relationship with the level of public debt in the CESEE region in 2022 (Figure 14), which can be explained by the countries' different starting debt levels and the need to extend fiscal support during the pandemic. However, stronger fiscal councils are associated with enhanced fiscal balances during the 2017-2022 period (Figure 15).

Figure 14 / SIFI Scores and Public Debt Levels in CESEE Countries, 2022



Source: Authors' calculations.

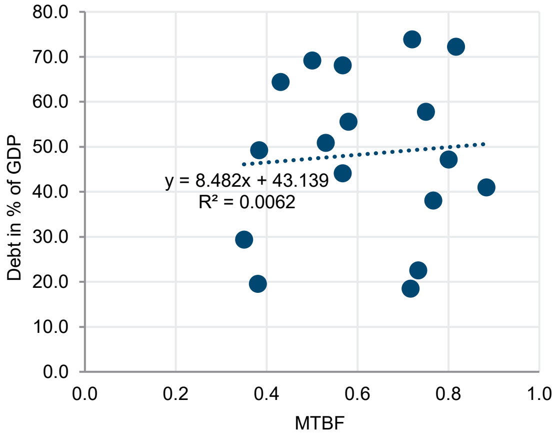
Figure 15 / SIFI Scores and Average Budget Deficits in CESEE Countries, 2017-2022



Source: Authors' calculations.

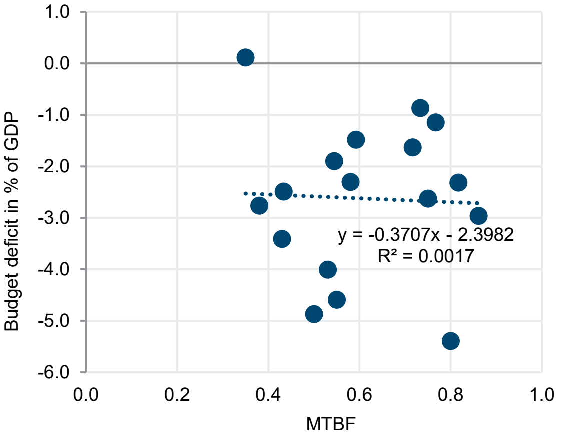
The scatterplots for the MTBF index and the public debt and deficit indicators present counterintuitive findings. CESEE countries with better MTBFs are found to have had higher levels of public debt and more negative fiscal balances in 2022. This may be explained by differences in the countries' initial debt levels and the impact of emergency fiscal support during the pandemic.

Figure 16 / MTBF Index Scores and Public Debt Levels in CESEE Countries, 2022



Source: Authors' calculations.

Figure 17 / MTBF Index Scores and Average Budget Deficits in CESEE Countries, 2017-2022



Source: Authors' calculations.

6.3. ECONOMETRIC ANALYSIS OF THE EFFECTS OF INTRODUCING FISCAL RULES AND COUNCILS

Finally, a brief econometric analysis explores the relationship between variables related to fiscal rules and fiscal councils and various fiscal and economic outcomes. This analysis utilizes dummy variables for debt rules, deficit rules, expenditure rules, and fiscal councils. Each dummy variable takes a value of one if the respective rule or council is in place. The impact of these four variables is then assessed against the following economic and fiscal outcomes:

- GG debt as a share of GDP;
- GG budget balance as a share of GDP, with negative values indicating a deficit;
- GG revenues as a share of GDP;
- GG expenditures as a share of GDP;
- The unemployment rate;
- The Gini coefficient of the pretax income distribution;
- The share of income held by the top 1 percent;
- The poverty rate, measured according to the national poverty line;
- Government social spending as a share of GDP; and
- Government spending on education as a share of GDP.[5]

The econometric analysis is run for all CESEE countries for the 2000-2022 period to maximize the number of observations.

A panel fixed-effects estimator, which includes country-level fixed effects, is applied to account for unobserved country heterogeneity. All four fiscal-framework dummy variables are included in all the regressions. A linear time trend is added in all the regressions to account for potential upward or downward trends in the explanatory variables, and standard errors are clustered at the country level to account for possible heteroscedasticity. The full results are presented in Table 2, and the main findings are below:

- The GG debt has the only significant coefficient for the time trend, with a positive sign, indicating that public debt rose in the CESEE countries throughout 2000-2022. None of the coefficients on the four fiscal-framework variables is significant.
- For the budget deficit, the coefficient on the fiscal-council dummy is significant at 10 percent with a positive sign, implying that introduction of a fiscal council is associated with an improvement in the budget balance in CESEE countries during the period. According to the size of the coefficient, the introduction of a fiscal council is linked with a reduction in the deficit of 1.5 ppts of GDP, on average, ceteris paribus.

[5] Data on debt, the budget balance, revenues, expenditures, and employment are from the wiiw Annual Database. Data on the income distribution are from the World Inequality Database. Poverty data are from Eurostat. Data on education and social spending are from the IMF Government Financial Statistics.

- For government revenue, the coefficient on the fiscal council dummy is again significant with a positive sign, suggesting that the introduction of a fiscal council is associated with an increase in government revenue in the analyzed sample. The magnitude of the coefficient is such that the introduction of the fiscal council is linked with an increase in revenue of 1.2 ppts of GDP, on average, ceteris paribus. This is consistent with the findings on the effect of the fiscal council on the budget deficit.
- For government expenditures, none of the fiscal-framework variables is significant.
- For the unemployment rate, only the time trend has a significant coefficient. Its negative sign implies that unemployment gradually declined in CESEE countries during the observed period.
- For the two measures of inequality measures—the Gini coefficient and the share of income held by the top 1 percent—the debt rule is significant and with a negative coefficient, indicating that the introduction of a debt rule in the CESEE is associated with a decline in inequality. Debt rules are also linked with higher government spending on education, which may explain their association with declining inequality.
- For the poverty rate, measured according to the national poverty line, the fiscal-council variable has a positive and significant coefficient, implying that the introduction of a fiscal council is associated with a 1.7 ppt increase in the poverty rate. Fiscal councils are also associated with lower levels of social spending, which may explain the negative correlation with the poverty rate.

There is some evidence that the introduction of fiscal rules and councils in the CESEE countries during the past two decades has been associated with better fiscal outcomes. Fiscal councils are linked to higher revenues and smaller budget deficits. However, economic outcomes are mixed. Debt rules are associated with greater education spending and lower income inequality, while fiscal councils tend to correlate with lower levels of social spending and higher poverty rates.

While these findings reveal correlation, they do not necessarily indicate causation. Despite the inclusion of country-level fixed effects and time trends, numerous additional factors could affect the observed relationship between fiscal rules and councils and fiscal and economic outcomes. For example, a policy shift toward fiscal austerity could lead to the introduction of a fiscal rule or council as well as a direct reduction in social spending, an increase in poverty, and/or a reduction in the deficit. As a result, these findings should be interpreted with caution and not taken as conclusive proof that fiscal rules or councils directly influence fiscal or economic outcomes. Nevertheless, the findings do suggest that fiscal rules and councils may have contributed positively to fiscal and economic outcomes in the CESEE countries over the past two decades, albeit with potential negative social implications at the same time.

Table 2 / Results of the Econometric Analysis of the Effects of Introducing Fiscal Rules and Councils on Various Fiscal and Economic Outcomes in CESEE Countries, 2000-2022

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	**Gen. gov. debt**	**Budget deficit**	**Gen. gov. revenues**	**Gen. gov. expenditure**	**Unemployment rate**	**Gini coefficient**	**Top 1% income share**	**Poverty rate, NPL**	**Social spending**	**Education spending**
Debt rule	-6.227	-0.452	0.277	0.729	-0.420	-0.020**	-0.011*	-0.160	0.053	0.191**
	(5.401)	(0.613)	(0.345)	(0.548)	(1.526)	(0.009)	(0.005)	(0.408)	(0.313)	(0.073)
Deficit rule	5.857	0.775	0.073	-0.703	-0.149	0.011	0.003	0.336	-0.525	-0.076
	(4.793)	(0.520)	(0.408)	(0.629)	(1.453)	(0.008)	(0.004)	(0.671)	(0.413)	(0.105)
Expenditure rule	1.925	-0.256	-0.320	-0.064	-0.374	0.001	0.002	-0.169	0.717	-0.060
	(5.353)	(0.640)	(0.556)	(0.775)	(1.320)	(0.007)	(0.004)	(0.618)	(0.527)	(0.122)
Fiscal council	0.154	1.518*	1.178**	-0.340	2.375	0.007	0.002	1.663**	-0.668*	-0.149
	(3.587)	(0.782)	(0.500)	(0.642)	(2.146)	(0.007)	(0.005)	(0.711)	(0.373)	(0.105)
Time trend	0.817**	-0.086	0.003	0.089	-0.519***	0.000	0.000	-0.142**	0.135*	-0.016
	(0.374)	(0.064)	(0.048)	(0.069)	(0.155)	(0.001)	(0.000)	(0.064)	(0.063)	(0.015)
Constant	31.425***	-2.212***	37.277***	39.489***	19.829***	0.468***	0.104***	19.711***	11.674***	5.040***
	(3.542)	(0.531)	(0.408)	(0.591)	(1.469)	(0.006)	(0.003)	(0.675)	(0.720)	(0.151)
Observations	378	381	381	381	376	391	391	232	215	215
R-squared	0.203	0.043	0.086	0.032	0.390	0.081	0.059	0.112	0.163	0.171
Number of countries	17	17	17	17	17	17	17	17	14	14

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

7. The European Union's New Fiscal Governance System

The EU's fiscal governance system has grown more complex in recent decades, and shocks caused by climate change have sparked a debate about the adequacy of its design, implementation, and outcomes. The foundation of the current EU governance architecture was established in the Maastricht Treaty (1992) and the Stability and Growth Pact (1997), with important revisions in 2005, 2011, 2013, and 2015. The initial rules proved to be too stringent, leading to widespread violations, and many of the subsequent changes were designed to introduce greater flexibility. However, the basic approach to fiscal rules remained unchanged, with a focus on debt and deficit limits (Blanchard, Leandro, and Zettelmeyer 2021, 208–09). A new set of reforms proposed in 2022 reflected identified weaknesses in the current fiscal governance system, as well as lessons from recent crises (European Commission 2022g, 3). The previous surveillance system failed to properly address the growing heterogeneity of fiscal positions, increasing procyclicality, inadequate pro-growth policies, and limited transparency, ownership, and predictability. EU finance ministers reached an agreement to reform EU fiscal rules at end-2023 (European Council 2023), and the European Parliament approved a negotiation text in January 2024. The European Council approved reforms to the EU's economic and fiscal governance framework in April 2024.

The reform of EU fiscal rules shifts the focus from the annual development of public finances to a longer-term view. The deficit limit of 3 percent of GDP and public debt limit of 60 percent of GDP from the previous framework remained in place. However, the 1/20th debt-reduction rule – according to which the public debt ratio should decline to 60 percent of GDP within 20 years – was eliminated. In the new framework, when public debt exceeds the 60 percent reference value or when the budget deficit exceeds the 3 percent reference value, the EC will introduce a "technical trajectory," and by the end of a multiyear adjustment period the public-debt-to-GDP ratio should be on a "plausibly downward trajectory".

Against the backdrop of the technical trajectory, the EC and national governments will negotiate multiyear budget plans of at least four years. These plans will be based on Debt Sustainability Analysis (DSA), which projects the public debt ratio based on assumptions about future fiscal policy, growth, interest rates and inflation (Heimberger 2023; Heimberger et al. 2024). The DSA projection will provide a reference path for budget planning that is consistent with a stable or declining debt ratio. While the country-specific nature of multiyear fiscal adjustment requirements is the main difference from the previous approach, the national medium-term fiscal-structural plans incorporating investment and reform commitments will be a focus of the new process, as they will allow for an extension of the fiscal adjustment horizon and differentiation among member states.

The insistence of Germany and some other countries on stricter fiscal rules than were included in the original EC proposal has led to a compromise regarding the introduction of so-called "safeguards" for minimum fiscal consolidation. A new "deficit resilience safeguard" will be applied when setting the multiyear budget path. Governments will be required to continue the fiscal adjustment even after they reach the 3 percent deficit target as long as their structural deficit is greater than 1.5

percent of GDP. The "debt sustainability" requires that the public debt ratio for countries with a debt ratio higher than 90 percent of GDP falls by at least one percentage point per year; and by half a percentage point of GDP per years when the debt ratio is above 60 percent but below 90 percent (Darvas et al. 2024).

The multi-year net expenditure path (i.e., expenditures net of interest payments and cyclical items) will be the single operational target of the new framework. There will be a general EU escape clause and national escape clauses that can be triggered in case of a serious event that justifies a temporary deviation from the rules.

Individual EU member states can commit to a series of investments and reforms in order to extend the fiscal adjustment path for up to seven years if the EC agrees that the investments are compatible with debt sustainability. However, the EU would likely not recognize a large share of the green spending undertaken in this context, as it would not reduce the public debt ratio. A quantitative analysis of the medium-term fiscal and growth implications of the investments underpinning a longer adjustment period may be difficult and/or politically sensitive.

When applying the safeguards, the agreement by the EU finance ministers offers limited exemptions for investments included in post-pandemic recovery plans and for the national cofinancing of EU funds during 2025-26. The reform of EU fiscal rules thus does not include any broad-based exemptions for green public investment, as would be the case under a "green golden investment rule" (see, e.g., Pekanov and Schratzenstaller 2023). As public investment is easier than other forms of public spending to cut or delay when fiscal consolidation pressures rise (Jacques 2021), increasing public investment will prove difficult for many EU governments.

The new framework will be less restrictive than the previous one, but after years of using the escape clause, renewed adherence to fiscal rules will be challenging. The new rules will have an especially significant impact on countries with high public debt ratios. Simulations based on the council agreement show that implementing the new rules will require Italy to improve its structural primary balance by 0.6 ppts of GDP over a period of seven years starting in 2025. By contrast the required annual adjustment for the seven-year extension is estimated at 0.5 ppts for France, 0.3 ppts for Austria, and 0.02 ppts for Germany (Zettelmeyer 2023).

8. Some considerations for strengthening fiscal governance frameworks in the Western Balkans

The EU's newly reformed fiscal governance system will have a limited direct impact on the WB6, but its indirect implications are extensive. In the EU, the average public debt stock exceeded 80 percent of GDP in 2023, but the average for the WB6 was less than 50 percent. All WB6 fiscal frameworks are aligned with the EU's public debt ceiling of 60 percent of GDP and deficit limit of 3 percent of GDP, and some are even more stringent, such as Kosovo's 40 percent debt ceiling and Albania's 45 percent ceiling. Consequently, in terms of overall public debt and budget deficit levels, adapting to the new EU fiscal rules should present no significant challenge for these economies.

The annual budgetary objectives adopted when public debt or deficit levels surpass their reference values could pose challenges for the WB6. As described above, under the revised EU framework breaches of the debt or deficit rules will trigger budget negotiations between the EC and national governments. These discussions will be underpinned by an assessment of each country's public debt sustainability over a ten-year horizon. At present, however, the WB6 economies lack the technical and analytical infrastructure to produce such projections. Most do not have operational independent fiscal councils, and even those that do have limited internal fiscal and macroeconomic forecasting capabilities. As a result, building the technical and analytical capabilities of fiscal institutions in the WB6 will be crucial in the years leading up to their prospective EU accession.

The EU's new fiscal regime could also have important implications for public investment in the WB6. Although the revised EU framework permits certain exemptions related to public investment, these provisions may prove insufficient for the WB6, which face more substantial investment requirements than their EU counterparts. This is particularly relevant for green investment, which is urgently needed in the WB6 economies due to their high local pollution levels and dependence on coal and other carbon-intensive fuels. The WB6 economies could reform their tax systems to enhance progressivity and boost revenue collection, which would enable them to achieve their deficit and debt targets while continuing to implement priority public investments.

The design of fiscal rules is subject to a tradeoff between simplicity and suitability to different country contexts. According to Blanchard, Leandro, and Zettelmeyer (2021, 195), "it is an illusion to think that EU fiscal rules can be simple [and it] is also an illusion to think that they can ever be complex enough to accommodate most relevant contingencies". EU fiscal rules have been too stringent in some cases, and continuing to pursue fiscal consolidation during recessions can increase procyclicality while limiting stimulus spending and public investment. In other cases, however, rules have been too lenient, and the failure to limit expenditure growth during expansions has had a similarly procyclical effect.

Even effective fiscal rules do not guarantee debt sustainability, and in some cases they have led to declining investment, lower growth rates, and diminished crisis preparedness. Numerical fiscal rules can encourage investment cuts as a short-term measure to reduce the deficit, but this tends to slow long-term growth, hindering efforts to reduce the debt-to-GDP ratio. Emerging markets and developing economies tend to experience larger cuts to public spending than do advanced economies, and this pattern holds for countries both with and without fiscal rules. Although in principle "golden rules" can protect investment by excluding it from the targets defined in the fiscal rule, the empirical evidence on their effectiveness is inconclusive, and in emerging markets "golden rules" may even have a negative impact on investment. Moreover, the rigid implementation of numerical fiscal rules is associated with lower public investment levels (Schwartz et al. 2020, 106–18). Since compliance monitoring through IFIs can strengthen adherence to fiscal rules, their presence may also negatively influence investment. In addition, debt or budget-balance targets can hamper efforts to stabilize output and may limit fiscal policy's responsiveness to shocks. Structural-balance rules in particular can lead to unsustainable fiscal outcomes in the face of commodity-price shocks. Structural-balance rules also require low levels of indebtedness, and their adoption may not be feasible if access to credit markets is limited, making them unsuitable for many emerging markets and developing economies (Blanco et al. 2020, 33–34).

Intergenerational equity and credibility are commonly cited in support of fiscal rules, but these arguments may be misleading. Current governments should ensure that future generations should not be excessively burdened by debt. However, all debt has a corresponding financial asset, and determining the fairness of the debt burden implies a moral as well as economic judgement. Deficits distribute resources from the state to the private sector, and what those resources finance will determine the extent of any benefit to future generations.

Political concerns around fiscal rules and IFIs present further challenges. Fiscal policy is influenced by the political system and the nature of the government (Blanchard, Leandro, and Zettelmeyer 2021, 201). Many analyses of fiscal governance argue in favor of strict, legally binding fiscal rules and fully independent fiscal councils. However, others have raised concerns as to whether this approach is sufficiently democratic, as fiscal rules and IFIs may not always reflect the preferences of the public. Beetsma and Debrun (2018, 33–34) note that, "Because the essence of fiscal rules is that governments should never have a free hand**,** independent fiscal councils emerge as the best locus for discretionary decisions. […] In many ways, the ideal would be for the fiscal council to be able to decide alone on the budget balance. This would take politics, and the associated deficit bias, (almost) completely out of a mostly technical aspect of fiscal policy". In other words, the insulation of fiscal rules and IFIs from political pressures can strengthen their positive impact on fiscal governance. The extent to which the rules and institutions established by one administration should continue to bind future administrations is a question for each society.

Fiscal councils are subject to a tradeoff between independence and democratic accountability. IFIs should consist of technical professionals who possess a deep knowledge of macroeconomic and fiscal policy and can produce unbiased forecasts to inform annual budgets. However, fiscal policy is always redistributive, and thus fiscal decisions should reflect the will of the public. To resolve this conflict, an unelected fiscal council must be subject to democratic oversight (Beetsma and Debrun 2018, 32). Moreover, the intellectual and political independence of fiscal councils can never be fully vouchsafed. IFI staff will likely consist of academics who follow particular schools of economic thought, and their assumptions will influence their recommendations. IFI's are established by the legislature and may be influenced by the fiscal preferences of the governing party or coalition. Because voters in each country have unique preferences regarding the appropriate level of debt and the proper extent of countercyclical spending, elected governments should have input into their fiscal frameworks. Fiscal rules established for a group of countries such as the EU should focus on ensuring debt sustainability. (Blanchard, Leandro, and Zettelmeyer 2021, 198–99).

Ideally, the fiscal frameworks of the WB6 should not restrict investment or slow growth and should facilitate economic convergence. The EC's revised fiscal governance proposal recognizes the potential adverse effects of fiscal rules on investment and growth, but it continues to reflect a one-size-fits-all approach that is not tailored to specific country contexts. Policymakers in the WB6 should pay close attention to the current reform process and its outcomes. After EU accession, each member country must commit to the EU fiscal rules, but until then the WB6 economies can remain selective. To achieve economic convergence, growth rates in the WB6 must exceed those of EU member countries, which will require higher investment levels. For this reason, several WB6 fiscal frameworks include broad strategic investment clauses or utilize the "golden rule." Furthermore, fiscal rules should be evaluated if they promote counter-cyclical spending in the WB6. Fiscal councils are needed to the extent that they provide unbiased forecasts and assessment of the enforcement of the rules with weak fiscal statistics, which is needed in the WB6, according to the EC's assessments.

Countries with less scope for independent monetary policy should be especially careful in restricting their ability to use fiscal policy. Monetary policy can complement fiscal policy, but the restrictions imposed by a common currency area or currency peg eliminate this option (Blanchard, Leandro, and Zettelmeyer 2021, 207). Monetary policy is limited to a greater or lesser extent in all WB6 economies, and fiscal policy remains the key tool for correcting macroeconomic imbalances and influencing domestic demand. The self-imposed constraints of fiscal rules and councils restrict the government's discretion over fiscal policy.

The current debate around fiscal rules centers on the balance between debt sustainability and adequate investment in capital goods, but investment in human capital is the important determinant of long-term economic growth in Western Balkans. Across the WB6 economies, high emigration rates are eroding the labor supply. While the CESEE countries experienced similar labor-force reductions, these were offset by robust foreign direct investment inflows and much earlier EU membership, which entailed support from the Cohesion Funds. Given the uncertain pace of EU integration in the Western Balkans, investing in human capital is vital to enhance the productivity of the workforce and accelerate the process of economic convergence.

Finally, building human and physical capital requires robust public investment management and a competitive, transparent public procurement process. Throughout the Western Balkans, significant public investments in highways and other infrastructure projects have exploited or created loopholes in national legislation. Such practices can jeopardize debt sustainability and increase balance-of-payments deficits. Fiscal rules and institutions can help address this challenge, but an enhanced fiscal framework must be backed by strong national institutions.

9. Conclusion

This study has reviewed fiscal governance frameworks in the WB6, with a focus on fiscal rules, fiscal councils, and MTBFs. The analysis is based on a new dataset derived from the EC's Fiscal Governance Database. Comparing the fiscal frameworks in the WB6 with those in CESEE sheds light on opportunities for reform, while statistical and econometric analyses provide additional insights into how fiscal rules and councils may influence economic and fiscal outcomes. Finally, the analysis considers how recent changes in the EU's fiscal rules could affect the WB6 economies.

Fiscal rules are not new to the Western Balkans, and some have been in place for almost 20 years. The region's first fiscal rule was adopted in 2006 in Serbia, albeit at the local level, while the first GG-level rule was established in BIH in 2007. As of early 2024, all six countries had implemented some form of fiscal rule, with several planning to introduce new rules in 2025.

Fiscal rules in the WB6 are generally weaker than those of the CESEE countries. Only Serbia's public debt rule and the RS's debt-to-GDP threshold approach the standards of regional EU member states. The WB6 rules are weaker due to their basis in ordinary or organic laws rather than national constitutions, the absence of monthly or quarterly monitoring, the lack of automatic correction mechanisms, the lack of cyclical adjustment, the absence of defined budgetary safety margins, and the absence of exclusions for items outside the government's immediate control. Addressing these deficiencies could enable WB6 economies to enhance their fiscal frameworks and achieve better evaluations under the EC's criteria.

As of early 2024, only Serbia and the RS entity had functioning fiscal councils. North Macedonia established a fiscal council in 2023, but it has yet to become operational, as its fiscal rules are set to be implemented in 2025. Montenegro has begun the process of establishing a fiscal council, but its members have not yet been appointed. Kosovo and Albania are considering options for creating a fiscal council but have not started the process yet.

The scope of fiscal councils in the WB6 is significantly narrower than those of the CESEE countries. Serbia's fiscal council is among the strongest in Eastern Europe, largely due to its efforts to promote transparency and the occasional policy recommendations it provides. Once operational, the fiscal councils of Montenegro and North Macedonia are expected to perform at close to the average for the broader region. However, the other WB6 fiscal councils fall short of their EU CESEE counterparts in several areas: they do not produce their own macroeconomic forecasts or assess the accuracy of official macroeconomic and fiscal forecasts; they do not analyze long-term sustainability; they do little to promote transparency; and they do not offer normative recommendations on fiscal policy.

All WB6 economies have MTBFs, but these frameworks are merely indicative. As they can easily be altered, the MTBFs fail to offer genuine guidance on fiscal policy over the medium term. When compared to their counterparts in CESEE, the frameworks in the WB6 economies are significantly weaker. The WB6 frameworks lack a clear link between the medium-term fiscal plans and the annual budgets; no correction mechanisms are in place to resolve discrepancies between the two; and the fiscal councils do not prepare or officially endorse the macroeconomic and fiscal forecasts used in the plans.

The descriptive statistical analysis suggests that fiscal rules and councils may have had some influence on fiscal outcomes in the WB6, but their impact has been modest and inconsistent. In Albania, the introduction of the first debt and deficit rules in 2016 was followed by a decline in the public debt and a slight decrease in public spending. In BIH, after 2012/13, when the RS introduced its first debt rule and the Federation of BIH implemented its first budget-balance rule, public debt began to decrease, the budget deficit narrowed, and expenditures fell slightly. Kosovo saw a reduction in public spending and a narrowing of the deficit following the adoption of public debt and deficit rules in 2013. In Serbia, the implementation of an expenditure rule in 2015 was followed by a slight decrease in public spending, an increase in revenues, a narrowing of the deficit, and a decline in the public debt. In other cases, however, the introduction of fiscal rules or councils was not accompanied by any significant change in outcomes. Moreover, the changes that appear to have been generated by enhanced fiscal frameworks may in fact reflect other factors, such as shifts in government policy or external conditions.

Similarly, the econometric analysis finds that stronger fiscal frameworks are sometimes but not always linked to improvements in fiscal and economic outcomes. Specifically, our analysis indicates that, during the period from 2000 to 2022, fiscal councils in the CESEE countries have been associated with increases in budget revenues and reductions in budget deficits. However, the effects on economic outcomes are mixed. For instance, debt rules have correlated with increased education spending and decreased income inequality, whereas fiscal councils have been linked to reduced social spending and increased poverty rates. It is important to emphasize, however, that these results represent correlations and do not necessarily indicate direct causal relationships.

The recent changes to EU fiscal rules, which shift the focus from the annual development of public finances to a longer-term view, have important implications for the Western Balkans. The WB6 economies tend to have lower public debt levels than EU countries, and their debt and deficit rules either meet or exceed EU benchmarks. However, the provisions requiring ten-year forecasts in the event of a breach may pose a challenge for governments that lack the technical and analytical infrastructure to undertake the required projections. As a result, enhancing the technical and analytical capabilities of fiscal institutions within the WB6 will be crucial to prepare for their prospective EU accession.

Finally, the EU's updated fiscal framework could significantly impact public investment in the WB6. Although the revised rules contain certain exceptions for public investment, these may not sufficiently address the WB6's more extensive investment needs relative to EU counterparts. These constraints are especially relevant to green investments, which are urgently needed to address high levels of pollution and carbon emissions in the WB6. Reforming their tax systems to increase progressivity and boost revenue collection could enable the WB6 economies to meet their deficit and debt objectives without sacrificing much-needed public investment.

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Annex

Table A.1 / Scoring Patterns for the Fiscal Rules Strength Index

Score	Criterion
	Criterion 1: Statutory/legal base of the rule
3	Constitutional (including higher than ordinary law)
2	Legal Act of ordinary nature
1	Coalition agreement (including Government program voted in parliament or agreement between government sub-sectors which is not a law)
0	Political commitment by a given authority (central/local government, minister of finance) or an annual budget law
	Criterion 2: Room for setting or revising objectives
3	The target of the rule, as defined in in its establishing act, cannot be changed or temporarily suspended by the Government except in well-defined situations (i.e. escape clauses)
1	Subject to parliamentary approval, the Government can either temporarily change the target or it is mandated to decide on the target (in case the target is not defined in its establishing act)
0	The government can change the target of the rule at any time without parliamentary approval (e.g. the statutory base of the rule merely contains broad principles of the obligation for the government or the relevant authority to set targets)
	Criterion 3a: Nature of the body in charge of rule monitoring and the correction mechanism
3	Monitoring by an independent authority (i.e. fiscal council type of institution)
2	Monitoring by the court of auditors (if not hosting an independent fiscal council) and/or parliament
1	Monitoring only by the ministry of finance or other government body
0	No regular public monitoring of the rule (no report systematically assessing compliance)
	Criterion 3b: Real-time monitoring
1	Real-time monitoring (quarterly or more frequent) takes place **and** the statutory base of the rule specifies corrective actions to be taken during budget execution in case a risk of non-respect of the rule is detected through the real-time alert mechanism
0.5	Real-time monitoring (quarterly or more frequent) takes place **but** the statutory base of the rule does **not** specify corrective actions to be taken during budget execution in case a risk of non-respect of the rule is detected through the real-time alert mechanism
0	No real-time monitoring takes place
	Criterion 3c: Nature of the body in charge of monitoring the correction mechanism in case of deviation from the rule
1.5	An independent authority (e.g. fiscal council or court of auditors endowed with appropriate mandate)
1	The court of auditors and/or parliament
0	The ministry of finance or other government body
0	No specific body in charge of monitoring the correction mechanism
0	No correction mechanism in place
	Criterion 3d: Independent body providing/endorsing macro/budgetary forecasts
2	if there is an independent body providing or endorsing the official macroeconomic **and** budgetary forecasts on which the annual budget is prepared.
1	if there is an independent body providing or endorsing the official macroeconomic **or** budgetary forecasts on which the annual budget is prepared.
0	if there is no independent body providing or endorsing **neither** the official macroeconomic nor budgetary forecasts on which the annual budget is prepared.

contd.

Table A.1 / Continued

Score	Criterion
	Criterion 4: Correction mechanisms in case of deviation from the rule
4	the correction mechanism is triggered automatically and there are pre-determined rules framing the nature/size and/or timeline of the correction
2	the correction mechanism is triggered automatically or there are pre-determined rules framing the nature/size and/or timeline of the correction
1	the government is obliged to take or present corrective measures before the parliament or the relevant authority, but without a predefined timeline for such action and with no pre-determined rules framing the nature/size and/or timeline of the correction
0	the government is not obliged to take or present corrective measures and there are no pre-determined rules framing the nature/size and/or timeline of the correction.
	Criterion 5: Resilience to shocks or events outside the control of the government
1 or 0	Does the rule contain clearly defined escape clauses which are in line with the SGP?
1 or 0	Is there a budgetary margin defined in relation to the rule (i.e. the planned spending targets are set at a lower level than the expenditure ceilings) or a safety margin linked to the MTO which is enshrined in national legislation?
1 or 0	Are targets defined in cyclically-adjusted terms or do they account for the cycle in any way (e.g. targets defined over the cycle)?
1 or 0	Are there exclusions from the rule in the form of items that fall outside authorities' control at least in the short term (e.g. interest payments, unemployment benefits)?

Source: DG-ECFIN Fiscal Governance Database.

Table A.2 / Scoring Patterns for the Scope Index of Fiscal Institutions

Score	Task
	Task 1: Monitoring compliance with fiscal rules
2	Monitoring both ex-ante and ex-post
1	Monitoring either ex-ante or ex-post
0	Monitoring neither ex-ante nor ex-post
0.5 or 0	Bonus: Correction mechanism
0.5 or 0	Bonus: Monitoring of all general government rules
	Task 2: Macroeconomic forecasting
2	Production of macro-economic forecasts used for fiscal planning (within the meaning of Art. 2.1b of the Two-Pack Regulation 473/2013)
1	Official endorsement of the government`s macroeconomic forecasts used for fiscal planning (within the meaning of Art. 2.1b of the Two-Pack Regulation 473/2013)
1	Assessment of the official macroeconomic forecasts which is published before submission to the Parliament of the budgetary planning documents
0	The fiscal institution is consulted at the start or during the preparation of macroeconomic forecasts
0	Production of macro-economic forecasts, but these are not used for the national fiscal planning
	Task 3: Budgetary forecasting and policy costing
3	Production of the official budgetary forecasts
3	Official endorsement of the government`s budgetary forecasts (within the meaning of Art. 4.4 of the Two-Pack Regulation 473/2013)
2	Assessment of budgetary forecasts BEFORE the adoption in the Parliament of the budgetary planning documents
1	Assessment of the budgetary forecasts AFTER the adoption in the Parliament of the budgetary planning documents
0	The fiscal institution is consulted at the start or during the preparation of budgetary forecasts
0	Production of budgetary forecasts, but these are not used for the national fiscal planning
1 or 0	**Task 4: Analysis of long-run sustainability of public finances**
1 or 0	**Task 5: Active promotion of fiscal transparency**
1 or 0	**Task 6: Normative recommendations on fiscal policy**
	Legal force coefficient
1	Tasks stipulated in legal remit
0.5	Own-initiative tasks – proven and regular output
0.25	Own-initiative tasks – sporadic output

Source: DG-ECFIN Fiscal Governance Database

Table A.3 / Scoring Patterns for the Index on the Quality of MTBF

Score	Criterion
	Criterion 1A: Coverage of the targets/ceilings included in the national medium-term fiscal plans
3	It covers more than 90% of the general government
2	It covers between 70% and 90% of the general government
1	It covers between 50% and 70% of the general government
0	It covers less than 50% of the general government
	Criterion 1B:
1 or 0	The score is supplemented by 1 if there is some form of coordination (either direct meetings or fiscal rules at the lower level of government) between sub-levels of government when setting the multi-annual targets
	Criterion 2A: Connectedness between the targets/ceilings included in the national medium-term fiscal plans and the annual budgets
4	By law or in practice, the annual budget respects the limits set (deficit/ surplus, expenditure ceilings, etc.) in the medium-term fiscal plans which cannot be exceeded in any circumstances
3	The annual budget can only deviate at a disaggregated level from the medium-term fiscal plans provided that the nominal budget balance is unchanged (i.e. reallocation - additional spending is matched by a revenue increase or by a decrease in another spending item) or the structural budget balance objective is not revised
2	The annual budget, including headline balance objectives, can only deviate from the medium-term fiscal plans in a specific set of pre-defined circumstances (e.g. change in expenditure on pensions/unemployment benefits, substantial change in the macroeconomic forecast, new government coming to power, etc.)
1	The annual budget can deviate from the medium-term fiscal plans, but possible deviations must be publicly explained
0	The medium-term plans are only indicative and possible deviations need not be explained;
	Criterion 2B:
1 or 0	The score is supplemented by 1 in case the objectives/ceilings included in the national medium-term plans are fixed in advance for a number of years and are not changed
	Criterion 2C:
1 or 0	The score is further supplemented by 1 in case there are well-defined actions to be taken in case of deviations from plans (applicable only in cases falling under the first three categories above)
	Criterion 3: Involvement of national parliament or use of a coalition agreement in the preparation of the national medium-term fiscal plans
3	The medium-term plans are voted by the parliament
2	No vote in parliament, but there is a formal presentation by the government and/or a discussion on the medium-term plans in parliament
1	No formal presentation in parliament, but the medium-term plans are sent for information to the parliament
	Criterion 4: Involvement of independent fiscal institutions in the preparation of the national medium-term fiscal plans
4	An IFI produces/endorses BOTH the macroeconomic AND budgetary multi-annual forecasts
3	An IFI either produces/endorses EITHER the macroeconomic OR the budgetary multi-annual forecasts
2	An IFI assesses BOTH the macroeconomic AND budgetary multi-annual forecasts
1	An IFI assesses EITHER the macroeconomic OR the budgetary multi-annual forecasts
	Criterion 5: Level of detail included in the national medium-term fiscal plans
1 or 0	There is a detailed breakdown of the total expenditure and revenue projections based on unchanged policies by main components.
1 or 0	There is a dedicated section/chapter analysing the policies underlying both total expenditure and revenue projections and/or their main components
1 or 0	The impact of the main policies and reforms on the unchanged policy scenario is quantified over the time-span of the plan
1 or 0	The medium-term fiscal plan provides detailed explanations on the budgetary impact of alternative macroeconomic scenarios

Source: DG-ECFIN Fiscal Governance Database.

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Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

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