Fiscal rules are long-term restrictions on fiscal policy operating through numerical limits on the budgetary aggregates, usually based in legislation. As such, they can act as concrete indicators of the government's commitment to prudent budgetary management. They can counter the tendency of government to accommodate internal and external demands by spending more than it has, given the open-ended nature of the budget process.

There is no one-size-fits-all model for designing and implementing fiscal rules. Economic, political and social factors at the national level and the budget process's specific institutional arrangements must be taken into account in formulating fiscal rules. Commonly, fiscal rules include escape clauses to deal with unforeseen circumstances (e.g. *force majeure*) or external shocks.

Fiscal rules may focus on different elements of government fiscal aggregates: expenditure, budget balance (in terms of deficit or surplus), public debt and revenue. Across SEA countries, the most widespread types of fiscal rules are budget balance (70%) and debt rules (60%). These types of rules are also common in OECD countries, where all reported countries have budget balance rules, in some cases as part of the European Union and euro area membership requirements. Only 40% of the SEA countries have expenditure rules. In stark contrast, a majority of OECD countries have adopted such rules, often to complement their deficit and debt rules. Only Lao PDR and Viet Nam have implemented a revenue rule; the low incidence of such rules is also found in OECD countries (45%).

Fiscal rules can have different legal foundations. Singapore is the only SEA country that has enshrined fiscal rules in their constitution. A common legal foundation for fiscal rules in SEA countries and OECD countries is primary and secondary legislation, including complementary international rules for EU members. In exceptional cases, fiscal rules can be based primarily on a long-term political commitment, such as in Australia and New Zealand.

To avoid deviating from conditions set in the rules, countries often rely on tools such as political commitment and monitoring by independent fiscal institutions. However, many countries have enforcement mechanisms outlining the procedures in the event of an unjustified deviation from the rule's target. Several SEA countries have chosen mechanisms where the entity responsible for the overrun must implement corrective measures, or submit a proposal detailing corrective measures to the legislature. In the OECD, 13 countries out of 33 (39%) have indicated enforcement measures where "explanation with reasons for non-compliances were presented to legislature".

Methodology and definitions

Data for SEA countries refer to country responses to the 2018 OECD Budget Practices and Procedures Survey for Asian Countries. OECD country responses are to the 2018 OECD Budget Practices and Procedures Survey. Respondents were predominantly senior budget officials in SEA countries and OECD countries. Responses represent the countries' self-assessments of current practices and procedures. Data refer only to central/federal governments and exclude the sub-national level. OECD totals are based on responses by 33 OECD countries as no 2018 data are available for the United Kingdom and the United States.

A numerical fiscal rule is defined as a permanent, long-term restriction on fiscal policy.

The four broad categories of fiscal rules are:

- Budget balance (i.e. deficit or surplus) rules: directly target the budget balance (i.e. the gap between government spending and revenues). Includes a requirement to run a balanced position; not to exceed a defined deficit limit; or to attain a defined minimum surplus.
- Debt rules: limit the amount of government debt that can be accumulated.
- Expenditure rules: limit the amount of government spending, or the rate of growth in government spending.
- Revenue rules: impose constraints on the tax-to-GDP ratio and place restrictions on government revenues raised in excess of projected amounts.

Further reading

Anderson, B. and J. Minarik (2006), "Design choices for fiscal policy rules", *OECD Journal on Budgeting*, Vol. 5/4, OECD Publishing, Paris, *https://doi.org/10.1787/budget-v5-art25-en*.

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Figure notes

4.4: Viet Nam's revenue rules are consigned in the National Assembly's resolutions for a ten-year financial strategy and a five-year socio-economic development plan. Cambodia's debt rules are stipulated in the budget law. Thailand's expenditure and debt rules are stipulated in the 2018 Fiscal Responsibility Act of 19 April 2018.

4.5: New Zealand requires a proposal with corrective measures and an explanation for non-compliance presented to the legislature; no information on the type of rule available.

4.4. Types and legal foundation of fiscal rules, 2018

	Budget balance (deficit/ surplus)	Debt	Expenditure	Revenue
Brunei Darussalam	x	x	x	x
Cambodia	x	◉	x	x
Indonesia	◉	◉	x	x
Lao PDR	◉	x	◉	◉
Malaysia	⊘	◉	x	x
Myanmar	⊘	x	x	x
Philippines	⊘	x	x	x
Singapore	●	◉	◉	x
Thailand	x	⊘	◉	x
Viet Nam	◉	◉	◉	❑
SEA Total (yes)	7	6	4	2
Australia	❍	❍	x	❍
Japan	◉	⊘	⊘	◉
Korea	⊘	⊘	⊘	◉
New Zealand	❍	❍	❍	❍
OECD Total (yes)	33	29	27	15

Key:
● Constitution
○ International treaty
◉ Primary legislation/Secondary legislation
⊘ Internal rules/policy
❍ Political commitment
❑ Other
x No / Not applicable

Sources: For SEA countries, OECD (2018) Budget Practices and Procedures Survey for Asian Countries. For OECD countries, OECD (2018) Budget Practices and Procedures Survey.

StatLink https://doi.org/10.1787/888933840855

4.5. Enforcement mechanisms for fiscal rules, 2018

Type of rule/ Correction mechanisms	Automatic correction mechanisms	Automatic sanctions	Entity must implement measures	Proposal with corrective measures presented to the legislature	None
Expenditure	Thailand		Lao PDR, Thailand, Viet Nam	Thailand, Viet Nam	Singapore, Japan, Korea
Budget balance			Indonesia, Lao PDR	Myanmar, Viet Nam	Malaysia, Philippines, Singapore, Australia, Japan, Korea
Debt	Thailand		Cambodia, Indonesia, Thailand	Viet Nam	Malaysia, Singapore, Australia, Japan, Korea
Revenues			Lao PDR	Viet Nam	Australia, Japan, Korea

Sources: For SEA countries, OECD (2018) Budget Practices and Procedures Survey for Asian Countries. For OECD countries, OECD (2018) Budget Practices and Procedures Survey.

StatLink https://doi.org/10.1787/888933840874

From:

Government at a Glance Southeast Asia 2019

Access the complete publication at:

https://doi.org/10.1787/9789264305915-en

Please cite this chapter as:

OECD/Asian Development Bank (2019), “Fiscal rules”, in *Government at a Glance Southeast Asia 2019*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/ce240ac0-en