

## **FORMS OF FISCAL GOVERNANCE IN THE EURO AREA – WHAT ROLE FOR THE DELEGATION APPROACH?**

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### **ABSTRACT**

The Euro Area has relied on a rules-based or contracts approach to instil fiscal discipline among the member states, mainly through the supra-national Stability and Growth Pact, and more recently through the requirement to have fiscal rules also at the national level. On the other hand, the alternative delegation approach, which emphasises strong procedural rules governing the budgetary process, has been largely ignored in the Euro Area's fiscal governance framework. We use composite indices to measure the quality of both the rules-based and delegation approaches in all the 19 Euro Area countries. The results show that despite the common rules-based requirements, there are notable differences in the quality of the national fiscal frameworks among the member states. Furthermore, characteristics of the delegation approach remain important in various countries. Using a two-way fixed effects panel data model, we find empirical evidence for a significant positive impact of both fiscal governance approaches on the budget balance for the EA countries during 2006-2018. At a more disaggregated level, our findings give support to the strengthening of medium-term budgetary frameworks and to more centralised decision-making during the budget approval stage. Moreover, we also find that reforms to budget institutions during the period under review have mainly involved fiscal rules and independent fiscal councils, and being supra-nationally mandated, rather than nationally-driven, this seems to have affected their effectiveness to achieve fiscal discipline. Our findings thus suggest a reconsideration of the centrally-mandated, common EA requirements for national fiscal frameworks, which involve a one-size-fits-all, rules-based approach.