

USING OF STRUCTURAL BUDGET INDICATORS IN THE LEGAL STRENGTHENING OF FISCAL DISCIPLINE

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The Stability and Growth Pact invites the EU member states to realize responsible and harmonized economic and fiscal policy by setting limitations to general government fiscal stance. The medium term budgetary objective is defined in cyclically adjusted terms. It takes into account the necessary safety margin from the reference value of budget deficit 3% of GDP and general government debt of 60% of GDP, expected increase of expenditure due to population ageing and needs for investments. For euro area and ERM II countries incl. Latvia the medium term deficit objective is 1% of GDP. Moreover, if a member state has reached excessive budget deficit, the adjustment of 0.5% of GDP in structural terms recommended to be made annually. The recent economic and financial crisis demonstrated the importance of proper fiscal policy planning over the economic cycle. Several member states have defined their own fiscal rules, for example, in the Code of Fiscal Stability, Budgetary Stability Law etc. in order to prevent excessive budget deficits. The experience of Latvia is a case for stronger fiscal discipline which has to be set in legislation therefore the topic of the day is an introduction of Fiscal Discipline Law. In theory fiscal discipline could be ensured by different fiscal rules, introduction of independent fiscal councils, improvement of budgetary surveillance etc. But the main course could be formation of long-term fiscal policy understanding among politicians and society in general. The paper analyzes the possible options for setting of cyclically adjusted budget indicators in legislation concerning fiscal responsibility issues. The experience of some European countries regarding legislative issues is being discussed in the paper.