

Fiscal Rules and Fiscal Performance: World Evidence *

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Abstract

This paper presents world evidence on the contribution of fiscal rules to fiscal performance. The paper identifies the links between fiscal institutions, rules, and performance measures, and reviews the relevant literature on fiscal performance and the potential contribution of different fiscal rules to performance. The expected contribution of rules to stabilization objectives is ambiguous, depending on policymakers' objective functions and constraints, as well as on particular design and implementation features of rules. Rules have expected effects on other policy objectives (solvency and government size) that are less ambiguous. This paper's empirical models identify the potential contribution of three types of rules – expenditure, budget balance, and debt rules, using *de facto* and *de jure* measures – to four indicators of fiscal performance, controlling for other determinants. The empirical analysis is conducted using an econometric approach designed to deal with potential endogeneity, dynamic responses, and unobserved heterogeneity. The models are tested on a world sample for 115 countries, spanning 1985-2015. *De jure* expenditure rules (but not other rules) are found to reduce expenditure procyclicality. Yet procyclicality of budget balances is not affected by any rule. All three types of rules raise government budget balances but they have no significant effects on government debt. The latter results are broadly robust to using alternative *de facto* rule measures. The results are also generally robust to nested testing of differential effects in country sub-groups, i.e., no systematic effects of rules on fiscal performance were found for small states and for Latin American countries.