Analysis of fiscal governance in Moldova in relation to European Union practice

1. Introduction

The goal of this document is to analyse issues of fiscal governance in Moldova in relation to European Union (EU) practice. Reference points in the development of the document were the EU fiscal governance practices, which vary significantly from country to country. In order to focus the analysis of EU practice, the document contains a comparative analysis of fiscal governance in Moldova in relation to some selected peer countries that are already EU members (Sweden, Lithuania, Slovakia) or are in the process of accession to EU (Serbia).

The analysis was developed in close cooperation with representatives of those selected countries. In addition a wide consultation process with other interested public authorities and relevant NGOs in the field took place during 2016.

The document is organised as follows:
- Section 2 draws from the website of the Directorate General for Economic and Financial Affairs of the European Commission setting out the framework for fiscal governance;
- Section 3 presents the specific country cases of Lithuania, Serbia, Slovakia and Sweden on fiscal governance;
- Section 4 draws a comparative analysis of the Moldovan fiscal framework with the EU practice;
- Section 5 summarises the key challenges relevant to the Moldovan reform process;
- Section 6 concludes on the possible actions that Moldova could undertake in the medium and long term with regards to improving its fiscal governance.

2. Fiscal governance and EU practice

Fiscal governance may be defined as those rules, regulations and procedures that influence how fiscal and budgetary policy is planned, approved, carried out and monitored. This includes particularly:
- I. National numerical fiscal rules;
- II. Independent fiscal institutions, and;
- III. Medium term budgetary frameworks.

Fiscal governance has several objectives including:
- Attaining sound budgetary positions in particular by containing the deficit bias, i.e. tackling the tendency to conduct unsustainable fiscal policies giving rise to high deficits and increasing debt ratios;
- Reducing the cyclicality of fiscal policy, and;
- Improving the efficiency of public spending.

The control of the deficit and pro cyclical biases can be achieved, for example, by constraining short-term interference by policy makers and promoting a more long-term oriented fiscal planning. This would help avoid the short term approach typically associated with political cycles.
Sound fiscal governance also pursues a better coordination among the various government layers, particularly in highly decentralized countries.

Fiscal governance may support the efficient use of public resources by monitoring the efficiency of public spending programmes and linking the resource allocation to performance.

The basis of EU practice was set in the Maastricht treaty of 1992, which sets limits for the deficit and debt to GDP of 3% and 60% respectively and also subsequently in the Stability and Growth Pact of 1997 and its further development and refinement through time.

In 2011, a package of regulations under Directive 2011/85/EU Council set the broad expectations for budgetary frameworks of the EU Member States, known as the “six pack”.

EU governance reforms include the requirement to adopt national structural balance rules, reduce debt annually until it reaches 60% of GDP and strengthen national fiscal frameworks.

Strengthening fiscal frameworks, in particular numerical fiscal rules, has emerged as a key response to the fiscal legacy of the crisis. In the euro area and in most other EU member states this applies to institutional reforms at the national and sub-national level. Also outside the EU many countries have started or are considering reforms to the existing fiscal rules and introduction of new ones with a view to provide a medium-term anchor, support credible long-term adjustment efforts, and ensure fiscal sustainability.

I. Fiscal rules

The EU budgetary surveillance is based on the numerical fiscal rules specific to each Member State. The general objective of setting these rules is to avoid excessive public deficit and excessive public debt.

The fiscal rules specific to each country may include in particular:

- the target definition and scope of the rules;
- the effective compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States;
- the consequences in the event of non-compliance.

A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. This implies that boundaries are set for fiscal policy which cannot be frequently changed and some operational guidance is provided by specifying a numerical target that limits a particular budgetary aggregate.

Four main types of fiscal rules can be distinguished based on the type of budgetary aggregate that they seek to constrain - Debt rules, Budget balance rules, Expenditure rules and Revenue rules.

- **Debt rules** set an explicit limit or target for public debt in percent of GDP;
- **Budget balance** rules constrain the variable that primarily influences the debt ratio and are largely under the control of policy makers;
- **Expenditure rules** set limits on total, primary, or current spending;
- **Revenue rules** set ceilings or floors on revenues and are aimed at boosting revenue collection and/or preventing an excessive tax burden.
Many countries combine two or more fiscal rules to address different macro-fiscal objectives.

II. Independent fiscal institutions

In a number of EU Member States independent fiscal institutions (also called fiscal councils) aimed at promoting sustainable public finances through functions such as:

- public assessments of fiscal plans and performance, including monitoring of fiscal rules;
- the evaluation or provision of macroeconomic and budgetary forecasts;
- fostering fiscal transparency and stimulating a productive public debate on fiscal issues, and;
- raising the reputational costs of undesirable policies.

The key characteristics of a well-designed fiscal council include:

- Operational independence;
- Strong analytical capacities;
- Reports and pronouncements widely reflected in the media.

Most EU Member States have independent fiscal councils that contribute to fiscal policy making and surveillance by providing analysis, assessments, and recommendations. There is, however, a very significant variation among fiscal councils internationally.

Firstly, there is considerable diversity of institutional models. Fiscal councils in advanced and middle income economies are mostly attached to the legislature, the executive or set-up as stand-alone bodies, with a few cases attached to the supreme audit institution or the central bank.

Table 1. International experience with Fiscal Council (selected)

<table>
<thead>
<tr>
<th>Institutional arrangement</th>
<th>Countries (examples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary Budget Office</td>
<td>Australia, Canada, Italy, Georgia, South Korea, South Africa, Kenya, United States</td>
</tr>
<tr>
<td>Executive</td>
<td>Netherlands, United Kingdom, Belgium, Slovenia, Croatia, Japan</td>
</tr>
<tr>
<td>Stand-alone</td>
<td>Germany, Hungary, Ireland, Portugal, Romania, Serbia</td>
</tr>
<tr>
<td>Other</td>
<td>France, Finland, Lithuania</td>
</tr>
</tbody>
</table>

Source: IMF, European Commission datasets

Secondly, there is also considerable variation in the scope and size of fiscal councils, with small councils tending to have narrower remits than larger ones. As Debrun and Kinda (2014)\textsuperscript{1} note, small fiscal councils (with less than 10 full-time professionals) are often tasked with the assessment of fiscal policy, while much larger councils combine different functions including forecast preparation, long-term sustainability analysis and even the costing of policy measures. The personnel of fiscal councils differ from case to case and may include academics, policy experts and civil servants.

Table 2. Number of personnel in Fiscal Council (selected)

<table>
<thead>
<tr>
<th>Personnel (total)</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10</td>
<td>Australia, Croatia, Finland, Hungary, Ireland, Italy, Kenya, Serbia, Slovenia</td>
</tr>
<tr>
<td>More than 10</td>
<td>Belgium, Canada, Georgia, Netherlands, South Korea, South Africa, United Kingdom, United States</td>
</tr>
</tbody>
</table>

Source: IMF, European Commission datasets

III. Medium-term budgetary frameworks

As it is stipulated in the Directive 2011/85/EU, Member States of the EU are required to establish a medium-term budgetary framework. This framework is defined as a set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government beyond the annual calendar. It is accompanied by the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.

According to the provisions of the respective Directive, medium term budgetary frameworks shall include procedures for establishing the following items:

- Comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other aggregate fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules in force;
- Projections of each major expenditure and revenue item of the general government with more specifications on the central government and social and medical insurance funds, for the budget year and beyond, based on unchanged policies;
- A description of medium term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium term budgetary objectives is achieved compared to projections under unchanged policies;
- An assessment of the effects the policies envisaged could have on the long-term sustainability of public finances.

Annual budget legislation shall be consistent with the provisions of the medium term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium term budgetary framework as set out above shall constitute the basis for the preparation of the annual budget. Any departure from those provisions shall be duly explained.

EU member states were obliged to bring into force the provisions of this Directive by 31 December of 2013. By 14 December 2018 the Commission shall publish a review of the suitability of this Directive. The review shall assess also the suitability of the statistical requirements for all sub-sectors of the government, the design and effectiveness of numerical fiscal rules in the Member States and the general level of transparency of public finances in the Member States.

Council Directive 2011/85/EU shall be implemented in the EU member states, and is therefore not binding for the Republic of Moldova. However, the Association agreement between the EU
and the Republic of Moldova and its Title IV, Chapter 7 stipulates continuous development of multi-annual budget planning and the alignment to EU good practice. In this respect some of the provisions of the Directive might be of relevance to the Moldovan context.

3. Country cases

The four countries selected for this analysis have different approaches to fiscal governance. This section details the main elements of the fiscal governance in Lithuania, Serbia, Slovakia and Sweden. These elements are presented below in tabular form and include:

- The underlying legal framework for the fiscal governance (1);
- The set of fiscal rules that constrains budgetary aggregates (2);
- Escape clauses to fiscal rules (3);
- A description of the central fiscal authority, including its role and mandate with regards to fiscal governance (4);
- A presentation of the main features of the medium-term budget framework and its role in fiscal policy making (5); and
- A description of the fiscal council, including the content of work carried out by these institutions (6);
- Practical issues with the implementation of the fiscal governance framework, including possible problems (7).

**LITHUANIA**

<table>
<thead>
<tr>
<th>1. LEGISLATIVE FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fiscal Discipline Law (2007).</td>
</tr>
<tr>
<td>• Constitutional Law on implementation of Fiscal Treaty (2014).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. FISCAL RULES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal rules are defined in the Fiscal Discipline Law.</td>
</tr>
</tbody>
</table>

**Implicit Public debt rule:**

- Adherence to legal norms that General Government debt does not exceed 60% of GDP when projected over several decades is the core of the definition of Fiscal Discipline and its moral imperative to adhere to fiscal discipline.

**Deficit rule:**

- When output gap is positive, or there is inflation above 3%, Budget Laws must assure at least 1% of GDP improvement in the General Government balance unless growth is slow or expenditure growth is capped according to the expenditure rule (please see below).

**Revenue rule:**

- No tax rates will be reduced if previous year Budget was in deficit;
- Windfall revenues to be used for reduction of the deficit.

**Expenditure rule:**

- When output gap is positive or there is inflation over 3%, the growth of expenditure should
be lower than half of potential GDP growth in nominal terms, unless there has been a General Government surplus of at least 0.1% of GDP on average in the preceding 5 years.

Deficit rule for local governments and other extra-budgetary funds:
- Balanced budget requirement for local governments, Obligatory Health Insurance Fund and other extra-budgetary funds;
- Social Security Fund cannot increase absolute value of the deficit when output gap is positive.

3. FISCAL RULES (ESCAPE CLAUSES)

There are three types of escape clauses:

a) The Constitutional Law on the Implementation of the Fiscal Treaty provides a general escape clause from the automatic correction mechanism in structural terms for exceptional circumstances – defined as an unusual event outside the control of public authorities which has a major impact on the financial position of the general government or a severe economic downturn, as established in Council Regulation (EC) No 1466/97 of 7 July 1997. For the escape clause to take effect it has to be approved by the Fiscal Council and monitored on a quarterly basis.

b) The Organic Budget Law requires nominal fiscal targets for the annual Budget Law. Deviation from the targets is allowed when: (i) the cause for the deviation is due to a revision in statistical methodology or GDP data, (ii) during the fiscal year there is cause for a new fiscal deficit target or deviation from the originally set target authorised by Parliament decree, (iii) after the end of the fiscal year the Parliament may authorise deviations through a decree provided there is satisfactory justification by the Government, (iv) events that are beyond Government control (reference to exceptional circumstances).

c) The Fiscal Discipline Law provides escape clauses from the automatic consolidation mechanism based on the nominal expenditure growth capping rule. That is a national concept to avoid pro-cyclical consolidation and guarantee fiscal sustainability. The automatic consolidation measure (the expenditure rule) is switched off when: first, growth is slower relative to EU growth, second, output gap is negative unless inflation is above 3%, third, it is planned that 1% of GDP improvement in the balance indicator will be achieved, fourth, the average of fiscal balance indicators in past 5 years was actual surplus of at least 0.1% of GDP.

4. ROLE OF MINISTRY OF FINANCE

The Ministry of Finance is the central fiscal authority: https://finmin.lrv.lt/en/about-the-ministry

One of the key departments of the MoF is the Fiscal Policy Department, which has three divisions: Macroeconomic analysis, Revenue analysis and planning, Sectoral analysis. It is responsible for preparation of medium-term fiscal programmes and assessment of fiscal impact of structural reform programmes.

5. MEDIUM-TERM BUDGET FRAMEWORK

An Explanatory Note of the Draft Budget Law provides medium-term (current year and three future years) projections of General Government disaggregated revenue, expenditure and
balance indicators. Also, it provides the medium-term economic scenario and its assumptions. No particular enforcement mechanism is established to implement the projections but there is an indirect obligation through the European Semester procedures centred on Stability Programmes.

The key control tool to implement the Stability Programme is the forthcoming three-year State and Local budgets indicators framework. The national three-year indicator framework was reformed many times to reinforce planning commitments. Currently, the Parliament adopts a decree for the three forthcoming years’ overall balance, overall revenue and overall expenditure indicators for the State Budget and Local Budgets. The Organic Budget Law obliges the Government to respect these limits in the forthcoming Budget Law. In the case of deviation from the adopted targets the Government must submit a written explanation to the Parliament on how the deviations reflect changes in policy priorities.

6. FISCAL COUNCIL

<table>
<thead>
<tr>
<th>Formal title</th>
<th>Budget Policy Monitoring Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>Euro 200,000.</td>
</tr>
<tr>
<td>Human resources</td>
<td>7 professional staff.</td>
</tr>
<tr>
<td>Institutional attachment</td>
<td>Hosted by the National Audit Office and reporting to Parliament.</td>
</tr>
</tbody>
</table>

Content of Work

Issues number of Conclusions to the Parliament:
- Conclusion on the macroeconomic scenario;
- Conclusion on the need for additional measures in a draft budget law to achieve the annual structural fiscal targets approved by the Parliament;
- Conclusion on justification of announcement of an exceptional event (a trigger for escape clauses from rules);
- Conclusion on whether the fiscal targets suggested by the Government to the Parliament are sufficient to implement the (EU) rules enshrined in the Constitutional Law.

7. PRACTICAL IMPLEMENTATION OF THE FISCAL GOVERNANCE FRAMEWORK

In practice, there have always been ways to justify deviations from medium-term ceilings based on changes in policy priorities reflected in draft legislation accompanying the Draft Budget Law. Council Directive 2011/85/EU recognises the need for flexibility in the MTBF. However, this should be done in a measured way in order not to undermine the purpose of the MTBF. If ceilings are revised every year they do not serve to reinforce discipline through the MTBF. There are recent initiatives to make three-year State and Local Budget ceilings legally binding. It is considered introducing clear provisions into the Organic Budget Law through
which the Parliament would limit the executive’s discretion to undertake revisions. For example, allowing for the revision of ceilings only due to: exceptional circumstances (as defined by EU legislation), a change in the projected output gap larger than 0.5% of GDP, a change of the sign of the projected output gap, a change needed to implement EU recommendations to Lithuania.

Notwithstanding the problems with observing the medium-term ceilings, the general Government balance has not deviated from the target.

**SERBIA**

1. **LEGISLATIVE FRAMEWORK**

- Budget Systems Law.

2. **FISCAL RULES**

**Public debt rule:**
- Public debt limit of 45% of GDP, excluding restitution bonds;
- Effective overall debt limit ~50% of GDP.

**Deficit rule:**
- General Government deficit should be 1% of GDP over the medium term.

This is complemented by specific expenditure rules ensuring that:
- General Government wage bill (gross) should not exceed 8% of GDP;
- Public pension spending should not exceed 11% of GDP;
- Temporary floor for public investment spending.

**General rule for local governments:**
- Debt should not exceed 50% of annual revenues;
- Deficit should be less than 10% of annual revenues;
- Borrowing should be done only for capital spending (golden rule).

3. **FISCAL RULES (ESCAPE CLAUSES)**

There is one general escape clause:

The Government of Serbia can adopt a temporary decision not to comply with the fiscal rules due to natural disasters, external national safety threats or severe economic downturn. The Government must clearly define and explain to the Parliament the reasons for resorting to the escape clause and the expected duration. The Fiscal Council is to provide its own independent assessment to the Parliament (when assessing the medium term Fiscal Strategy).

4. **ROLE OF MINISTRY OF FINANCE**

The Ministry of Finance is the central fiscal authority: [http://www.mfin.gov.rs/](http://www.mfin.gov.rs/)

With regards to the institutional setting, for Fiscal Governance the most important are the Departments: (i) of Macroeconomic and Fiscal Analysis and Projections; (ii) Budget; and (iii) Public Debt Administration.
The department of Macroeconomic and Fiscal Analysis and Projections has two units: Division for macroeconomic analysis and projections and Division for fiscal analysis and projections and management of EU own resources. A key document regarding the MoF role in Fiscal Governance is the Fiscal Strategy whose main elements are: (i) the Macroeconomic Framework; (ii) Fiscal Framework; (iii) Public Debt Management; and (iv) Structural Reforms.

5. MEDIUM-TERM BUDGET FRAMEWORK

Medium-term planning was introduced in 2010. The Budget Systems Law requires that the Fiscal Strategy is prepared to set medium-term macroeconomic and fiscal frameworks. The Medium-Term Expenditure Framework is an integral part of the Fiscal Strategy.

Initially, the MoF had been prescribing medium-term (3-year) budget ceilings for major budget beneficiaries (54 budget chapters), but these ceiling were not respected in practice. Instead, the MoF publishes separate budget ceilings for individual budget beneficiaries in instructions for budget preparation and overall budget ceiling for the two outer years is published in the annual Law on Budget. The success in meeting the overall budget ceiling has been mixed.

Current practice when preparing financial plans is that budget users requests for funding look more like a “wish list” failing to reflect real needs or whether plans fit available budget resources.

New methodology which is currently under preparation should put more emphasis on medium term planning and hopefully more credibility in respecting medium term ceilings.

6. FISCAL COUNCIL

<table>
<thead>
<tr>
<th>Formal title</th>
<th>Fiscal Council: <a href="http://www.fiskalnisavet.rs">http://www.fiskalnisavet.rs</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandate</td>
<td>Established in 2010 by the Budget System Law.</td>
</tr>
<tr>
<td>Budget</td>
<td>Euro 300,000.</td>
</tr>
<tr>
<td>Human resources</td>
<td>Members of the Council: 3 members nominated by the President, the Central Bank Governor and the Minister of Finance.</td>
</tr>
<tr>
<td></td>
<td>Professional and Administrative staff: 7 and 3.</td>
</tr>
<tr>
<td>Institutional attachment</td>
<td>Stand-alone institution, reporting to Parliament.</td>
</tr>
</tbody>
</table>

**Content of Work**

- Assessment of the credibility of fiscal policy in terms of compliance with established fiscal rules;
- Review of macroeconomic and fiscal assumptions; assessment of economic policy, fiscal risks and the prospects for the Government to fulfil its fiscal objectives in the future;
- Assessment of the extent the Government respected fiscal rules in the past;
- Opinion on the MoF’s Fiscal Strategy;
- Analysis of the draft Budget Law;
- Assessments of draft laws with major fiscal impacts;
7. PRACTICAL IMPLEMENTATION OF THE FISCAL GOVERNANCE FRAMEWORK

The performance of MTEF has been rather poor in practice so far. Namely, budget ceilings for the outer years were very rarely respected and had provided very little guidance for the annual budget making process. For this reason, 3-year budget ceilings for 54 individual budget chapters were abandoned in 2015 in favour of a single overall 3-year expenditure ceiling. However, this overall target is also not being respected due to significant revenue volatility in the last couple of years which is driving the volatility of overall expenditures since the Government is committed to specific deficit targets. One more contributing factor to this weak MTEF performance was pressure from donor community to give priority to programme budgeting which was contrary to PEFA principles and international best practice.

The performance of quantitative fiscal rules, per se, has also not been in line with expectations. Strictly speaking, fiscal rules have been respected only in the first year of operation in 2011. Public debt limit had been breached in 2012 and since then a couple of failed fiscal consolidation attempts had been made. Finally, strict fiscal austerity program had been adopted in 2015, together with the IMF arrangement, which has enabled Serbia to stabilize public debt in late 2016. However, public debt has already surpassed 70% of GDP and will require multi-year fiscal austerity to bring it down to sustainable levels of around 50% of GDP. To this end, fiscal rules in Serbia will have to be recalibrated and amended in the near future.

The establishment of an independent Fiscal Council is arguably the most successful recent reform aimed at strengthening credible fiscal framework and improving public financial management in Serbia. The Fiscal Council is not only responsible for overseeing the fulfilment of fiscal rules, but also serves to educate the broad public on the need and merits of sustainable and credible public finances. To this end, the Fiscal Council contributed to establishing broad political support for the necessary austerity measures. Thus the Fiscal Council in many instances acted as an “ally” to Ministry of Finance in its attempts to control spending pressures from line ministries and labour unions. Furthermore, as an independent fiscal institution, the Fiscal Council was in a unique position to expose fiscal risks steaming from unsound business practices employed by some state-owned banks and major public companies, such as Serbia Electricity and Serbia Gas company.

SLOVAKIA

1. LEGISLATIVE FRAMEWORK


2. FISCAL RULES

Public debt rule:
60% of GDP with sanctions depending upon the level of debt breaching the rule as follows:

i. *Between 50% and 53%* explanatory letter to Parliament.

ii. *Between 53% and 55%* consolidation measures to Parliament; freezing of wage bill for Members of Government.

iii. *Between 55% and 57%*, 3% expenditure cut of the current State Budget, freezing reserve of Prime Minister and reserve of Government; budget proposals with no expenditure growth; local government budget expenditure frozen at the previous year level.

iv. *Between 57% and 60%* general government (GG) and local government (LG) balanced budget proposal,

v. *Over 60%* a vote of confidence to the Government.

Transition period – starting 2018 the debt limit declines by 1% up to 2027 in which the debt limit is 50% of GDP. The intervals for sanctions decline as well.

**Debt rule for local governments:**

- If debt is over 60% of revenue the MoF takes over the management of the local government. In addition, a 5% fine is levied on the increment of the debt overrun.

- Loans for capital expenditure and new loans are allowed only if:
  - overall debt has not exceeded 60% of operational revenues of the previous year outturn and,
  - overall debt service payments do not exceed 25% of previous year operational revenue outturn (without transfers from other entity within GG sector or EU funds).

- Corrective measures are applied as follows:
  
  i. For Debt level of 50%-58% - LG is obliged to inform MoF and the mayor is obliged to submit to its Local Parliament proposals on how to reduce the debt level;
  
  ii. For Debt level of 58%-60% - a balanced or surplus budget is required;
  
  iii. *Recovery mode* – when overdue payables reach 15% of previous year operational revenue outturn and the LG fails to make payment within 60 days after the due date. In this case, the LG is obliged to inform MoF, introduce a plan to stabilise its budget and plan future cash payments; every payment has to be approved by the main controller of the LG; wage bonuses are forbidden;

  iv. *Government takes over management* – if within 90 days the LG does not succeed to exit the recovery mode (MoF may agree to prolong another 90 days) a new manager is appointed by the MoF; all financial sources are centralised at a single bank account; all payments must be approved by the manager; the LG is obliged to adopt a crisis budget in which payments are prioritised to clear the arrears; new loans are forbidden.

**Deficit rule:**

- The 2013 amendment of Budget Rules Act specifies that from 2018 onwards a balanced budget deficit in structural terms (equal or below 0.5% of GDP) is required. This is in line with the Medium Term Objective from the EU Fiscal Compact. The MoF publishes information on whether the Government is on track or not twice a year (30/06 and 30/11). In case of deviation, the MoF submits to the Government the correction mechanism on the
Fiscal governance in Moldova in relation to EU practices

3. FISCAL RULES (ESCAPE CLAUSES)

Escape clauses from Public debt rule:

a) None of the sanctions are applied in time of war;

b) 24 months after establishment of a new Government sanctions (iii) and (iv) are switched off;

c) If GDP falls below 12% sanctions (iii) and (iv) are switched off for 36 months;

d) In case of expenditure related to a banking crisis, natural disaster or due to international treaties account for than 3% of GDP sanctions (iii) and (iv) are switched off for 36 months.

Escape clause from Debt rule for local government:

When a new mayor takes office a fine is not imposed for a period of 24 months.

Escape clause from Deficit rule:

In the event of extraordinary circumstances out of the control of the Government with critical impact on the public finances or in the event of sharp downturn.

4. ROLE OF MINISTRY OF FINANCE

The Ministry of Finance is the central fiscal authority: http://www.finance.gov.sk/

The Institute for Financial Policy of the MoF is responsible for macroeconomic and fiscal analyses and forecasts. It has three units: (i) Macroeconomic Department analyses economic developments, considers financial markets and financing of the Government debt; (ii) Tax and Fiscal Department analyses and forecasts revenues, reviews fiscal policy, public finance and its sustainability; (iii) Structural and Expenditure Policies Department analyses Government expenditure and structural policies.

Budget Policy Section of the MoF is responsible for 3-year general government budget formulation and actual budget monitoring. Also, sets the legislative framework for the budget (Budget Rules Act, LG Budget Rules Act).

5. MEDIUM-TERM BUDGET FRAMEWORK

Medium-term planning in Slovakia includes a Medium-term Fiscal Framework (revenue, expenditure and deficit aggregates), budgets of Local Governments, Social insurance agency and Health care insurance and other entities of the General Government budget and detailed expenditure of line ministries for three years.

The Parliament approves the document as a whole, but only the next fiscal year’s state budget is legally binding.

Each new policy document or law proposal must include the assessment for budgetary implications for the actual and the forthcoming 3 years.

6. FISCAL COUNCIL

Formal title Council for Budget Responsibility:
Fiscal governance in Moldova in relation to EU practices

http://www.rozpoctovarada.sk

**Mandate**

Established in 2012 as part of the Constitutional Act on Fiscal Responsibility.

**Budget**

Euro 1,300,000.

**Human resources**

Members of the Council: 3 elected by Parliament.

Professional/administrative: 12/2 staff.

**Institutional attachment**

Independent, non-profit organization, reporting to Parliament.

**Content of Work**

- Report on the Long-Term Sustainability of Public Finances (end of April);
- Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules;
- Evaluation of compliance with the balanced budget rule;
- Evaluation of the Government Budget Proposals; review of the stability framework (fiscal framework) and draft Budget to Parliament – Fiscal Council sends its review notes for comment to the MoF;
- Other discussion papers, working papers and commentaries.

7. PRACTICAL IMPLEMENTATION OF THE FISCAL GOVERNANCE FRAMEWORK

**Budget Preparation Process**

The Ministry of Finance plays a crucial role as the main leader of the whole budget process (including planning, monitoring and execution). In February, the Institute for Financial Policy (unit within MoF) prepares the macroeconomic scenario and tax prognosis for the current and next 3 years. In order to guarantee the data relevance and to avoid any political pressure, there are two committees created for both macro and tax prognosis. There is also a committee to enforce the debt brake provisions, whose membership includes the Institute for Financial Policy, National Bank, Council for Budget Responsibility, National Audit Office, as well as analysts from private banks and the financial sector, National Statistical Office and representatives of Local Government. After getting the statements from the members, the data is used by the Budget Policy Section for the 3-year budget proposal.

In April, the MoF prepares the Stability Programme which is the basic document for fiscal and budget policy for the next 3 years. This document is required by the European Commission and includes the basic deficit targets and General Government Budget position. The EU rules are the main framework influencing the level of the structural deficit, expenditure benchmarks and national rules (Budget Rules Act, Debt Brake law). At the same time, the line ministries get the budget limits from the MoF and submit their budget proposal to the MoF by the end of May. The limits cannot be exceeded in the submissions but line ministries can request more sources for 5 new/ongoing priorities. The budget proposals are analysed by the MoF and negotiated during summer (high technical level – general director, political level – minister, deputy minister). At the end of June and early September, updates of the macroeconomic and tax scenario are prepared. The budget items based on the macro data are updated by the MoF automatically. Budget negotiations are concluded and the MoF submits the General
Government Budget Proposal (includes State Budget Act) to the Government, which is obliged to submit General Government Budget to the Parliament by the 15th of October at the latest.

The budget proposal is negotiated in the Parliament committees and thereafter in the plenum of the Parliament. State Budget Act cannot include change of any other act.

**Notable Improvements**

- Forecasting capacities and transparent macro and tax forecasts;
- Top-down budgeting respecting the need for sound public finances;
- Linking the budgetary units during the budget process while respecting the total budget envelope;
- Competency and responsibility for budget units in budget allocation process (each minister is a small finance minister);
- Timeliness of the budgetary procedures (fix deadlines);
- Regular monitoring of the actual budget development.

**Challenges, problems**

- Getting the line ministries “on-board”;
- Linking the Government priorities and sectoral (ministry) policies;
- Communication within the Government and to the citizens and media;
- Stronger link between the result-oriented budgeting and allocation process.

### SWEDEN

#### 1. LEGISLATIVE FRAMEWORK

The legal framework for the budget process and for fiscal policy is set out in several documents on different legal levels.

There is a special budget decision process in Parliament that is regulated in the Riksdag act, which is a “semi constitutional” law.

There is an Organic Budget Law that regulates the Government’s rights and responsibilities and there is a separate law for local governments.

There are also detailed and binding instructions on economic management that the Government issues to all agencies.

In addition, there is a document that has been presented to Parliament that describes how the fiscal framework should be interpreted and applied. This is not legally binding but serves as a guideline for sound fiscal policy.

#### 2. FISCAL RULES

**Surplus rule:**

- A fiscal surplus target for General Government net lending of 1% of GDP, on average, over the business-cycle. Taking effect in 2019, the target will be lowered to a surplus of 1/3 percent of GDP.
- A nominal expenditure ceiling for central Government set by Parliament three years in
Fiscal governance in Moldova in relation to EU practices

3. FISCAL RULES (ESCAPE CLAUSES)

The legal framework does not specify the level of the surplus or the amount of capped expenditure. These are also decided by the Parliament, but not in the form of law. The caps for expenditure are decided annually by Parliament but the surplus target is still based on the level set in 2007. Thus there are no surplus targets for individual years, but only a target defined as an average for a business cycle. So, breaching the surplus target or exceeding the expenditure ceiling is technically not a violation of the law.

The absence of escape clauses does not mean that fiscal policy has to follow a fixed path disregarding changing circumstances. On the contrary, the surplus target leaves, with its over-the-cycle definition, room for interpretation. In the guidelines to the framework there is an extensive discussion about the need to take various circumstances into consideration when assessing the target. The expenditure ceiling is stricter in that respect; it is nominal and set by Parliament. The Budget Law says that the ceiling must be monitored and reported to Parliament regularly, and if there is a risk that the ceiling will be exceeded, the Government must take action to prevent a breach – actions are not defined.

The consequences of breaching the surplus target or exceeding the ceiling are purely political. This is why it is important to maintain a political support for the framework and for responsible fiscal policy.

4. ROLE OF MINISTRY OF FINANCE

The Ministry of Finance is the central fiscal authority: http://www.government.se/government-of-sweden/ministry-of-finance/organisation/

The Economic Affairs Department monitors, analyses and assesses the real development of the Swedish economy and the development of public finances, and the use and distribution of the resources of society.

The Budget Department is responsible for leading and coordinating the Government's work on the central government budget, and for budget policy, regulation and follow-up.

The tax department is responsible for all legal aspects of the tax system as well as for calculations of fiscal effects of tax revisions.

The MoF annually prepares the Spring Fiscal Policy Bill, which is approved by the Parliament. The Bill sets key budgetary aggregates for the forthcoming three years. By 20 September the Government submits to the Parliament the annual Budget Bill, which is based on parameters set in the Fiscal Policy Bill.

There are two analytical institutions under the Ministry of Finance. The National Institute of Economic Research that performs analyses and forecasts of the Swedish and international economy and conducts economic research; and the Swedish National Financial Management Authority that provides forecasts for central government finances and gives support to all other
Fiscal governance in Moldova in relation to EU practices

5. MEDIUM-TERM BUDGET FRAMEWORK

The MTBF is legally binding.

The starting point in the annual budget process is to update the information for Year 2 in the MTBF. Parliament approves the maximum level of total expenditure for the Government and the indicative level of funding for each of the 27 Expenditure Areas.

The MTBF process in Sweden requires that the total amount for the indicative level of funding for the 27 Expenditure Areas is less than the maximum level of total expenditure. This difference constitutes the **budget margin**. The purpose of this is to create a buffer against any forecasting errors so that the maximum level of total expenditure approved by Parliament will not have to be amended.

6. FISCAL COUNCIL

<table>
<thead>
<tr>
<th>Formal title</th>
<th>Fiscal Policy Council (<a href="http://www.finanspolitiskaradet.se/">http://www.finanspolitiskaradet.se/</a>)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandate</td>
<td>Established in 2007.</td>
</tr>
<tr>
<td>Budget</td>
<td>Euro 1,000,000.</td>
</tr>
<tr>
<td>Human resources</td>
<td>Members of the Council: 6 – in order to safeguard the Council’s independence it is stipulated that the Council itself proposes its members to the Government.</td>
</tr>
<tr>
<td>Professional/administrative:</td>
<td>5.</td>
</tr>
<tr>
<td>Institutional attachment</td>
<td>Established under the Government.</td>
</tr>
</tbody>
</table>

**Content of Work**

- Reviews and assesses the extent to which the fiscal and economic policy objectives proposed by the Government and decided by the Parliament are being achieved. These objectives include the long-term sustainability of public finances, the surplus target, the expenditure ceiling and consistency of the fiscal policy stance with cyclical developments in the economy;

- Assesses whether fiscal policy is in line with long-term sustainable growth and long-term sustainable high employment. The Council's role furthermore includes examining the clarity of the Government's budget bills;

- Evaluates the quality of the economic forecasts and models on which the Government's assessments are based;

- Works to stimulate more public debate on economic policy;

- Publishes annually the report *Swedish Fiscal Policy*, which is presented to the Government no later than May 15 each year.

7. PRACTICAL IMPLEMENTATION OF THE FISCAL GOVERNANCE FRAMEWORK

- Broad political support has been crucial for successful implementation. When the framework was introduced there was some resistance against the idea of a surplus, but the
Fiscal governance in Moldova in relation to EU practices

The legislative framework for fiscal governance in Moldova has been improved through the enactment of the Law on Public Finance and Fiscal Responsibility in 2014, with implementation starting from January 1, 2015. The new Law contains some new and innovative legal provisions consistent with EU requirements on strengthening the national public finance management systems and taking into account good international practices. For the first time, a fiscal rule has been introduced requiring a maximum level of headline fiscal deficit. The new Law also sets requirements for the medium-term planning process and defines more clearly the roles and responsibilities in the budget process, particularly of the Ministry of Finance as the central fiscal authority.

The legal framework foresees that Moldova’s Budget formulation and preparation process incorporates the medium-term budget planning and the Annual Budget Law in a unified process. The process is embedded in the Budget Calendar, key deadlines of which are provided in article 47 of the Law 181/2014 on Public Finance and Fiscal Responsibility. The more detailed operational milestones for both the medium-term budget framework and the Annual Budget, including the responsibilities of the Ministry of Finance and all other budget institutions, are stipulated in the Methodological Set on budget planning, approval and amendment, approved by the MoF Order 209/2015 and the Budget Circular which is issued annually by the Minister of Finance.

The table below describes the existing system in Moldova in relation to EU practice as prescribed by the ‘Six Pack’ package and the criteria used in the previous section for the four countries discussed in this paper.
Fiscal governance in Moldova in relation to EU practices

<table>
<thead>
<tr>
<th>EU practice</th>
<th>Moldovan practice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. LEGISLATIVE FRAMEWORK</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Chapter II, Section 2 “Fiscal rules”, Articles 14 to 17 set the objectives of fiscal policy, fiscal rules and requirement to assess fiscal impact of legislative and policy initiatives.</td>
</tr>
<tr>
<td></td>
<td>• Chapter II, Section 3 “Roles and responsibilities in public finance”, Article 20 defines the role and responsibilities of the Ministry of Finance.</td>
</tr>
<tr>
<td></td>
<td>• Chapter IV, Section 2 “Preparation and adoption of the Budget”, Articles 48 and 49 define the principles of medium-term planning.</td>
</tr>
<tr>
<td></td>
<td>Law No 397 of 16 October 2003 on Local Public Finance</td>
</tr>
<tr>
<td></td>
<td>• Chapter II, art. 12, 13, 14 set rules for budget balance and conditions for debt issuing.</td>
</tr>
<tr>
<td></td>
<td>• Chapter V-VI, art. 29-34 define the roles and responsibilities on budget execution and control.</td>
</tr>
</tbody>
</table>

| **2. FISCAL RULES** | |
| Existence of fiscal targets and scope of fiscal rules | The fiscal rules are set in Law No 181/2014: |
| | • Article 15-1 sets the ceiling for the National Public Budget fiscal deficit (excluding grants) at 2.5% of GDP to come in effect starting from 2018 onwards. Article 15-1 also specifies that a larger deficit can be allowed in the case of ‘real sources’ for financing of capital investment projects from external sources and there are ‘respective absorption capacities’. |
| | • Article 17-2 of the law prohibits the executive from undertaking decisions that will result in in-year increases in expenditure and/or decrease in the revenue set in annual appropriations, if their impact is not envisaged in the corresponding budget. |
| | There is no debt rule stipulated in the legislative framework of Moldova. However, the 2016-2018 Medium Term Debt Management Strategy (an annual rolling process on debt management strategy, designed in parallel with MTBF) sets a 60% ceiling for debt to GDP for the general government debt; and a ceiling of 15% of budget revenues for interest payments to service the debt. |
| Specific fiscal rules related to local budgets | The Law on local public finance No.397 of October 2003 establishes some specific rules for local budgets. In particular, art.12 requires balanced budget to be approved by local public authorities (without |
Fiscal governance in Moldova in relation to EU practices

<table>
<thead>
<tr>
<th>EU practice</th>
<th>Moldovan practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>deficit) and art.13-14 set some limits on borrowing for current and capital expenditures.</td>
<td></td>
</tr>
<tr>
<td>• The total volume of loans for current expenses, maturing in the same budget year should not exceed 5% of total approved (corrected) revenues of the local budget, excluding special transfers;</td>
<td></td>
</tr>
<tr>
<td>• Local authorities can take loans for capital expenditures, if the total amount of annual payments (repayment of principal, payment of interest and other payments related) related to debt service of local budgets shall not exceed 20% of total annual revenues of respective budgets, excluding special transfers.</td>
<td></td>
</tr>
<tr>
<td>At the same time, Article 47 of Law No 419/2006 on public sector debt requires local governments secure prior approval of the Ministry of Finance before contracting loans with a maturity exceeding 1 year.</td>
<td></td>
</tr>
</tbody>
</table>

Framework for effective compliance with the rules

The above-mentioned deficit rule is envisaged to come in effect starting from 2018 onwards.

Defined consequences of non-compliance

Article 15 of the Law on Public Finance and Fiscal Responsibility specifies that the government needs to inform the Parliament about the reason that caused the deviation from the rule, the measures which the Government intends to take to restore compliance with the rule, and the period within which compliance will be resumed.

3. FISCAL RULES (ESCAPE CLAUSES)

Article 15-3 of the Law 181/2014 sets three escape clauses that can be applied for not more than three consecutive years:

• Natural disasters;
• Decline in economic activity and inflation 10 percentage points higher than projected;
• In case of systemic financial crises or the need to ensure the balance of the reserve fund the National Bank of Moldova, to recapitalise banks or provide urgent credit guarantees.

4. ROLE OF MINISTRY OF FINANCE


The main roles and responsibilities of the MoF are:

a) to establish and monitor the budget calendar and ensure the general coordination of the budgetary process;
b) to develop and ensure the implementation of the budgetary and
Fiscal governance in Moldova in relation to EU practices

<table>
<thead>
<tr>
<th>EU practice</th>
<th>Moldovan practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>fiscal policy in compliance with budgetary principles and rules, set by law;</td>
<td></td>
</tr>
<tr>
<td>c) to develop and submit to the Government the MTBF and draft annual state</td>
<td></td>
</tr>
<tr>
<td>budget law;</td>
<td></td>
</tr>
<tr>
<td>d) to ensure management of financial means of the national public budget</td>
<td></td>
</tr>
<tr>
<td>through the Treasury Single Account and through other accounts opened in</td>
<td></td>
</tr>
<tr>
<td>the National Bank of Moldova and other financial institutions, to manage</td>
<td></td>
</tr>
<tr>
<td>the state budget and to monitor execution of other components of the national</td>
<td></td>
</tr>
<tr>
<td>public budget;</td>
<td></td>
</tr>
<tr>
<td>e) to manage the central government debt and guarantees, as well as to</td>
<td></td>
</tr>
<tr>
<td>monitor the public sector debt;</td>
<td></td>
</tr>
<tr>
<td>f) to endorse the draft legislative and regulatory acts that bear financial</td>
<td></td>
</tr>
<tr>
<td>implications on the budgets, as well as the draft agreements, memorandums,</td>
<td></td>
</tr>
<tr>
<td>protocols and other documents having financial nature, concluded with other</td>
<td></td>
</tr>
<tr>
<td>states and international organizations.</td>
<td></td>
</tr>
</tbody>
</table>

Within the MoF there are 3 main subdivisions responsible for fiscal policy and governance:

- **Budget Synthesis Directorate** leads the budget process and is responsible for revenue forecasts, budgetary policy, expenditure limits. Specific sector analysis is done by sector line divisions of the MoF.
- **Tax and Custom Policy and Legislation Directorate** is responsible for setting objectives of tax and customs policy
- **Public Debt Directorate** is responsible for the medium-term debt management strategy and forecasts.

5. MEDIUM-TERM BUDGET FRAMEWORK

Existence of comprehensive and transparent multiannual budgetary objectives

The MTBF was introduced in Moldova in 2002 and has gradually extended its area of coverage and sector analysis. According to the art. 48 of the Law 181/2014, the MTBF document in Moldova is structured around four key components:

- **Macro-economic framework** - presents the macroeconomic variables influencing the budget.
- **Budgetary and Fiscal Policy** - sets the Government objectives related to revenue and expenditure policy priorities and their impact analysis on the budget;
- **Macro-budgetary (fiscal) framework** - sets main budgetary aggregates - total revenue and expenditure, wage bill expenditure, general and primary budget balance, level of state and local debt and guarantees;
- **Expenditure framework** - contains sector ceilings divided by budget components and central public authorities. Ceilings are set in consultation with sector line ministries based on *sector expenditure*
Fiscal governance in Moldova in relation to EU practices

<table>
<thead>
<tr>
<th>EU practice</th>
<th>Moldovan practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connectedness between the multi-annual budgetary targets and the preparation</td>
<td>Moldova’s MTBF contains projections for each major expenditure and revenue item for the next year and two additional years. The projections are</td>
</tr>
<tr>
<td>of the annual budget</td>
<td>accompanied by the outcomes of the last two budget years and the estimated results for the current year.</td>
</tr>
<tr>
<td></td>
<td>The MTBF projections in Moldova cover the overall ceilings, including baseline over the medium term and the fiscal impact of new envisaged policy actions.</td>
</tr>
<tr>
<td></td>
<td>Medium-term expenditure ceilings are issued by the MoF to public authorities as part of the annual budget circular. Ceilings can be adjusted only within formal budget consultation process.</td>
</tr>
<tr>
<td>Existence of coordination mechanisms between general government layers</td>
<td>An MTBF Steering Group, chaired by the Minister of Finance, is established by the Government, in order to assure efficient cooperation between various public authorities and general government layers. The Steering Group includes heads and representatives of various central and local public authorities concerned and of social partners.</td>
</tr>
<tr>
<td>prior to setting the medium-term budgetary targets for all government tiers</td>
<td>There are also technical working groups set for different MTBF components and/or sectors, in order to facilitate the collaboration and cooperation between different public authorities and other interested organizations.</td>
</tr>
<tr>
<td></td>
<td>MoF assures the monitoring of fiscal targets approved by the annual budget law.</td>
</tr>
<tr>
<td></td>
<td>According to the approved methodology, the ceilings are revised each year, based on the new macroeconomic forecast. There is no an enforcement mechanism of multiannual budgetary targets.</td>
</tr>
</tbody>
</table>

6. FISCAL COUNCIL

There are currently no independent fiscal institutions in Moldova. The possible establishment of such an institution is being thoroughly analyzed.

5. Key challenges relevant to the Moldovan reform process

The analysis and the consultations held during 2016 highlighted a set of issues emerging from the experience of the four country-cases that are important lessons for Moldova.

Country ownership

Country ownership of the reform agenda in fiscal governance is paramount. Moldova has an overarching legislative framework for public financial management and fiscal governance. The coverage of the new law is sufficient at this juncture and given the Moldovan context. The key challenge would be to comply with all provisions of the law and systematically assess its implementation through time to ascertain areas for adjustment/improvement in the future.
**Strengthened role of the Ministry of Finance**

The role of the MoF as central fiscal authority is critical in bringing about changes and implementing a fiscal governance framework. Particular emphasis was placed on strengthening the core capacity of the Ministry of Finance to effectively act as the *central fiscal authority* in all four countries.

Although the role of the MoF is sufficiently captured in the legislative framework, Moldova could benefit from increased compliance of the rules and regulations, as well as from further developing the necessary skills and capacities within the Ministry of Finance.

**Fiscal rules**

The headline budget deficit rule has been deemed sufficient for Moldova at this present point in time. This was confirmed by the representatives from all four countries as part of the comparative analysis, and emphasised the importance of simple fiscal rules that can be easily enforced and monitored. This is of particular relevance for a transition economy, such as the Moldovan economy, where estimates of the economy’s potential output (structural deficit rule) are highly uncertain.

Areas that can be revisited in the current framework are the scope and application of the fiscal rules. Also, legislation on local public finance might be strengthened in order to enforce sub-national fiscal rules.

**Medium term budget framework**

The legal and administrative procedures of the MTBF are robust enabling a disciplined budget formulation process. The adoption of the Law No. 181 on Public Finance and Fiscal Responsibility (LPFFR) reinforced the MTBF process by setting out clear requirements for the structure and general milestones for both the MTBF and the Annual Budget.

At the same time some additional work may be needed to ensure that the MTBF serves as an effective instrument for linking policy to budget. Also, more efforts have to be put into analyzing of the deviations between MTBF cycles and some evaluation criteria of the MTBF need to be developed.

**Role of Fiscal Councils**

Currently there is no fiscal council or any other independent fiscal institution in Moldova. The medium-term planning in Moldova is developed in a participatory process, involving different stakeholders, including various public authorities, as well as social partners and other non-governmental organisations.

The analysis of EU practice suggests that only well-designed fiscal councils are associated with stronger fiscal performance and more accurate and less biased forecasts. Key features of effective fiscal councils include operational independence from politics and unfettered access to information, sufficient capacity for the provision or assessment of fiscal forecasts, as well as strong presence in the public debate and an explicit role in monitoring fiscal policy rules.
6. Possible options for improved fiscal governance in Moldova

The current set up in Moldova’s fiscal governance is assessed as broadly appropriate given the introduction of the new legislative framework in 2015. It is recognised that time will be required to effectively assess the implementation of the new framework and decide on possible revisions.

In the medium to long-term emphasis should be placed upon improving the core capacity and effective authority of the Ministry of Finance to design and conduct fiscal policy, as well as the ability of the Parliament to conduct effective oversight over the objectives and implementation of the policy.

With regards to the case for introducing an independent fiscal council in Moldova, the question of the scope and timeframe for its introduction requires careful consideration. There are two key observations to be taken into account with regard to the relevance and possible design of a fiscal council in Moldova:

I. **On relevance**: if well designed, a fiscal council can foster fiscal transparency and stimulate a productive public debate on fiscal issues. This would be of particular importance in Moldova given the limited general understanding of fiscal issues and the absence of an informed and evidence-based debate on the conduct of fiscal policy. At the same time, this limited understanding must be factored-in before a definite decision is made on whether there is an effective role for a fiscal council in Moldova at this point in time.

II. **On possible design**: should a fiscal council be set up in Moldova, the current circumstances call for the creation of an entity with a narrow and focussed remit, predominantly on independent assessment of fiscal policy objectives and medium-term budget forecasts, especially in the first years of its operation.

There is significant variation in the approaches adopted internationally with regards to the mandate and functions of fiscal councils. This was confirmed by the four country cases examined in details. Whereas in all cases the fiscal council’s mandate included the assessment of fiscal sustainability, there is no standard approach for the detailed role, organisational arrangement, resource requirements and institutional attachment of a fiscal council.

All empirical evidence points to the fact that the design of fiscal councils should reflect country-specific characteristics, such as the available human and financial capacities, political traditions as well as the nature/history of macro-fiscal imbalances. This evidence needs to serve as a guiding principle in exploring the rationale for a fiscal council for Moldova.

In addition to exploring the rationale for a fiscal council in Moldova, it is important not to lose sight of the fact that developing and strengthening the existing capacity in policy-making institutions is of high priority.