

Do Independent Fiscal Institutions Promote Fiscal Performance : An Assessment on EU Countries

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Abstract

Recently, most countries have experienced excessive debt burden and budget deficits due to factors such as excessive public expenditures, insufficient public revenues and consequently biases from the welfare state. Since such problems have resulted in unsustainable fiscal decisions and macroeconomic instabilities, countries have focused on a permanent solution to these problems. Over time, as a way of solution, ensuring fiscal discipline as well as providing macroeconomic stability cause the emergence of three new concepts, fiscal rules, independent fiscal agencies and fiscal governance. These concepts are widely seen as supportive factors for fiscal discipline and thus sustainability. Since it is widely recognized that discretionary fiscal policies lead to inefficiencies in resource allocation originating from budget process -such as fiscal illusion, deficit bias and misuse of public funds. Many scholars argue that independent fiscal institutions may have a potential of curbing the large and persistent budget deficits and high debt burden through minimizing fiscal illusion, reducing asymmetric information, supporting sound fiscal policies. However, there is no consensus about the effect of fiscal institutions on fiscal performance. In this context, our paper sheds light on the issues that whether independent institutions promotes fiscal performance. To indicate this, the present paper investigates the existence of relationship between independent fiscal institutions and fiscal performance through descriptive statistical analysis.

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