Dynamics of subnational and national fiscal rules

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Publication Date: Thursday, 24 of March 2022 AbstractDuring 1997-2003, after the strengthening of decentralization, a set of subnational fiscal rules were implemented and in the years 2011 and 2021 national fiscal rules were established in Colombia. This document evaluates compliance with these rules at the different levels of government in Colombia, as well as the role that transfers have played in complying with the indicators established therein. The fiscal rules contributed to a greater stability of the public finances of both the subnational governments and the Central National Government. Changes in the transfer system contributed to compliance with fiscal rules by guaranteeing transfers to grow in real terms and providing stability to subnational government revenues. The simulations show that compliance with the fiscal rules depends to a great extent on the type of rule that is adopted, since while the subnational governments comply with the national fiscal rule, the Central National Government does not comply with the subnational fiscal rules. These results contribute to the debate on the need to maintain fiscal rules with escape clauses and on the need to consider the fiscal conditions and the levels of government where they are adopted to achieve the stability of public finances.

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