The Effectiveness of National Fiscal Rules in the Asia-Pacific Countries

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Abstract : This study utilizes the International Monetary Fund (IMF) Fiscal Rules Dataset focusing on four specific fiscal rules such as expenditure rule, revenue rule, budget balance rule, and debt rule and five main characteristics of each fiscal rule those are monitoring, enforcement, coverage, legal basis, and escape clause to construct the Fiscal Rule Index for nine countries in the Asia-Pacific region from 1996 to 2015. After constructing the fiscal rule index for each country, we utilize the Panel Generalized Method of Moments (Panel GMM) by using the constructed fiscal rule index to examine the effectiveness of fiscal rules in reducing procyclicality. Empirical results show that national fiscal rules have a significantly negative impact on procyclicality of government expenditure. Additionally, stricter fiscal rules combined with high government effectiveness are effective in reducing procyclicality of government expenditure. Results of this study indicate that for nine Asia-Pacific countries, policymakers' use of fiscal rules and government effectiveness to reducing procyclicality of fiscal policy are effective.