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Publication Date

Monday the 12th of February, 2024

Abstract

The implementation of the subnational fiscal rules in Colombia that occurred between 1997 and 2003 was aimed at the recovery of local governments' fiscal sustainability put at risk with the increase in spending, debt and deficit, events related with the deepening of the fiscal decentralization incorporated in the 1991 Constitution. This document has the purpose of going through each of these fiscal rules, analyzing their role in the relationship between transfers and local governments' finances and the cyclicity of departments' fiscal policy, examining the effects of Covid-19 pandemic on the local finances that ended up with the suspension of the subnational fiscal rules, and investigating the international experiences related to the fiscal rules' structure and performance. The results show that the presence and compliance of the fiscal rules by departments and municipalities is closely related to the recovery of the subnational fiscal sustainability, to a reduction in the procyclicality of the fiscal policy and to the strengthening of the relationship between local and national governments by means of the transfers. In terms of the international experiences, at least three best practices were identified, escape clauses, business cycle adjustment and the intergovernmental fiscal coordination.