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When Do Fiscal Rules Work? Institutional Quality and the Effectiveness of Fiscal Rules in the European Union

Barbara Brix

barbara.brix.citakova@tuke.sk

Technical University of Košice

Marianna Siničáková

Technical University of Košice

Anna Tykhonenko

Université Côte d'Azur

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Abstract

The European Union combines a broadly common framework of rules-based fiscal governance with markedly heterogeneous domestic institutions, raising the question of whether legally similar fiscal rules are equally effective across member states. This article studies the effectiveness of fiscal rules by asking whether they constrain fiscal policy around elections, when the incentive to deviate from fiscal discipline is strongest. Using an unbalanced annual panel of EU-27 member states over 1995–2023, we relate the general-government primary balance to a fractional election-timing variable, the European Commission's Standardised Fiscal Rules Index, and the Worldwide Governance Indicators, estimated in dynamic two-way fixed-effects models. Election years are associated with weaker primary balances across the Union, but the moderating role of fiscal rules is not uniform: stronger rules significantly attenuate election-related fiscal deterioration in Western member states, whereas no comparable effect is found in Central and Eastern Europe. Triple-interaction estimates indicate that this heterogeneity tracks domestic governance quality (rule of law, control of corruption, and democratic accountability) rather than region as such. The findings suggest that the effectiveness of fiscal rules is conditional on the institutional environment in which they operate, with implications for EU fiscal governance and post-accession institutional development.

1 Introduction

Over the past three decades, the European Union (EU) has built one of the most extensive frameworks of rules-based fiscal governance in the world, combining supranational surveillance under the Stability and Growth Pact with a growing set of domestic numerical fiscal rules. The rationale for this architecture is to limit fiscal discretion, anchor expectations, and strengthen the credibility of public finances. Yet the central open question is not whether such rules exist, but whether they are effective, that is, whether legally adopted constraints actually shape fiscal behaviour. This effectiveness cannot be taken for granted: it depends on whether formal commitments are monitored, enforced, and politically costly to evade (Căpraru et al., 2025). Importantly, the effectiveness of fiscal rules is most difficult to observe in ordinary times and most clearly revealed when governments have the strongest incentives to deviate. Electoral periods provide exactly such a setting. When political survival is at stake, incumbents face powerful incentives to relax fiscal discipline (Crombach & Bohn, 2024), and rule-based governance faces its most demanding test: if fiscal rules are effective, their constraining role should be most visible precisely when the temptation to breach them is greatest.

A defining feature of the EU framework is that a broadly common set of rules coexists with markedly heterogeneous domestic institutions, and this tension is especially pronounced for Central and Eastern European (CEE) member states. Since accession, CEE countries have formally converged toward the EU fiscal governance framework, adopting both supranational constraints and domestic numerical fiscal rules. Formal convergence, however, has not implied an equal capacity to make those rules bite. Many CEE member states continue to differ from their Western counterparts in administrative effectiveness, legal enforcement, control of corruption, and accountability mechanisms. The effectiveness of fiscal

rules may therefore vary systematically across the Union: rules that are legally identical on paper may constrain fiscal policy strongly where the supporting institutional infrastructure is robust, yet only weakly where enforcement capacity is underdeveloped. This article focuses on precisely this possibility, namely that the same formal rules may deliver uneven effectiveness depending on domestic institutional quality.

Two strands of literature speak to this question. Research on fiscal rules shows that numerical constraints can be associated with more disciplined fiscal outcomes, but that their effectiveness is conditional on design, legal anchoring, monitoring, and enforcement rather than on adoption alone. A related body of work on the quality of governance further suggests that the impact of formal institutions depends on the administrative and informal environment in which they operate. Against this background, the literature on political budget cycles (Brender & Drazen, 2005; Gootjes et al., 2021) provides a natural empirical setting in which to observe rule effectiveness. Classic models argue that incumbents may use fiscal instruments before elections to influence voter perceptions, particularly under informational asymmetries and weak monitoring; empirically, however, such cycles are not universal but vary with democratic maturity, transparency, media freedom, and institutional constraints. Read together, these literatures imply that the effectiveness of fiscal rules and electorally driven fiscal loosening should be analysed jointly: elections offer a demanding, policy-relevant environment in which the practical bite of fiscal rules can be identified.

What remains insufficiently understood is whether the common EU fiscal framework delivers uniform effectiveness across member states that share supranational commitments but differ substantially in domestic institutional quality. Existing studies have documented electoral fiscal cycles, examined fiscal rules, and emphasised the role of institutions, yet the interaction among these three elements remains less clearly established in the EU context. In particular, the literature offers limited evidence on whether fiscal rules moderate election-year fiscal deterioration differently in CEE and Western EU member states, and on whether such heterogeneity reflects deeper differences in governance quality rather than a purely regional divide.

This article asks whether stronger fiscal rules are associated with weaker election-related fiscal deterioration in EU member states, and whether this association differs between CEE and Western EU countries. The question is motivated by a broader concern about EU fiscal governance: common supranational and domestic rules may not generate comparable outcomes if their enforcement, monitoring, and political embedding differ across member states. The analysis therefore examines not only whether pre-electoral periods are associated with weaker primary balances, but also whether fiscal rules moderate this association, and whether the moderating relationship depends on regional and institutional context.

The empirical analysis uses an unbalanced annual panel of EU-27 member states over the period 1995–2023. The dependent variable is the general-government primary balance as a share of GDP. Electoral incentives are captured through a fractional election-timing variable that allocates election effects between the election year and the preceding year according to the month of the election. Fiscal-rule

strength is measured using the European Commission's Standardised Fiscal Rules Index. Institutional quality is proxied by the Worldwide Governance Indicators, covering government effectiveness, rule of law, control of corruption, voice and accountability, and political stability. The baseline specification estimates dynamic two-way fixed-effects models with country and year fixed effects, controls for macroeconomic conditions and debt dynamics, and tests the interaction between elections and fiscal rules. Additional specifications examine CEE–West heterogeneity and estimate triple interactions among election timing, fiscal-rule strength, and institutional quality.

The results show that election years are associated with deteriorations in the primary balance across the EU. The moderating association of fiscal rules, however, is not uniform. In Western EU countries, stronger fiscal rules are associated with a significant attenuation of election-related fiscal deterioration; in CEE countries, no comparable mitigating association is detected. This regional difference is confirmed in pooled specifications that explicitly allow the relationship between elections and fiscal rules to vary across the two country groups. Evidence from institutional-quality interactions further suggests that fiscal rules are more likely to be associated with weaker election-year fiscal deterioration in countries with stronger rule of law, control of corruption, and democratic accountability.

The article makes three contributions. First, it speaks to the literature on EU fiscal governance and the effectiveness of fiscal rules by showing that the practical bite of numerical rules is conditional rather than automatic, and by identifying the electoral setting as a demanding test of that effectiveness. Second, it contributes to research on institutional quality and post-accession development by showing that the moderating role of fiscal rules differs systematically between CEE and Western EU member states, consistent with underlying differences in governance capacity rather than region per se. Third, it adds to the political budget cycle literature by examining election-related fiscal behaviour within a setting characterised by common supranational commitments but heterogeneous domestic institutions. Taken together, the findings suggest that fiscal rules should be assessed not only in terms of their legal adoption, but in relation to the domestic institutional conditions under which they operate.

The remainder of the article is organised as follows. Section 2 reviews the literature on fiscal rules, institutional quality, and political budget cycles, with particular attention to the CEE context. Section 3 describes the data, variables, and empirical strategy. Section 4 presents the baseline estimates, the CEE–West heterogeneity analysis, and the institutional-quality extension. Section 5 reports robustness checks based on the cyclically adjusted primary balance and additional sensitivity analyses. Section 6 discusses the implications for EU fiscal governance and post-accession institutional development. The final section concludes.

2 Literature review

Electoral incentives have long been central to political economy explanations of fiscal policy. The theoretical literature on political budget cycles argues that incumbents may use fiscal instruments before elections to influence voter perceptions of competence or economic performance. Early models

emphasize opportunistic fiscal expansion around elections, while later signalling models stress informational asymmetries between voters and governments (Nordhaus, 1975; Rogoff & Sibert, 1988; Rogoff, 1990). Later work further shows that electoral manipulation may operate through the composition of expenditure rather than only through aggregate deficits or spending levels (Drazen & Eslava, 2010). The core implication of this literature is not simply that elections mechanically produce fiscal manipulation, but that governments face stronger incentives to adjust fiscal policy when voters cannot fully observe competence, fiscal effort, or the long-term consequences of short-term fiscal decisions.

Empirical research broadly supports the existence of political budget cycles, but it also shows that their magnitude varies across institutional and political contexts. Cross-country evidence suggests that election-year fiscal deficits are more pronounced in developing economies and newer democracies, where voter information and institutional constraints tend to be weaker (Shi & Svensson, 2006; Brender & Drazen, 2005). Other studies emphasize the role of transparency and information. Electoral fiscal manipulation appears stronger where media independence is limited and weaker where fiscal transparency allows voters and external actors to monitor government behaviour more effectively (Akhmedov & Zhuravskaya, 2004; Alt & Lassen, 2006). Meta-analytic evidence reinforces this conditional interpretation: political budget cycles exist, but their size and direction depend on institutional quality, transparency, and democratic maturity (de Haan & Klomp, 2013; Philips, 2016). Taken together, these studies suggest that political budget cycles are real but not uniform. Elections create incentives for opportunistic fiscal policy, but institutional and informational environments shape whether these incentives translate into observable fiscal outcomes.

A second stream of literature examines fiscal rules as formal constraints on discretionary fiscal policy. Fiscal rules are intended to limit deficits, debt accumulation, expenditure growth, or other fiscal aggregates, thereby strengthening sustainability, credibility, and transparency (Kopits & Symansky, 1998). In principle, such rules should reduce the scope for electoral fiscal manipulation by increasing the cost of pre-election fiscal loosening. Early empirical evidence from EU member states suggests that stronger fiscal rules are associated with more disciplined fiscal outcomes (Debrun et al., 2008). More recent work, however, emphasizes that rules do not operate automatically. This caution is reinforced by evidence that the estimated fiscal effect of rules is sensitive to how the endogeneity of rule adoption is addressed (Caselli & Reynaud, 2020). Their effectiveness depends on specific features of fiscal frameworks, including monitoring and independent fiscal oversight (Beetsma & Debrun, 2016), the constraining capacity and empirical identification of numerical rules (Heinemann et al., 2018; Caselli & Reynaud, 2020), the quality of the fiscal framework and macroeconomic-cycle conditions (Andrián et al., 2024), and rule-specific design, government-level coverage, and country-level institutional differences (Lehtimäki & Kraemer, 2026).

This insight is particularly important for the study of political budget cycles. If fiscal rules are credible constraints, they should be especially relevant during elections, when political incentives to deviate from fiscal discipline are strongest. Earlier evidence from subnational settings suggests that stringent

balanced-budget rules can dampen electoral fiscal manipulation, although such findings do not automatically generalize to national EU fiscal frameworks (Rose, 2006). Yet the empirical evidence on whether fiscal rules mitigate political budget cycles remains mixed. Some studies suggest that fiscal constraints can reduce opportunistic fiscal policy or dampen electoral fiscal cycles (Rose, 2006; Gootjes et al., 2021). Recent subnational evidence from Italian municipalities further shows that relaxing fiscal constraints can strengthen electoral cycles in local public spending (Giacobbe et al., 2024). Other contributions emphasize that the disciplining effect of fiscal institutions depends on transparency, media oversight, institutional context, and the credibility of enforcement (Ademmer & Dreher, 2015; Asatryan et al., 2018). This suggests that fiscal rules should not be analysed as isolated legal instruments. Their capacity to constrain electoral fiscal manipulation depends on whether governments face credible monitoring and enforcement when they deviate from the rules.

A related literature focuses on institutional quality and fiscal outcomes. Institutions affect fiscal policy by shaping the ability of voters, legislatures, courts, fiscal councils, media, and administrative bodies to monitor and sanction government behaviour. Stronger rule of law, lower corruption, higher bureaucratic capacity, and stronger accountability mechanisms can increase the political and reputational costs of fiscal manipulation. In the EU context, Larch et al. (2026) provides related evidence from the Fiscal Compact, showing that compliance was stronger when correction mechanisms were better designed, government efficiency was higher, and independent fiscal institutions were more visible in the media. Conversely, weak governance environments may create opportunities for rent-seeking, selective enforcement, and strategic fiscal behaviour (Keefer & Knack, 2007; Treisman, 2007). In the context of political budget cycles, institutional quality is therefore not merely a background control variable. It is part of the enforcement infrastructure through which formal fiscal constraints become effective.

The distinction between de jure rules and de facto enforcement is central for understanding fiscal governance in the EU. Evidence on national numerical fiscal rules in EU member states also suggests that the existence of rules and actual compliance with them should be distinguished analytically (Reuter, 2015). EU member states operate under common supranational fiscal constraints, but they differ substantially in domestic administrative capacity, legal enforcement, transparency, and accountability. This combination of shared formal rules and heterogeneous domestic institutions makes the EU a useful setting for examining whether fiscal rules operate uniformly across countries or whether their effectiveness depends on national institutional conditions. The issue is particularly relevant because fiscal rules can be circumvented through creative accounting, off-budget operations, or selective compliance when enforcement is weak (Milesi-Ferretti, 2004; von Hagen & Wolff, 2006). In more complex fiscal frameworks, flexibility may further increase the scope for strategic compliance if domestic and supranational monitoring are insufficiently credible (Eyraud et al., 2020).

The CEE context is especially informative because it combines formal convergence with persistent institutional heterogeneity. Since accession, CEE member states have adopted EU-compatible fiscal frameworks and domestic fiscal rules, but post-accession institutional development has remained uneven. Legal and regulatory convergence has often advanced faster than administrative effectiveness,

judicial capacity, corruption control, and democratic accountability. This matters for fiscal governance because formal rule adoption may not translate into comparable fiscal discipline if the institutions required to monitor and enforce those rules remain weaker. For new and prospective EU member states, earlier evidence also indicates that budgetary outcomes are strongly shaped by political incentives and domestic budget institutions, which makes formal rule adoption insufficient on its own (Fabrizio & Mody, 2006). The post-accession literature therefore provides an important lens for interpreting CEE–West differences in fiscal-rule effectiveness as a matter of institutional depth rather than simple regional classification (Trauner, 2009; Dinca, 2022; Cutrini, 2023).

Taken together, these literatures point to a common conclusion: political budget cycles, fiscal-rule effectiveness, and institutional quality are interdependent. The political budget cycle literature shows that elections can create incentives for fiscal manipulation, but that these incentives are conditional on transparency and accountability (Alt & Lassen, 2006; Brender & Drazen, 2005; Shi & Svensson, 2006). The fiscal-rules literature shows that numerical constraints can support fiscal discipline, but mainly when rules are credible, enforceable, and embedded in strong institutional frameworks (Debrun et al., 2008; Beetsma & Debrun, 2016; Heinemann et al., 2018). The institutional literature shows that governance quality shapes the costs of opportunistic behaviour and the credibility of policy commitments (Keefer & Knack, 2007; Treisman, 2007). However, these strands are often examined separately. What remains less clearly established is whether fiscal rules moderate election-year fiscal deteriorations differently across EU member states and whether such heterogeneity is systematically related to institutional quality.

This gap is particularly important for CEE economies. If formal rule adoption were sufficient, fiscal rules should constrain political budget cycles similarly in CEE and Western EU member states operating under the same EU-level fiscal framework. If institutional enforcement capacity matters, however, fiscal rules should be less effective where rule of law, corruption control, administrative capacity, and accountability mechanisms are weaker. The CEE context therefore provides a relevant empirical setting for examining whether EU fiscal governance produces uniform fiscal discipline or whether formal convergence masks persistent differences in the effective operation of rules.

The existing literature remains limited in three respects. First, studies of political budget cycles show that electoral fiscal manipulation varies across institutional environments, but they do not always examine whether fiscal rules specifically constrain such behaviour during election periods. Second, studies of fiscal rules often assess average fiscal outcomes rather than the politically demanding context of elections, when incentives to deviate from fiscal discipline are strongest. Third, although institutional quality is widely recognized as relevant for fiscal governance, it is less often modelled as a condition shaping the effectiveness of fiscal rules in constraining political budget cycles. These limitations are particularly important in the EU, where member states share a common supranational fiscal framework but differ substantially in domestic enforcement capacity. For CEE countries, the issue is especially salient because formal adoption of EU-compatible fiscal rules may not translate into comparable fiscal discipline if institutional capacity, legal enforcement, corruption control, and accountability remain weaker than in Western EU member states.

Against this background, the present article examines the interaction between elections, fiscal rules, and institutional quality in an EU-27 panel. Rather than asking only whether elections affect fiscal outcomes, the article asks whether fiscal rules weaken election-year fiscal deteriorations and whether this relationship differs between Western and CEE member states. It further examines whether institutional quality conditions the fiscal rules–elections relationship. By linking regional and institutional heterogeneity to the interaction between elections and fiscal rules, the analysis extends existing evidence on the conditional effectiveness of fiscal constraints in the European context.

The preceding discussion implies that the relationship between elections, fiscal rules, and fiscal outcomes is likely to be conditional rather than uniform. Elections may create incentives for fiscal loosening, but whether these incentives are reflected in observed fiscal balances should depend on the credibility and institutional embedding of fiscal constraints. This leads to the following research expectations: First, higher pre-electoral exposure is expected to be associated with a deterioration in the general-government primary balance. Second, stronger fiscal rules are expected to be associated with a weaker negative relationship between pre-electoral exposure and the primary balance. Third, this moderating association is expected to differ between CEE and Western EU member states. Fourth, in the extended institutional-quality specifications, fiscal rules are expected to be more strongly associated with weaker election-related fiscal deterioration in countries with stronger monitoring, enforcement, and accountability mechanisms.

3 Data and Methodology

3.1 Data and sample

This study examines the relationship between elections, fiscal rules, and primary fiscal balances in EU member states over the period 1995–2023. The empirical analysis covers the EU27 and distinguishes between CEE member states and Western EU member states. The CEE group includes Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. The remaining EU member states are classified as Western EU countries. This classification is used not as a purely geographical distinction, but as an analytically relevant grouping that reflects different institutional trajectories, fiscal governance histories, and EU accession experiences.

The baseline sample consists of country-year observations for EU member states for which data are available on fiscal outcomes, election timing, fiscal rules, and macroeconomic controls. Fiscal and macroeconomic variables are obtained primarily from AMECO, while the fiscal rules variable is based on the Standardised Fiscal Rules Index. Election data are drawn from the ParlGov database and transformed into a fractional measure of pre-electoral exposure. The election variable is based on national parliamentary elections because these elections are most directly linked to government formation and fiscal policymaking in parliamentary and semi-parliamentary EU systems.

The EU27 sample is appropriate for this study for two reasons. First, EU member states are subject to common supranational fiscal constraints, which provides a relevant institutional environment for studying the disciplining role of fiscal rules. Second, the EU contains substantial variation in domestic fiscal institutions, electoral timing, and post-accession institutional development. This allows the analysis to examine not only whether election periods are associated with fiscal deterioration on average, but also whether the association between fiscal rules and election-related fiscal behaviour differs between CEE and Western EU member states.

The distinction between CEE and Western EU countries is central to the empirical design. CEE countries entered the EU after periods of transition, institutional restructuring, and fiscal convergence. Although they operate within the same broad EU fiscal governance framework, the domestic credibility, monitoring, enforcement, and political embedding of fiscal rules may differ from those in older Western EU democracies. The empirical analysis therefore treats CEE status as a source of potentially meaningful heterogeneity rather than as a simple control variable.

3.2 Variables

The dependent variable in the baseline analysis is the primary balance, measured as general government net lending excluding interest payments as a percentage of GDP. This variable captures the fiscal position before interest expenditures and is therefore suitable for examining discretionary fiscal behaviour around elections. A decline in the primary balance indicates a deterioration in the government's fiscal position. In the robustness analysis, the study uses the cyclically adjusted primary balance as an alternative dependent variable. Using the cyclically adjusted primary balance provides a stricter robustness check because it adjusts the fiscal balance for its estimated cyclical component and therefore more closely approximates discretionary fiscal policy.

The key electoral variable is a fractional measure of pre-electoral exposure. Rather than using a simple election-year dummy, the variable captures the share of months in a country-year exposed to a pre-electoral period. For an election held in month M of year t, M/12 of the exposure is assigned to year t, while (12 − M)/12 is assigned to year t − 1. This measure is preferable to a simple election-year indicator because it accounts for the timing of elections within the fiscal year and more closely captures the period during which governments may have incentives to adjust fiscal policy. This approach follows the logic of fractional election-timing measures used in political budget cycle research, where the fiscal relevance of an election depends on its timing within the calendar year (Franzese, 2000; Gootjes et al., 2021).

The main institutional variable is the Standardised Fiscal Rules Index, obtained from the European Commission Fiscal Governance Database. The index captures the strength of national fiscal rules, including their coverage, legal basis, monitoring arrangements, correction mechanisms, and flexibility. It is used to assess whether stronger fiscal frameworks are associated with weaker election-related fiscal deterioration. The index enters the baseline specification with a one-year lag in order to reduce simultaneity concerns and to ensure that fiscal rules are measured prior to the fiscal outcome.

The empirical models include a set of macroeconomic and fiscal controls. The control variables are selected to isolate the association between electoral timing and fiscal outcomes from macroeconomic conditions that may simultaneously affect fiscal balances and electoral incentives. Lagged public debt captures inherited fiscal constraints, while the output gap controls for cyclical fluctuations that influence government revenues and expenditures. Inflation and interest payments account for macroeconomic and financing conditions that may affect fiscal performance independently of electoral considerations.

Finally, the CEE indicator distinguishes CEE EU member states from Western EU member states. This variable is central to the heterogeneity analysis, which examines whether the association between fiscal rules and election-related fiscal behaviour differs between the two country groups.

Extended specifications also use institutional-quality indicators to examine whether the election–fiscal rules relationship varies with the broader domestic governance environment. These indicators capture rule of law, control of corruption, government effectiveness, political stability, regulatory quality, and voice and accountability. They are used not as the main explanatory variables of the article, but as conditioning variables that help assess whether the moderating association of fiscal rules during pre-electoral periods depends on the institutional environment in which fiscal rules operate.

Table 1 summarises the variables used in the empirical analysis, including their definitions, units of measurement, and data sources.

Table 1
Description of variables and data sources.

Variable	Description	Unit	Source
Primary balance	General-government net lending excluding interest payments. Used as the dependent variable in the baseline models.	Percentage of GDP at market prices	AMECO
Election exposure	Fractional election-timing variable measuring the share of unique months in a country-year exposed to a pre-electoral period.	Share of year, 0–1	ParlGov election data; own calculation
Fiscal rules index	Standardised Fiscal Rules Index measuring the strength of national fiscal rules. Used with a one-year lag in the empirical models.	Index	European Commission
Public debt	Gross public debt.	Percentage of GDP at market prices	AMECO
Output gap	Gap between actual GDP and potential GDP.	Percentage of potential GDP	AMECO
Inflation	Annual inflation rate calculated as the year-on-year percentage change in the Harmonised Consumer Price Index.	Percent, annual change	AMECO; own calculation
Interest payments	General-government interest payments. Used with a one-year lag in the empirical models.	Percentage of GDP at market prices	AMECO

Before turning to the econometric specification, Table 2 reports descriptive statistics for the variables used in the empirical analysis. The table presents mean, standard deviation, minimum, median, and maximum for the fiscal outcomes, election exposure, fiscal rules index, and macroeconomic controls. Although some variables enter the regression models with a one-year lag, the descriptive statistics are reported for the original series to provide a transparent overview of the underlying data.

Table 2
Summary statistics.

Variable	Mean	SD	Min	Median	Max
Primary balance	− 0.257	3.346	− 29.300	− 0.050	9.600
Election exposure	0.250	0.318	0.000	0.000	1.000
Fiscal rules index	0.116	0.978	− 1.083	0.070	2.547
Public debt	59.032	35.612	3.900	54.100	244.500
Output gap	-0.335	3.410	-18.800	-0.100	14.200
Inflation	3.606	7.289	-1.709	2.247	151.515
Interest payments	2.407	1.810	0.000	2.000	15.700

Notes: The table reports descriptive statistics for the original, non-lagged variables used in the empirical analysis. Some variables enter the regression models with a one-year lag, as specified in the empirical strategy.

3.3 Empirical strategy

The empirical strategy proceeds in four steps. First, the analysis estimates a baseline EU27 model to assess whether election periods are associated with changes in primary balances and whether this association is moderated by fiscal rules in the full EU sample. Second, the model is estimated separately for CEE and Western EU countries to examine whether the baseline relationship differs across country groups. Third, the analysis estimates a pooled CEE–West interaction model, which provides the main test of heterogeneity. Fourth, the analysis extends the model by incorporating institutional-quality indicators. These specifications examine whether the moderating association between fiscal rules and election exposure varies with the broader institutional environment in which fiscal rules operate.

The baseline specification can be written as:

$$PB_{i,t} = \alpha_i + \lambda_t + \rho PB_{i,t-1} + \beta_1 Election_{i,t} + \beta_2 SFRI_{i,t-1} + \beta_3 (Election_{i,t} \times SFRI_{i,t-1}) + \gamma X_{i,t} + \varepsilon_{i,t} \quad (1)$$

where $PB_{i,t}$ is the primary balance in country i and year t, α_i denotes country fixed effects, λ_t denotes year fixed effects, $PB_{i,t-1}$ is the lagged dependent variable, $Election_{i,t}$ is the fractional pre-electoral exposure variable, $SFRI_{i,t-1}$ is the lagged fiscal rules index, $Election_{i,t} \times SFRI_{i,t-1}$ is the interaction between election exposure and fiscal rules, $X_{i,t}$ is a vector of control variables, and $\varepsilon_{i,t}$ is the error term.

Country fixed effects absorb time-invariant institutional, political, and historical characteristics that may influence fiscal behaviour, while year fixed effects control for common shocks affecting all member states simultaneously, including changes in the EU fiscal framework, global economic conditions, and major crisis episodes.

The coefficient β_1 captures the association between election exposure and the primary balance when the fiscal rules index equals zero. The coefficient $+ \beta_3$ indicates whether the association between election exposure and the primary balance changes with the strength of fiscal rules. A positive coefficient on the interaction term is consistent with the interpretation that stronger fiscal rules are associated with a weaker election-related deterioration in primary balances. Since the dependent variable is the primary balance, a negative election coefficient indicates fiscal deterioration, while a positive election–fiscal rules interaction indicates that this deterioration becomes less pronounced as fiscal rules strengthen.

To examine CEE–West heterogeneity, the study estimates a pooled interaction model of the following form:

$$PB_{i,t} = \alpha_i + \lambda_t + \rho PB_{i,t-1} + \beta_1 Election_{i,t} + \beta_2 SFRI_{i,t-1} + \beta_3 (Election_{i,t} \times SFRI_{i,t-1}) + \delta_1 (CEE_i \times Election_{i,t}) + \delta_2 (CEE_i \times SFRI_{i,t-1}) + \delta_3 (CEE_i \times Election_{i,t} \times SFRI_{i,t-1}) + \gamma X_{i,t} + \varepsilon_{i,t} \quad (2)$$

In this specification, Western EU countries constitute the baseline category. The coefficient β_1 captures the election association for Western EU countries when the fiscal rules index equals zero, while β_3 captures the moderating association of fiscal rules in Western EU countries. The coefficient δ_3 captures the difference between CEE and Western EU countries in the moderating association of fiscal rules. The implied CEE interaction effect is therefore given by $\beta_3 + \delta_3$. This implied effect is central to the interpretation of whether stronger fiscal rules are associated with weaker election-related fiscal deterioration in CEE countries.

The main parameter of interest is not the average election effect alone, but the interaction between election exposure and fiscal rules and its variation across CEE and Western EU countries. The empirical design therefore focuses on whether fiscal rules condition election-related fiscal behaviour differently across institutional and regional contexts within the EU.

Because this pooled CEE–West specification includes a lagged dependent variable together with country fixed effects, the estimates may be affected by dynamic panel bias (Nickell, 1981). To assess whether the main heterogeneity results are sensitive to this concern, Appendix Table A7 reports half-panel jackknife bias-corrected dynamic fixed-effects estimates for the pooled CEE–West interaction model. The half-panel jackknife correction is used to reduce finite-sample bias in fixed-effects estimators for dynamic panel models (Dhaene & Jochmans, 2015; Chudik et al., 2018). Bootstrap standard errors are obtained by resampling countries while preserving the panel structure. These estimates are interpreted as a robustness check for the CEE–West heterogeneity result.

To examine whether institutional quality conditions the election–fiscal rules relationship, the analysis estimates an extended interaction specification. In this model, the fiscal rules index and election exposure are interacted with an institutional-quality indicator. The motivation for this extension follows the fiscal-institutions literature, which emphasises that the operation of formal fiscal constraints may depend on the credibility of enforcement, administrative capacity, transparency, and political accountability (Debrun and Kumar 2007; Iara and Wolff 2014). The model is specified as follows:

$$PB_{i,t} = \alpha_i + \lambda_t + \rho PB_{i,t-1} + \beta_1 Election_{i,t} + \beta_2 SFRI_{i,t-1} + \beta_3 IQ_{i,t} + \beta_4 (Election_{i,t} \times SFRI_{i,t-1}) + \beta_5 (Election_{i,t} \times IQ_{i,t}) + \beta_6 (SFRI_{i,t-1} \times IQ_{i,t}) + \beta_7 (Election_{i,t} \times SFRI_{i,t-1} \times IQ_{i,t}) + \gamma' X_{i,t} + \varepsilon_{i,t} \quad (3)$$

where $IQ_{i,t}$ denotes one of six institutional-quality indicators obtained from the World Bank's Worldwide Governance Indicators database: Rule of Law, Control of Corruption, Government Effectiveness, Political Stability and Absence of Violence/Terrorism, Regulatory Quality, and Voice and Accountability (Kaufmann and Kraay, 2024). Each governance dimension is entered in a separate specification rather than combining all six indicators in a single regression. This approach preserves their distinct substantive interpretations and allows the conditioning association of each institutional dimension to be assessed separately. Following the hierarchical specification principle for multiplicative interaction models, Eq. (3) includes the three constituent variables, all three two-way interactions, and the triple-interaction term (Brambor et al., 2006). The coefficient of primary interest is β_7 which captures how the election–fiscal rules interaction changes with institutional quality. A positive value of β_7 would be consistent with the interpretation that stronger fiscal rules are more closely associated with weaker election-related fiscal deterioration as institutional quality increases.

Before estimation, each institutional-quality indicator is transformed into a z-score. Each indicator is standardised by subtracting its sample mean and dividing by its sample standard deviation. This transformation facilitates comparison across governance dimensions and allows the triple-interaction coefficients to be interpreted in relation to a one-standard-deviation increase in institutional quality.

Each institutional-quality specification includes the same control variables as the baseline model. All specifications additionally include country and year fixed effects, with standard errors clustered at the country level.

4 Results

This section presents empirical results in a sequential manner. It begins with the baseline EU27 estimates and the split-sample results for CEE and Western EU member states, providing an initial assessment of the relationship between election exposure, fiscal rules, and primary balances. It then introduces a pooled interaction model that directly examines whether the election–fiscal rules relationship differs systematically between the two regional groups. Having established the presence of regional heterogeneity, the final part of the analysis explores potential explanations for this difference by considering the role of institutional quality and the broader institutional environment in which fiscal rules operate.

4.1 Baseline and split-sample results

Table 3 reports the baseline fixed-effects estimates for the EU27 sample and for the two regional subsamples. Column (I) presents the EU27 baseline model, while columns (II) and (III) report separate estimates for CEE and Western EU member states.

Table 3
Baseline and split-sample estimates: EU27, CEE, and Western EU

***Dependent variable*:**	***Primary balance***		
Model	**(I)**	**(II)**	**(III)**
Variables	**EU27**	**CEE**	**Western EU**
Election$_{i,t}$	-0.566*	-0.516**	-0.675*
	(0.249)	(0.129)	(0.307)
SFRI$_{i,t-1}$	0.051	0.177	0.089
	(0.188)	(0.338)	(0.261)
PB$_{i,t-1}$	0.607***	0.411***	0.641***
	(0.041)	(0.066)	(0.047)
Debt$_{i,t-1}$	0.023**	0.040**	0.025**
	(0.006)	(0.011)	(0.008)
Gap$_{i,t-1}$	0.100***	0.123*	0.122*
	(0.026)	(0.044)	(0.052)
Inflation$_{i,t-1}$	-0.003	0.014	0.073
	(0.014)	(0.009)	(0.090)
Interest$_{i,t-1}$	0.266*	0.297.	0.133
	(0.119)	(0.156)	(0.111)
Election$_{i,t}$ × SFRI$_{i,t-1}$	0.294	-0.268	0.796*
	(0.272)	(0.253)	(0.335)
Observations	730	285	445
Adjusted R^2	0.709	0.636	0.729

Notes: The table reports fixed-effects OLS estimates. Standard errors clustered at the country level are reported in parentheses. The dependent variable is the general-government primary balance. Election exposure is measured as a fractional pre-electoral exposure variable. The fiscal rules index is lagged by one year. Significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05,. p < 0.10.

The EU27 results indicate that election exposure is negatively associated with the primary balance. This finding is consistent with the presence of political budget cycles in EU member states. By contrast, the interaction between election exposure and fiscal-rule strength is not statistically significant, suggesting that the average EU relationship does not provide clear evidence that stronger fiscal rules systematically attenuate election-related fiscal deterioration.

The split-sample estimates reveal substantial heterogeneity behind this aggregate result. In Western EU member states, election exposure is negatively associated with the primary balance. More importantly, the interaction between election exposure and fiscal-rule strength is positive and statistically significant, indicating that the negative election-related association becomes weaker as fiscal rules strengthen.

A different pattern emerges in the CEE subsample. Election exposure remains negatively associated with the primary balance, suggesting that pre-electoral periods are also linked to fiscal deterioration in these countries. However, the interaction between election exposure and fiscal-rule strength is not statistically significant. The split-sample evidence therefore suggests that fiscal rules are associated with weaker election-related fiscal deterioration in Western EU member states, but no comparable moderating relationship is detected in CEE countries.

4.2 Pooled CEE–West interaction model

Table 4 reports the pooled interaction model that directly tests whether the election–fiscal rules relationship differs between CEE and Western EU member states. Western EU countries serve as the reference group, while the CEE interaction terms capture deviations from this baseline.

Table 4
Baseline and split-sample estimates: EU27, CEE, and Western EU

***Dependent variable*:**	***Primary balance***		
Variables	**(I)**	**(II)**	**(III)**
	Western EU baseline	**CEE-West differential**	**Implied CEE effect**
$PB_{i,t-1}$	0.602***		
	(0.041)		
$Election_{i,t}$	-0.639*	0.087	-0.552***
	(0.298)	(0.492)	(0.151)
$SFRI_{i,t-1}$	0.160	0.244	0.404
	(0.182)	(0.178)	(0.224)
$Election_{i,t} \times SFRI_{i,t-1}$	0.800*	-0.951*	-0.151
	(0.378)	(0.361)	(0.236)
$Inflation_{i,t-1}$	-0.003		
	(0.013)		
$Interest_{i,t-1}$	0.266*		
	(0.120)		
$Debt_{i,t-1}$	0.022**		
	(0.007)		
$Gap_{i,t-1}$	0.100***		
	(0.026)		
Observations	730		
Adjusted R^2	0.710		

Notes: The table reports estimates from a pooled fixed-effects model with CEE interaction terms. Western EU countries are the reference group. The "CEE–West differential" column reports the additional coefficient for CEE countries relative to the Western EU baseline. The "Implied CEE effect" is calculated as the sum of the Western EU baseline coefficient and the corresponding CEE–West differential coefficient. Standard errors are reported in parentheses. The dependent variable is the general-government primary balance. Election exposure is measured as a fractional pre-electoral exposure variable. The fiscal rules index is lagged by one year. Significance levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$,. $p < 0.10$.

The results confirm the pattern observed in the split-sample estimates. For Western EU member states, election exposure is negatively associated with the primary balance, while the interaction between

election exposure and fiscal-rule strength is positive and statistically significant. The estimated coefficient implies that stronger fiscal rules are associated with a weaker deterioration in fiscal balances during pre-electoral periods.

The key result of Table 4 is the statistically significant CEE differential interaction term. The negative coefficient indicates that the election–fiscal rules relationship differs systematically between CEE and Western EU member states. The positive moderating association observed in Western Europe is substantially weaker in the CEE group and is no longer statistically distinguishable from zero. These estimates indicate that the insignificant interaction observed in the pooled EU27 specification does not reflect the absence of a relationship between fiscal rules and electoral fiscal behaviour. Rather, it reflects the aggregation of two distinct patterns: a positive election–fiscal rules association in Western EU countries and the absence of a comparable association in CEE member states.

Figure 1 illustrates this heterogeneity by plotting the marginal effect of election exposure across the observed range of the fiscal-rules index. In Western EU countries, the marginal effect becomes progressively less negative as fiscal-rule strength increases. In CEE countries, the estimated election effect remains negative across the observed range of the fiscal-rules index and exhibits little evidence of attenuation. The figure therefore visualises the central empirical result of the article: the association between fiscal rules and election-related fiscal behaviour is not uniform across EU member states.

Notes

The figure plots the estimated marginal effect of election exposure on the primary balance across values of the lagged fiscal rules index. Shaded areas indicate confidence intervals. Estimates are based on the pooled CEE–West interaction model reported in Table 4.

4.3 Institutional quality as a conditioning factor

Building on the CEE–West heterogeneity documented above, this section examines whether the election–fiscal rules relationship also varies with institutional quality. The purpose of this extension is to assess whether the moderating association of fiscal rules during pre-electoral periods is conditional on the broader governance environment.

The coefficient of interest is the triple interaction between election exposure, fiscal-rule strength, and institutional quality. A positive coefficient indicates that the election–fiscal rules interaction becomes more positive as institutional quality increases.

Before turning to the interaction estimates, Fig. 2 provides descriptive evidence on institutional differences between CEE and Western EU member states. The figure reports average within-sample differences in standardised World Governance Indicators after accounting for common time effects. Relative to Western EU countries, CEE member states exhibit lower average scores in rule of law, control of corruption, government effectiveness, and voice and accountability. The largest differences are

observed in governance dimensions directly related to institutional capacity and accountability, whereas differences in political stability are comparatively smaller. These patterns do not establish a causal relationship between institutional quality and fiscal outcomes, but they indicate that the regional heterogeneity documented in the previous section is accompanied by systematic differences in the broader governance environment.

Notes

The figure reports estimated differences between CEE and Western EU member states for standardised World Governance Indicators. Positive values indicate higher average scores in CEE countries, while negative values indicate lower scores relative to Western EU member states. Estimates are based on within-sample standardised indicators and include year fixed effects. Horizontal lines represent 95% confidence intervals.

Table 5 extends the analysis by examining whether the relationship between election exposure, fiscal-rule strength, and fiscal outcomes varies across different dimensions of institutional quality.

Table 5
Institutional quality as a conditioning factor in the election–fiscal rules relationship

***Dependent variable*:**	***Primary balance***					
Model	**(I)**	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)**
Variables	**Rule of law**	**Control of corruption**	**Government effectiveness**	**Political stability**	**Regulatory quality**	**Voice and accountability**
Election$_{i,t}$	-0.705*	-0.675*	-0.588*	-0.584*	-0.724*	-0.712*
	(0.343)	(0.328)	(0.286)	(0.271)	(0.349)	(0.341)
SFRI$_{i,t-1}$	0.081*	0.074	0.041	0.083	0.060	0.035
	(0.040)	(0.180)	(0.179)	(0.183)	(0.173)	(0.174)
IQ$_{i,t}$	0.491*	0.223	0.217	0.253*	0.058	0.464*
	(0.188)	(0.264)	(0.490)	(0.129)	(0.281)	(0.224)
Election$_{i,t}$ × SFRI$_{i,t-1}$	0.571**	0.537**	0.391*	0.471	0.627	0.602**
	(0.222)	(0.207)	(0.197)	(0.327)	(0.420)	(0.233)
Election$_{i,t}$ × IQ$_{i,t}$	0.136	-0.028	0.198	0.180	-0.233	0.155
	(0.307)	(0.260)	(0.182)	(0.178)	(0.328)	(0.288)
SFRI$_{i,t-1}$ × IQ$_{i,t}$	0.081	0.028	0.035*	0.118*	0.033	0.008
	(0.111)	(0.105)	(0.017)	(0.060)	(0.121)	(0.100)
Election$_{i,t}$ × SFRI$_{i,t-1}$ × IQ$_{i,t}$	0.428**	0.309**	0.077*	0.362	0.494	0.433**
	(0.164)	(0.113)	(0.037)	(0.295)	(0.368)	(0.167)
Observations	656	656	656	656	656	656
Adjusted R^2	0.699	0.697	0.697	0.699	0.698	0.700

Notes: The table reports fixed-effects estimates from institutional-quality interaction models. Institutional-quality variables are standardised as z-scores before entering the models. Each column uses one institutional-quality indicator interacted with election exposure and the lagged fiscal rules index. All models include lagged primary balance, lagged public debt, output gap, lagged inflation, lagged interest payments, country fixed effects, and year fixed effects. Standard errors clustered at the country level are reported in parentheses. Significance levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$,. $p < 0.10$

The negative coefficient on election exposure remains stable across all six specifications. Even after allowing the election–fiscal rules relationship to vary with institutional quality, greater pre-electoral exposure continues to be associated with a deterioration in the primary balance. This result indicates

that the presence of political budget cycles is not sensitive to the particular governance dimension included in the model.

The direct association between fiscal-rule strength and the primary balance is generally weak and only occasionally statistically significant. By contrast, the interaction between election exposure and fiscal-rule strength is positive in all specifications and statistically significant in the models that include rule of law, control of corruption, government effectiveness, and voice and accountability. These estimates suggest that stronger fiscal rules are associated with a weaker deterioration in the primary balance during pre-electoral periods.

The triple-interaction estimates provide further evidence that this relationship varies across institutional environments. The coefficient on the interaction between election exposure, fiscal-rule strength, and institutional quality is positive in all six specifications and statistically significant for rule of law, control of corruption, government effectiveness, and voice and accountability. Because the governance indicators are standardised, these coefficients indicate how the election–fiscal rules relationship changes following a one-standard-deviation increase in institutional quality.

The strongest evidence emerges for governance dimensions associated with rule enforcement and accountability. In these specifications, higher institutional quality is associated with a stronger positive election–fiscal rules interaction. By contrast, the triple-interaction term is not statistically significant in the models based on political stability and regulatory quality.

Another notable result is that the interaction between election exposure and institutional quality is not statistically significant in any specification. This suggests that institutional quality is not systematically associated with weaker election-related fiscal deterioration on its own. Instead, the results indicate that institutional quality is primarily associated with variation in the election–fiscal rules relationship.

Taken together, the findings suggest that the relationship between fiscal rules and election-related fiscal behaviour differs across institutional environments.

5 Robustness check

The preceding analysis uses the primary balance as the main fiscal outcome variable. To assess whether the results are sensitive to cyclical fluctuations in economic activity, the baseline specifications are re-estimated using the cyclically adjusted primary balance (CAPB). This specification provides a stricter test of the main findings because it removes the influence of the business cycle and focuses more directly on discretionary fiscal policy.

Table 6 reports the CAPB estimates for the EU27 sample and the two regional subsamples. The coefficient on election exposure remains negative and statistically significant across all three specifications, indicating that election-related fiscal deterioration is not solely a consequence of cyclical

economic fluctuations. The persistence of the election effect after cyclical adjustment suggests that electoral incentives remain associated with discretionary fiscal behaviour.

Table 6
Baseline and regional estimates using the cyclically adjusted primary ba ance

***Dependent variable*:**	***Cyclically adjusted primary balance***		
Model	**(I)**	**(II)**	**(III)**
Variables	**EU27**	**CEE**	**Western EU**
Election$_{i,t}$	-0.708*	-0.618**	-0.801*
	(0.278)	(0.175)	(0.327)
SFRI$_{i,t-1}$	0.021	0.233	0.079
	(0.185)	(0.324)	(0.294)
CAPB$_{i,t-1}$	0.623***	0.469***	0.660***
	(0.042)	(0.063)	(0.048)
Debt$_{i,t-1}$	0.017	0.035*	0.015
	(0.010)	(0.012)	(0.011)
Inflation$_{i,t-1}$	0.003	0.014*	0.059
	(0.010)	(0.006)	(0.089)
Interest$_{i,t-1}$	0.079	0.045	0.009
	(0.115)	(0.100)	(0.123)
Election$_{i,t}$ × SFRI$_{i,t-1}$	0.247	-0.252	0.760**
	(0.281)	(0.272)	(0.223)
Observations	729	284	445
Adjusted R^2	0.638	0.612	0.652

Notes: The table reports fixed-effects estimates using the cyclically adjusted primary balance as the dependent variable, expressed as a percentage of GDP. Column (I) reports estimates for the EU27 sample, while columns (II) and (III) report estimates for the CEE and Western EU subsamples, respectively. Election exposure is measured using the fractional pre-electoral exposure variable. The fiscal rules index, public debt, inflation, and interest payments enter the model with a one-year lag. All specifications include the lagged cyclically adjusted primary balance, country fixed effects, and year fixed effects. Standard errors clustered at the country level are reported in parentheses. Significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05,. p < 0.10.

The results also broadly preserve the regional pattern identified in the baseline analysis. In the Western EU subsample, the interaction between election exposure and fiscal-rule strength remains positive and

statistically significant, indicating that stronger fiscal rules continue to be associated with weaker election-related fiscal deterioration. In contrast, the corresponding interaction term remains statistically insignificant in the CEE subsample. Although the estimated coefficient changes sign relative to the baseline specification, the results continue to provide no evidence that stronger fiscal rules systematically attenuate election-related fiscal deterioration in CEE member states.

Table 7 re-estimates the pooled CEE–West interaction model using the cyclically adjusted primary balance. The results remain qualitatively consistent with the baseline analysis.

Table 7
Pooled CEE–West interaction estimates using the cyclically adjusted primary balance

***Dependent variable*:**	***Cyclically adjusted primary balance***		
Variables	**(I)**	**(II)**	**(III)**
	Western EU baseline	**CEE-West differential**	**Implied CEE effect**
$CAPB_{i,t-1}$	0.619***		
	(0.042)		
$Election_{i,t}$	-0.813	0.162	-0.652***
	(0.505)	(0.547)	(0.139)
$SFRI_{i,t-1}$	0.087	0.157	0.244
	(0.176)	(0.177)	(0.230)
$Election_{i,t} \times SFRI_{i,t-1}$	0.746	-0.924	-0.178
	(0.494)	(0.559)	(0.271)
$Inflation_{i,t-1}$	0.002		
	(0.010)		
$Interest_{i,t-1}$	0.085		
	(0.122)		
$Debt_{i,t-1}$	0.015		
	(0.011)		
Observations	729		
Adjusted R^2	0.639		

Notes: The table reports estimates from a pooled fixed-effects model using the cyclically adjusted primary balance as the dependent variable, expressed as a percentage of GDP. Western EU countries are the reference group. Column (I) reports the estimated effect for Western EU countries, column (II) reports the additional coefficient for CEE countries relative to the Western EU reference group, and column (III) reports the implied effect for CEE countries, calculated as the sum of columns (I) and (II). Election exposure is measured using the fractional pre-electoral exposure variable, while the fiscal rules index enters with a one-year lag. The model includes the lagged cyclically adjusted primary balance, lagged public debt, lagged inflation, lagged interest payments, country fixed effects, and year fixed effects. Standard errors clustered at the country level are reported in parentheses. Significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05,. p < 0.10.

The election–fiscal rules interaction is positive for the Western EU reference group, while the corresponding differential interaction for CEE countries remains negative. The implied CEE interaction effect therefore continues to be substantially weaker than the Western EU effect. Although the

differential interaction term does not reach conventional levels of statistical significance in the CAPB specification, its sign and magnitude remain consistent with the baseline estimates.

Taken together, the CAPB specifications suggest that the main conclusions of the article are not driven by cyclical variation in fiscal balances. The evidence continues to support the existence of election-related fiscal deterioration and points to meaningful differences in the relationship between fiscal rules and electoral fiscal behaviour across EU member states.

The robustness analysis focuses on the baseline and regional interaction models, which constitute the core empirical tests of the article. The institutional-quality specifications are primarily used to explore potential sources of heterogeneity rather than to establish the baseline relationship between elections, fiscal rules, and fiscal outcomes. For this reason, they are treated as complementary evidence and are not subjected to the same range of robustness checks as the main specifications.

Additional robustness checks for the pooled CEE–Western EU interaction model are reported in Appendix A. These include alternative election measures, crisis-year exclusions, and specifications without the lagged dependent variable. These tests assess the stability of the main regional results rather than introduce additional substantive claims. Overall, the robustness checks support the broad qualitative pattern reported in the main analysis.

6 Discussion

The results provide new evidence on the relationship between electoral incentives, fiscal rules, and institutional quality in the EU. Three findings merit particular attention.

First, the analysis confirms the continued presence of political budget cycles in EU member states. Across the baseline specifications, greater pre-electoral exposure is associated with weaker primary balances, suggesting that governments continue to face incentives to relax fiscal discipline around elections. This finding is consistent with the political budget cycle literature, which shows that electoral competition can generate incentives for short-term fiscal expansion and that these incentives are shaped by institutional and informational constraints (Brender & Drazen, 2005; Shi & Svensson, 2006; Alt & Lassen, 2006). While the EU fiscal framework has evolved substantially since the Maastricht Treaty and the Stability and Growth Pact (SGP), the results suggest that formal fiscal constraints have not eliminated electoral fiscal incentives.

Second, the results indicate that the effectiveness of fiscal rules is not uniform across EU member states. While stronger fiscal rules are associated with weaker election-related fiscal deterioration in Western Europe, no comparable relationship is detected in the CEE subsample. This finding is particularly noteworthy because all countries in the sample operate within a common European fiscal framework and are subject to broadly similar supranational fiscal commitments. The results therefore suggest that formal convergence in fiscal institutions does not necessarily imply convergence in fiscal behaviour. This interpretation is consistent with evidence that formal fiscal rules and actual compliance

should be distinguished analytically (Reuter, 2015), with recent evidence of mixed compliance with EU fiscal rules under the Stability and Growth Pact (Larch et al., 2023), and with studies showing that fiscal rules constrain political budget cycles mainly under favourable institutional and informational conditions (Ademmer & Dreher, 2015; Gootjes et al., 2021). The pooled interaction model further strengthens this conclusion. The insignificant interaction observed in the aggregate EU specification does not reflect the absence of a relationship between fiscal rules and electoral fiscal behaviour. Rather, it masks substantial heterogeneity across member states. The regional results demonstrate that the association between fiscal-rule strength and electoral fiscal restraint differs systematically between Western and CEE countries.

Third, the institutional-quality analysis provides a possible explanation for this heterogeneity. The positive and significant triple interactions obtained for rule of law, control of corruption, government effectiveness, and voice and accountability suggest that the moderating association of fiscal rules becomes stronger as institutional quality improves. At the same time, institutional quality does not appear to eliminate election-related fiscal deterioration directly. Instead, the results indicate that institutional quality is associated with variation in how fiscal rules operate during politically sensitive periods.

Taken together, the regional and institutional findings point towards a common interpretation. The weaker moderating association of fiscal rules observed in CEE countries is consistent with the broader evidence that fiscal rules become more closely associated with electoral fiscal discipline as institutional quality improves (Debrun & Kumar, 2007; Iara & Wolff, 2014). Although the analysis does not identify the precise mechanisms through which this occurs, the results are consistent with the view that formal fiscal rules and institutional quality operate as complementary components of fiscal governance.

This interpretation has broader implications for the debate on fiscal governance in the EU. Discussions of fiscal-rule effectiveness often focus on the design of numerical constraints, escape clauses, monitoring procedures, or enforcement mechanisms. The findings presented here suggest that the effectiveness of fiscal rules cannot be evaluated independently of the institutional environment in which they operate. The same formal rule may be associated with different fiscal outcomes depending on the credibility of enforcement, the quality of public administration, the degree of political accountability, and the broader governance framework. Lehtimäki and Kraemer (2026) reach a similar conclusion for EU and national fiscal rules, showing that their effects on budget balance dynamics vary with rule design, government-level coverage, and country-level institutional differences.

The findings are particularly relevant for understanding fiscal governance in CEE. Since EU accession, CEE member states have largely converged towards the formal architecture of European fiscal governance through the adoption of domestic fiscal rules and compliance with common supranational requirements. Yet the results suggest that formal institutional convergence does not necessarily translate into equivalent fiscal outcomes. The absence of a significant moderating role of fiscal rules during election periods in the CEE sample indicates that formal adoption alone may be insufficient to

generate the same behavioural constraints observed in parts of Western Europe. More broadly, the findings suggest that the long-term challenge for many CEE countries may not be the adoption of European fiscal institutions per se, but the development of the governance capacity required for those institutions to operate effectively. This interpretation is consistent with earlier evidence that budgetary outcomes in new and prospective EU member states depend not only on formal fiscal frameworks, but also on domestic budget institutions and political incentives (Fabrizio & Mody, 2006). Persistent disparities between Western EU and CEE countries may reflect the middle-income trap phenomenon or the premature stalling of the economic catching-up process in the CEECs (Morvay, 2025).

The findings also have implications for ongoing debates on the future of EU fiscal governance. Recent reforms of the SGP have placed considerable emphasis on increasing flexibility, strengthening national ownership, and tailoring fiscal adjustment paths to country-specific circumstances. While these reforms largely focus on the design of fiscal rules, the results presented here suggest that rule design alone may not be sufficient to ensure comparable fiscal outcomes across member states. The effectiveness of fiscal frameworks appears to depend not only on the formal characteristics of the rules themselves but also on the credibility of the institutions responsible for monitoring, enforcing, and legitimising those rules. From this perspective, strengthening monitoring capacity, enforcement credibility, and accountability mechanisms may be as important as modifying the numerical parameters of fiscal rules. Discussions of EU fiscal governance should therefore extend beyond the architecture of the rules and give greater attention to the institutional conditions that support their effective implementation. The central implication of the analysis is that fiscal rules should be viewed not as self-enforcing constraints, but as institutions whose effectiveness depends on the broader governance environment in which they are embedded.

Conclusion

This article examined whether fiscal rules are associated with weaker election-related fiscal deterioration in EU member states and whether this relationship differs across regional and institutional contexts. Using a panel of EU27 countries over the period 1995–2023, the analysis focused on the interaction between election exposure, fiscal-rule strength, and institutional quality.

The results provide evidence consistent with the existence of political budget cycles in the EU. Across the baseline specifications, greater pre-electoral exposure is associated with weaker primary balances, suggesting that electoral incentives continue to influence fiscal outcomes despite the presence of national and supranational fiscal constraints. However, the relationship between fiscal rules and electoral fiscal behaviour is not uniform across member states.

The central finding of the article is that stronger fiscal rules are associated with weaker election-related fiscal deterioration in Western EU member states, whereas no comparable relationship is detected in the CEE subsample. The pooled interaction models confirm that the election–fiscal rules relationship differs systematically between the two groups. Further analysis suggests that the election–fiscal rules

relationship varies systematically with selected dimensions of institutional quality. Fiscal rules are more strongly associated with electoral fiscal restraint in countries characterised by stronger rule of law, control of corruption, government effectiveness, and accountability mechanisms.

These findings contribute to the literature on political budget cycles and fiscal governance by suggesting that the effectiveness of fiscal rules depends not only on their formal design but also on the institutional environments in which they operate. The results are consistent with the view that fiscal rules and institutional quality function as complementary components of fiscal governance. Formal fiscal constraints appear more closely associated with electoral fiscal discipline when they are embedded in governance systems characterised by stronger monitoring, enforcement, and accountability.

The findings also have implications for ongoing discussions on EU fiscal governance. Recent reforms of the SGP have placed substantial emphasis on improving the design and implementation of fiscal frameworks. The results presented here suggest that comparable fiscal outcomes may require not only well-designed rules but also institutional environments capable of supporting their effective operation. For CEE member states in particular, the long-term challenge may lie less in the adoption of additional fiscal rules than in strengthening the governance capacity through which existing rules become credible and enforceable constraints.

Overall, the results suggest that fiscal rules should not be viewed as self-enforcing constraints. Their association with electoral fiscal discipline depends on the institutional context in which they are embedded, helping to explain why formally similar fiscal frameworks may generate different fiscal outcomes across EU member states.

Data Availability

The data used in this study were obtained from publicly available sources, as described and cited in the Data section of the article. The compiled country-year dataset and the replication code supporting the findings of this study are available from the corresponding author upon reasonable request.

Declarations

Competing Interests

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Author Contribution

B.B. conceived and designed the study, collected the data, performed the analysis, produced the figures and tables, and wrote the manuscript. M.S. contributed to the conceptualisation of the study, including the focus on institutional quality, provided critical comments on the draft, and revised the literature review, discussion, and overall presentation of the manuscript. A.T. contributed to the conceptualisation and to defining the direction of the study. All authors reviewed and approved the final version of the manuscript.

Footnotes

1. Where multiple or consecutive elections occur, overlapping months are counted only once, ensuring that the variable is bounded between 0 and 1.
2. Directorate-General for Economic and Financial Affairs

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Figures



Figure 1

Marginal effect of election exposure on the primary balance by fiscal-rule strength and country group

Notes: The figure plots the estimated marginal effect of election exposure on the primary balance across values of the lagged fiscal rules index. Shaded areas indicate confidence intervals. Estimates are based on the pooled CEE–West interaction model reported in Table 4.

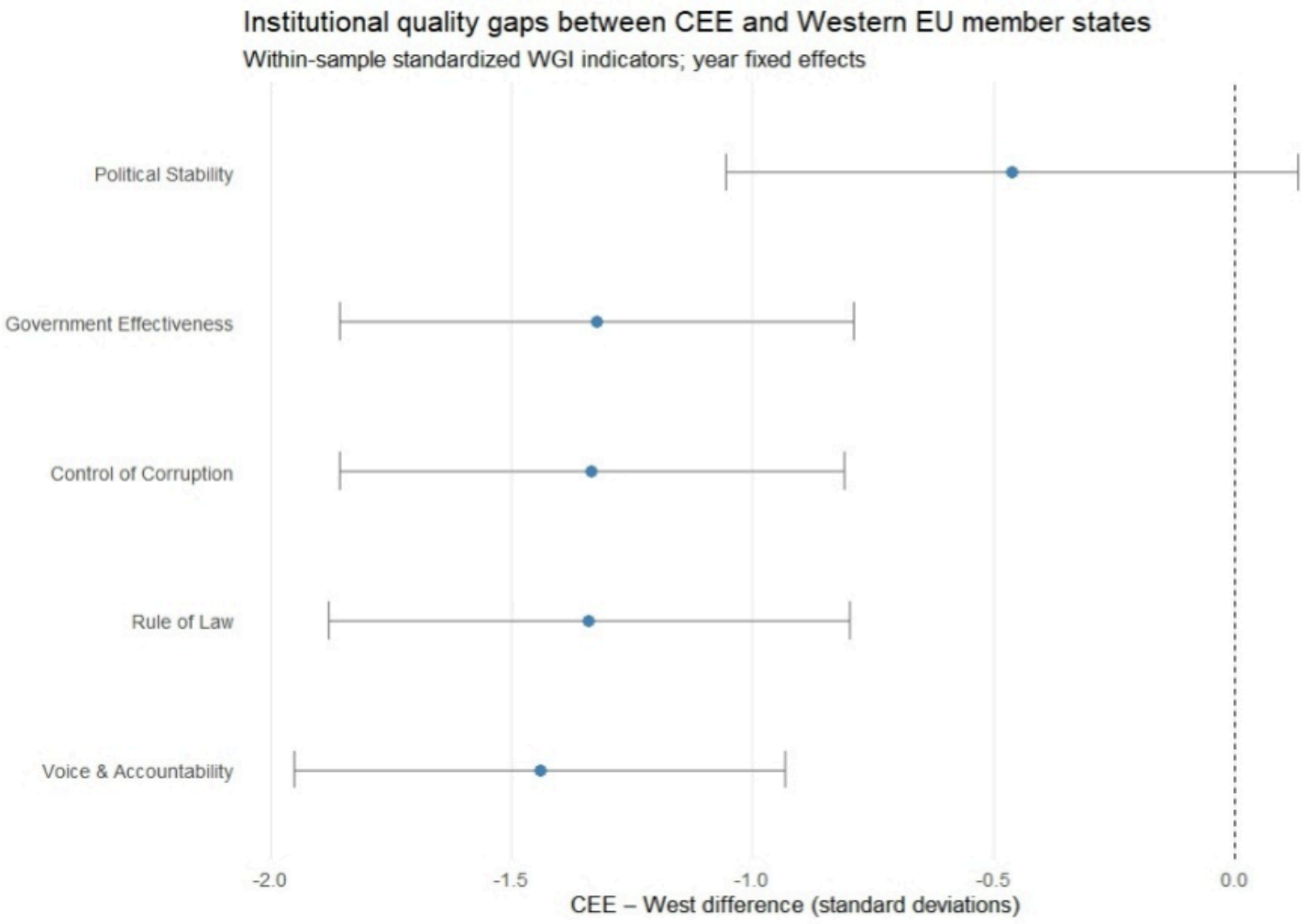


Figure 2

Institutional quality gaps between CEE and Western EU member states

Notes: The figure reports estimated differences between CEE and Western EU member states for standardised World Governance Indicators. Positive values indicate higher average scores in CEE countries, while negative values indicate lower scores relative to Western EU member states. Estimates are based on within-sample standardised indicators and include year fixed effects. Horizontal lines represent 95% confidence intervals.

Supplementary Files

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- AppendixA.RobustnessChecks.docx