The problem of an accurate forecasting of fiscal deficits in the European Union is of great importance for national governments. Persistent maintenance of government deficit above the 3%GDP threshold results in the execution of the Excessive Deficit Procedure (EDP). Under such a procedure the indebted government is required to present the reform plan that will stabilize public finances. If the government does not complete the plan the European Commission is permitted to introduce monetary sanctions e.g., to freeze EU funding through structural funds.

Experiences of several countries during the euro area debt crisis (2012-2013) and in the following years undermined credibility of the EDP. Economic literature reports that international financial institutions, i.e., the European Commission, IMF, and OECD, presented systematically over-optimistic picture of public finances in troubled economies (i.e., Italy, Spain, France and Portugal) in recent years. Furthermore, the European Commission refused to impose sanctions against the three latter countries despite the fact that France did not improve its primary balance (measure of deficit excluding cost of debt service from previous years), and Spain and Portugal had debt servicing problems caused by large levels of their public debts.

In recent years, the European Union has been facing a new problem of rising Eurosceptic governments opposing deeper integration, especially in Central and Eastern Europe. Mentioned governments frequently use unconventional fiscal policies, i.e., they implement generous social programmes financed by sectoral taxes (questioned by the European Commission as burdens are concentrated on foreign-owned firm). We claim that there exists a risk of a policy of double standards where fiscal forecasts for the EDP assessment or economic recommendations reveal lenient treatment of developed countries with fiscal problems and overly rigorous treatment of the EU „new member” states.

The aim of this study is to verify whether fiscal forecasts of international institutions for the CEE countries are systematically negatively biased and whether the direction of this bias differs from the forecast bias in the developed economies. This phenomenon may be a consequence of large economic uncertainty, model misspecification or wrong macroeconomic assumptions. In such case produced forecasts consistently are too pessimistic.

We attempt to use ordinary least squares (OLS) regressions, forecast error statistics (e.g., NMRSE) and statistical tests verifying forecast performance (e.g., the test of Diebold and Mariano). The latter technique will enable us to verify whether international institutions forecasting performance is systematically better or worse comparing to national government projections.

So far, the performance of fiscal forecasts was only analyzed either for G8 countries or for developed western economies of the EU. The proposed project will be the first research addressing the accuracy of fiscal forecasts for CEE economies, according to our best knowledge.