DO INSTITUTIONAL ASPECTS SHAPE INDEPENDENT FISCAL INSTITUTIONS' EFFECTIVENESS?

The case of countries' compliance with EU fiscal rules

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AUTHORS & DISCLAIMER

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Preamble & Motivation (1)

- Based on the previous **position papers of the Network** (2016, 2018, 2022a)

- Assesses the **institutional aspects** that *are associated* with independent fiscal institutions' (IFIs) **effectiveness** in the European Union
  - o **Aim:** Analyse the capacity of IFIs in EU countries in determining a better **compliance with EU level fiscal rules** (2000-2021)

- Two steps approach: descriptive part followed by econometric assessment based on a survey undertaken within the Network

Importance and Compliance with EU level fiscal rules?
  - The *new economic governance framework of the EU* underlines the necessity to strengthen IFIs by ensuring some **minimum standards**, like *operational independence, adequate and stable own resources, adequate and timely access to information, the capacity to communicate publicly and the "comply or explain" principle*.
  - These will help IFIs build the *capacity to carry out* the tasks of the new *economic governance framework* and play an effective role
  - The new framework supposes to be *more flexible, less complex* and *less procyclical* EU
  - Do IFIs have the capability *to monitor simultaneously all former SGP rules* and *positively contribute to their compliance*?

Preamble & Motivation (2)

- Earlier literature *supports the need to study the institutional aspects* of IFIs as well as to highlight their importance for fiscal policy

- We are in the *pioneering period on research of IFIs effectiveness and* activity in general (short history of these institutions)

- It's complicated to draw *sweeping conclusions;* should be treated with care (see Beetsma et al., 2019; Beetsma et al. 2023b; Kopits, 2023)

BUT

Some studies show that ***the presence of IFIs is associated with a better compliance*** with fiscal rules.

- Reuter (2015) studies compliance with national numerical fiscal rules

- Beetsma et al. (2019) show that IFIs contribute in fostering compliance with budget-balance and expenditure rules

- Capraru et al. (2022) - IFIs have a positive and significant influence on countries' compliance with deficit and debt ceilings, and when well-designed fiscal rules are found, IFIs enhance compliance with all rules.

Contributions (1)

1. **Seven Indices**
   - Proxy variables for *institutional aspects* of IFIs (e.g. **public disclosure, resources, access to information, existence of the "comply or explain" principle, independence, breadth of IFIs' tasks and media visibility)**
     - ○ *Source of data*: Network of EU IFIs Spring 2022 survey (one of the main contributions and element of originality)

2. **Overall compliance index**
   - Calculated as *the sum of indices* which define as a *dummy variable (qualitative indicator*) the compliance with each of the four fiscal rules under the Stability and Growth Pact (SGP): the deficit, debt, structural balance and expenditure rule.
     - ○ *Source of data*: European Fiscal Board (EFB) database on compliance with fiscal rules (Larch et al 2023)).

In this order, we investigate whether IFIs have the capability to monitor simultaneously all rules, due to some specific institutional features, and impact positively on the compliance with them.

As further analyses we check if **overall index of institutional aspects** has any influence on *compliance with the SGP's former expenditure rule*

Contributions (2)

3. IFI features and fiscal rules

- We disentangle the ***interplay between IFIs' institutional features and fiscal rules*** by interacting them based on the *number of fiscal rules in place*, **lower or higher number of binding numerical norms**.

4. Electoral cycle

- We control for the ***electoral cycle's impact*** on overall compliance with European level fiscal rules.

Literature Review: Defining the effectiveness of IFIs

1. **Mitigation of deficit bias -** Headline and primary budget balance, Cyclically-adjusted headline and primary balance, primary expenditures etc. *[Nerlich and Reuter (2013); Maltritz and Wüste (2015); Debrun and Kinda (2017); Martins and Correia (2020); Căpraru et al. (2022)]*

2. **Improvement of macro and budgetary projections** *[Frankel and Schreger (2013); Gilbert and De Jong (2017); Debrun and Kinda (2017); Beetsma et al. (2019); Beetsma et al. (2023)]*

3. **Procyclicality of fiscal policy** *[Chrysanthakopoulos and Tagkalakis (2022, 2023)]*

4. **Government borrowing costs** *[Pappas and Kostakis (2020); Martins and Correia (2020); Căpraru et al. (2022b)]*

5. **Compliance with fiscal rules** *[Beetsma et al. (2019); Căpraru et al. (2022)]*

6. **Sovereign risk** *[Căpraru et al. (2023a)]*

7. **Efficiency of public expenditures** *[Căpraru et al. (2023b)]*

Literature Review: Presence and institutional aspects of IFIs

- **The presence of IFIs (dummy) –** *[Maltritz and Wüste (2015); Beetsma et al. (2019); Pappas and Kostakis (2020); Căpraru et al. (2022)]*

- **Specific characteristics of IFIs -** *[Nerlich and Reuter (2013), Debrun and Kinda (2017), Debrun et al. (2012, 2017), Bach (2020), Mohl et al. (2021), Beetsma et al. (2023a), Chrysanthakopoulos and Tagkalakis (2023)]*

- **Various composite indices**

  o **Combination of different institutional features** *[Fabrizio and Mody (2006), Debrun and Kumar (2007)]*

  o **Scope Index of Fiscal Institutions (SIFI)** *[Wildowicz-Giegiel (2019); Franek and Postula (2021); Căpraru et al. (2022)]*

Descriptive analysis of the survey results on the effectiveness of IFIs

What EU IFIs usually do and usually don't do – Breadth of mandate :

| Do	
• Macroeconomic Forecasts (assess, endorse or produce)	89%
• Short-term (t+1) budgetary forecasts (assess or endorse)	81%
• Assessment of ex-ante/ex-post compliance with EU fiscal rules (ex-ante or/and ex-post)	78%
• Medium-term (t+1 to t+5) budgetary forecasts (Assess or endorse)	77%

Do less	
• Assessment of official estimates of discretionary and one-off measures	46%
• Government policy costing	20%

Communication

	IFIs with a communication policy	IFIs with a communication strategy
Yes*	81	62
No	19	38

Yes* ■ No
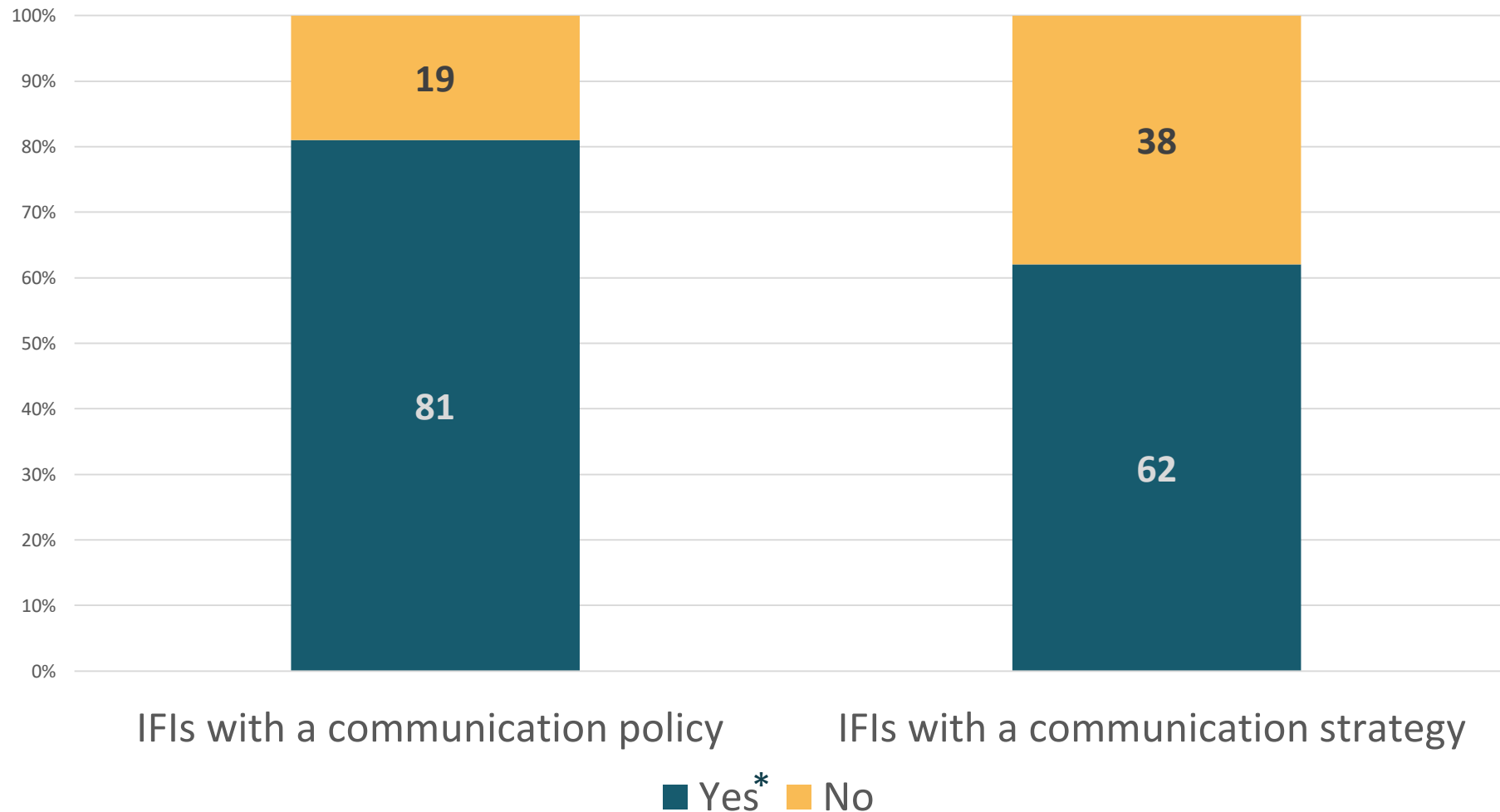
Access to information
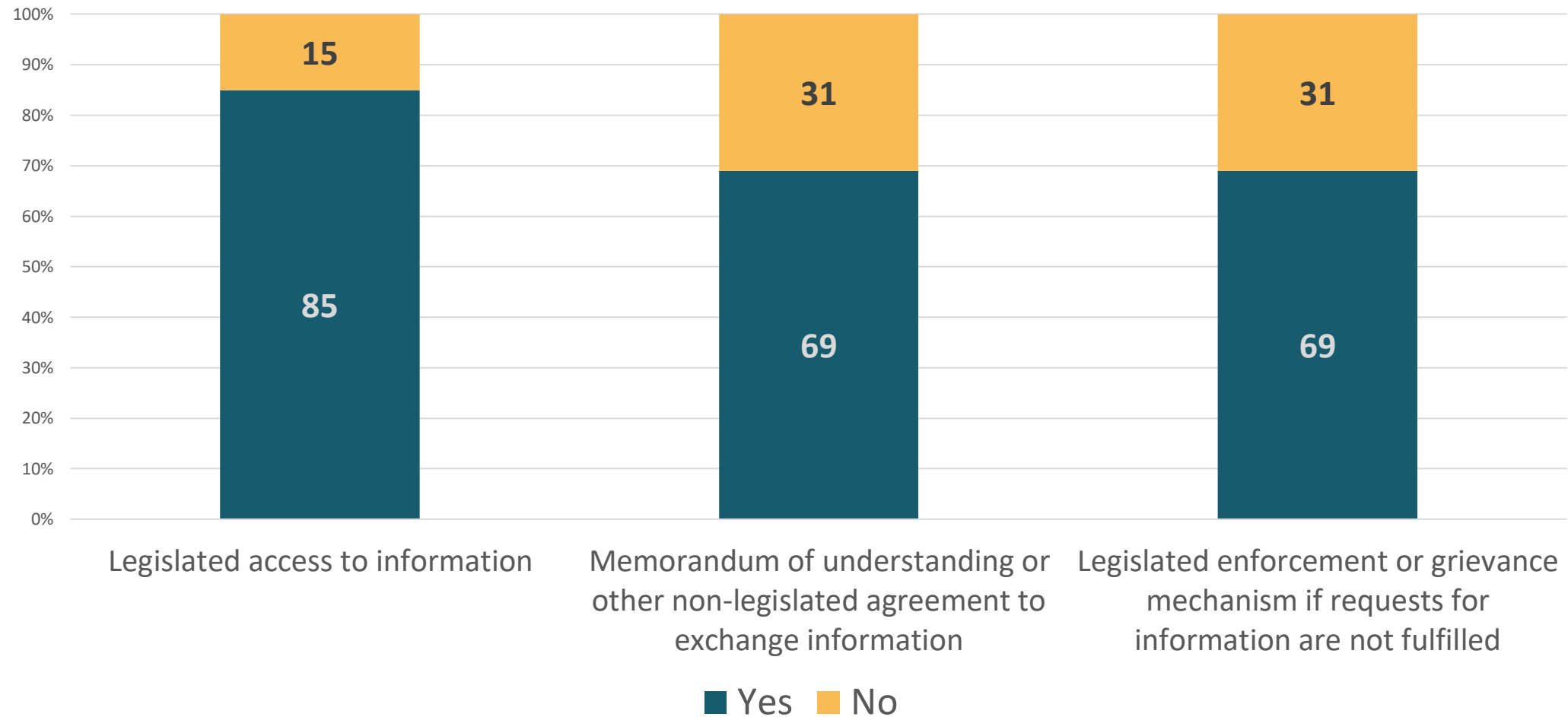
Challenges
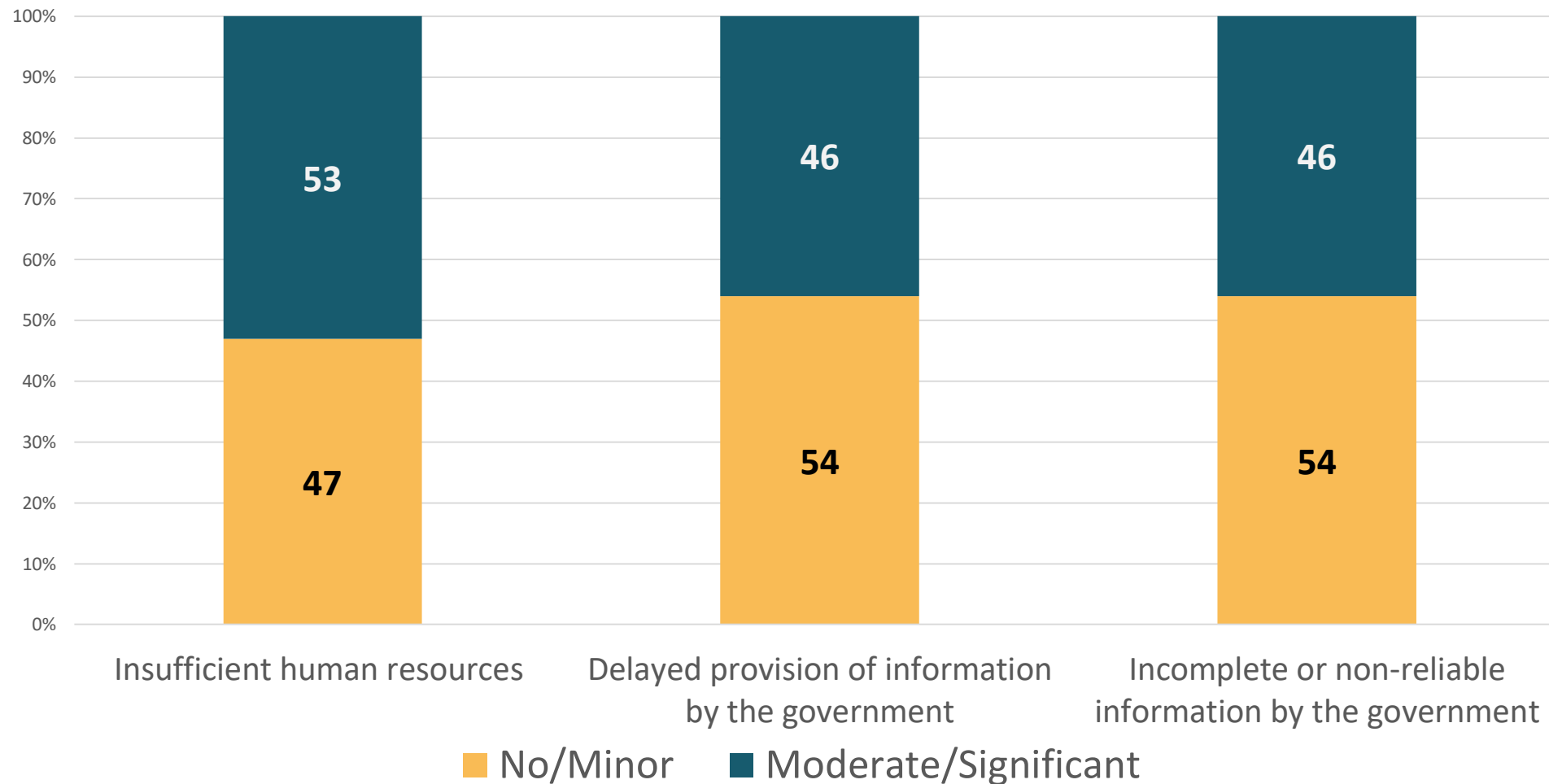
Econometric assessment (1)

Objectives

We econometrically explore the contributions of some institutional aspects on IFIs' effectiveness in the European Union (**compliance with SGP's fiscal rules**)

Assumptions:

1. is the *existence of an IFI* related to **higher compliance** with fiscal rules?,

2. are **specific institutional aspects** related to *higher compliance* with fiscal rules? and

3. do **all the important institutional aspects (taken all together)** contribute to *higher compliance* with fiscal rules?

Econometric assessment (2)

1. Sample

- 30 IFIs from 26 EU member countries and covers the period of 2000-2021

2. Empirical strategy

A. The *main regression equation* (baseline scenario) takes the form below:

$$FR\_comp_{j,t} = \beta_1 \times IFI_{j,t} + \beta_2 \times FR_{j,t} + \beta_3 \times \boldsymbol{X_{j,t}} + \delta_j + \gamma_t + \varepsilon_{j,t} \quad (1)$$

- where *$IFI_{j,t}$ is our variable of interest* for country j in year t,
- *$FR_{j,t}$ is Fiscal rules index* of country j in year t.
- X_(j,t) is a (k×1) vector of country-specific control variables used in the literature
- δ_j and γ_t are cross-sectional and time fixed effects, and ε_(j,t) is the idiosyncratic error term

B. Interaction between independent fiscal institutions and fiscal rules.

$$FR\_comp_{j,t} = \beta_1 \times IFI_{j,t} + \beta_2 \times FR_{j,t} + \beta_3 \times IFI_{j,t} \times FR_{j,t} + \beta_4 \times \boldsymbol{X_{j,t}} + \delta_j + \gamma_t + \varepsilon_{j,t} \quad (2)$$

Econometric assessment (3)

Dummy variables based on fiscal rules (Căpraru et al 2022)

- ***FR_Low***, which takes a value of 1 if the fiscal rules index is lower than the median of the sample, and 0 otherwise,

- ***FR_High***, which takes a value of 1 if the fiscal rules index is greater or equal to the median of the sample, and 0 otherwise, and interact them with IFIj,

Why?

Examine whether **compliance with SGP fiscal rules** differs when there are a **higher number of national or supranational rules in place, compared to when there are fewer rules.**

$$FR\_comp_{j,t} = \beta_1 \times IFI_{j,t} + \beta_2 \times$$
$$FR\ Low/High_{\ j,t} + \beta_3 \times IFI_{j,t} \times FR\ Low/High_{\ j,t} + \beta_4 \times \boldsymbol{X_{j,t}} + \delta_j + \gamma_t + \varepsilon_{j,t} \quad (3)$$

Estimation method and endogeneity (1)

Main estimation method: *fixed effects (FE) estimator - robust standard errors* (to correct for any form of heteroskedasticity and autocorrelation in the residuals)

Robustness checks: the bias-corrected least-squares dummy variable (LSDVC) estimator, with the *Blundell-Bond estimator*

- outperforms the IV-GMM estimators in *small samples* in terms of bias and root mean squared error (Bruno, 2005a)
- by construction uses *cross-sectional-fixed effects* (omitted variables bias - endogeneity) - capture fiscal preferences if they are time invariant and control for omitted variable bias
- by construction uses *lagged dependent variable* (past values/dynamic - endogeneity)

$$FR\_comp_{j,t} = \beta_1 \times IFI_{j,t} + \beta_2 \times$$
$$FR\ Low/High_{\ j,t} + \beta_3 \times IFI_{j,t} \times FR\ Low/High_{\ j,t} + FR\_comp_{j,t-1} + \beta_4 \times \boldsymbol{X_{j,t}} + \delta_j + \gamma_t +$$
$$\varepsilon_{j,t} \quad (4)$$

Estimation method and endogeneity (2)

- **Possibility of *predetermined fiscal rules*** (Iara & Wolff, 2014) - Simultaneity bias - endogeneity
  - Fiscal governance before the global financial crisis and sovereign debt crisis were in general unconnected with consolidation pressures
  - The first reform entered into force in 2005 was triggered by the fact that during economic downturns (e.g. ICT bubble at the beginning of the 2000s), government budget balances would deteriorate even without discretionary interventions on the part of governments (Larch et al., 2023)
  - The fiscal governance framework changes in 2011 were not determined by the pressures driven by the non-compliance with existing rules, but because of the emergence of dangerous imbalances, resulting in dramatic increases in government debt (Larch et al., 2023)

- No simultaneity bias between *degrees of compliance with fiscal rules and the fiscal rules, the establishment and the characteristics of IFIs*, due to:
  - the existence of the usual *adoption lags for political reforms* (see Iara and Wolff, 2014).
  - the *moment of establishment* of such institutions *differs over time* and across European members and
  - their *institutional model and characteristics are heterogeneous*

Further analysis of expenditure rules

Might the institutional features of IFIs be positively associated with <u>compliance with the expenditure rule ?</u>

- Alternatively, as IFIs' effectiveness proxy: *compliance with expenditure rule dummy* and *expenditure rule compliance gap* from the EFB database (Larch et al. 2023)

Why?

- New Economic Governance Framework of the EU, the fiscal trajectory is operationalized by a net expenditure path.

- The net expenditure path should be measured using a similar approach to the former Expenditure Benchmark.

- The key difference is that it is designed to meet the debt adjustment path, rather than an objective related to the structural balance

The regression equation becomes:

$$Exp\_rule/Exp\_rule\_gap_{j,t} = \beta_1 \times IFI_{j,t} + \beta_2 \times$$
$$FR\ Low/High_{j,t} + \beta_3 \times IFI_{j,t} \times FR\ Low/High_{j,t} + \beta_4 \times \boldsymbol{X_{j,t}} + \delta_j + \gamma_t + \varepsilon_{j,t} \quad (5)$$

Extensive debate on operational fiscal rules and the expenditure benchmark:
- *cons:* Marinheiro (2021), Wyplosz (2023)

- *pros:* Kamps et al., 2014; Kamps and Leiner-Killinger (2019); Larch and Malzubris (2023)

Description of dependent variables

Variable	Definition -Dependent variables	Source
Overall compliance index	Sum of indices which define the compliance with every one of the 4 rules of the Stability and Growth Pact (SGP) as dummy type variable (qualitative indicator): deficit rule, debt rule, structural balance rule and expenditure rule; it takes a value from 0 to 4; 0 when none of the rules are complied with and 4 when all rules are complied with	Own calculations based on Larch et al., 2023
Compliance with expenditure rule dummy	Takes the value 1 to signal compliance with the rule and takes the value 0 to signal non-compliance	Larch et al., 2023
Expenditure rule compliance gap	A positive (negative) sign shows that the annual rate of growth of net government expenditures are below (above) the medium-term potential output growth minus the convergence margin	Larch et al., 2023

Description of independent variables

Variable	Definition -Independent variables	Source
IFI dummy	Dummy variable that takes a value of 1 starting from the year the IFI was established, and 0 otherwise	IMF, OECD database
IMF Fiscal Rules Index	Sum of the expenditure, revenue, balanced budget, and debt rules in place, either national or supranational, defined as dummy-type variables. The index takes values from 0 (minimum) to 4 (maximum), higher values being associated with a higher number of rules in place	Own calculations based on IMF data
Public disclosure; Resources; Access to information; "Comply or explain" principle; Independence; Breadth of IFIs' tasks; Media visibility; Overall index	See table 3 for details	Own calculations based on Members of the Network of EU IFIs survey in Spring 2022
Electoral cycle	Dummy variable of the political cycle, which takes value 1 in the year of elections and 0 otherwise	Own calculations based on Armingeon et al., (2022)
GDP per capita growth	Gross domestic product at market prices - Chain linked volumes, percentage change on previous period, per capita	EUROSTAT
The ratio of gross debt to GDP	General government consolidated gross debt as a percentage of GDP	EUROSTAT
Inflation	Harmonised Index of Consumer Prices (HICP) - Annual average rate of change	EUROSTAT
Unemployment	Total unemployment rates from 15 to 64 years – percentage of the labor force	EUROSTAT

Index variables of interest – seven institutional aspects' proxies and the overall index of institutional aspects (1)

Index variables	Minimum standards (Network of EU IFIs, 2022a; Barnes, 2022) or other aspects	Items from the questionnaire	Expected impact on overall compliance index, Compliance with expenditure rule, expenditure rule compliance gap
Public disclosure pub_discl	A mandate to address government and parliament and disclose reports and recommendations	Has your IFI been invited or requested to parliamentary hearings? Score: No 0; YES INVITED 1; YES REQUESTED 2; YES & YES BOTH 3	+
		Does your IFI schedule calls/meetings with the European Commission and other international organizations on the assessments of IFIs? Score: DON'T KNOW NOT APPLICABLE 0; YES OCCASIONALLY 1; YES REGULARLY 2	
		Does your IFI schedule calls/meetings with the national ministries of finance on the reports of IFIs? Score: DON'T KNOW NOT APPLICABLE 0; YES OCCASIONALLY 1; YES REGULARLY 2	

Index variables of interest – seven institutional aspects' proxies and the overall index of institutional aspects (2)

Index variables	Minimum standards	Items from the questionnaire	Expected impact on overall compliance index
Resources res_man	Adequate level of resources and management flexibility	Insufficient financial resources. Score: Not 3; Minor 2; Moderate 1; Significant 0	+
		Insufficient human resources. Score Not 4; Minor 3; Moderate 2; Challenge 1; Significant 0	
		Lack of expertise. Score Not 4; Minor 3; Moderate 2; Challenge 1; Significant 0	
		Lack of qualified staff. Score Not 4; Minor 3; Moderate 2; Challenge 1; Significant 0	
		What is the annual budget of your IFI? Dummy: takes a value of 1 if the budget to GDP per capita value is greater or equal to the median of the sample, and 0 otherwise	
		Does your IFI have a multi-annual funding commitment? Score: NO 0; YES but not secure 1; YES secure 2	
		What is average gross monthly remuneration of secretariat in your IFI? Dummy: takes a value of 1 if the proportion of average staff wages in average national wage is greater or equal to the median of the sample, and 0 otherwise	
		Are Board members of your IFI remunerated? Score: NO 0; YES leader chair 1; YES leader chair and council members, YES 2	

Index variables of interest – seven institutional aspects' proxies and the overall index of institutional aspects (3)

Index variables	Minimum standards	Items from the questionnaire	Expected impact on overall compliance index, Compliance with expenditure rule, expenditure rule compliance gap
Access to information info	Good and timely access to information	Does your IFI have a legislated access to information? Score: NO 0; YES with specific procedures 1; YES broad power 2	+
		Does your IFI have a memorandum of understanding or other non-legislated agreement to exchange information? Dummy: No 0; YES 1	
		Does your IFI have a legislated enforcement or grievance mechanism if requests for information are not fulfilled? Score: No 0; YES other 1; Yes legislated 2	
		Does your IFI face challenges when it comes to the provision of an assessment of official macroeconomic and fiscal forecasts and its effective communication to national governments and the general public? Dummy: No 1; YES 0	
		Delayed provision of information by the government. Score: Not 4; Minor 3; Moderate 2; Challenge 1; Significant 0	
		Incomplete or non-reliable information by the government. Score: Not 4; Minor 3; Moderate 2; Challenge 1; Significant 0	

Index variables of interest – seven institutional aspects' proxies and the overall index of institutional aspects (4)

Index variables	Minimum standards	Items from the questionnaire	Expected impact on overall compliance index, Compliance with expenditure rule, expenditure rule compliance gap
"Comply or explain" principle comply	Effective implementation of the "comply or explain" principle	Can your IFI exercise the Comply or Explain Principle? Dummy: No 0; YES 1	+
		If yes, did your IFI exercise the Comply or Explain Principle already? Dummy: No 0; YES 1	
		The government always complied or explained. Dummy: No 0; YES 1	
Independence Pol_pres	Sufficient safeguards against political pressures/ independence	Can your IFI set the budget by itself? Dummy: No 0; YES 1	+
		Is the government/administration involved in board member election/appointment? Dummy: NO/DON'T KNOW 1; YES 0	
		Can your IFI set the remuneration of the secretariat staff by itself? Dummy: No 0; YES 1	
Breadth of IFIs' tasks tasks	Extended tasks and instruments	Macro forecasts. Score: No 0; Assesses 1; Endorses 2; Produces 3	+
		Short-term (t+1) budgetary forecasts Score: No 0; Assesses 1; Endorses 2	
Media visibility media	Effective communication in order to improve fiscal transparency and accountability	Does your IFI have a communication policy (how IFI and staff will engage with media requests, interact on social media, etc.)? Score: NO 0; YES 1; YES INTERNAL 2; YES INTERNAL BUT AD HOC 3; YES PUBLISHED 4	+
		Does your IFI have a dedicated communication staff or agency? Dummy No 0; YES 1	
		Does your IFI staff (i.e. Board members or technical) appear on TV/Radio/Podcasts/newspapers etc.? Dummy: No 0; YES 1	
Overall index total	Sum of all 7 sub-indices	Score	+

Results and discussions (1)

Baseline Scenario

FR_COMP	(1)	(2)	(3)	(4)
	LS	LS	LS	LS
Fiscal Rules Index	0.1718	0.1707	0.1925	0.1915
	(0.1432)	(0.1424)	(0.1414)	(0.1410)
IFI in operation	0.1543	0.1483	**1.0754****	**1.0758****
	(0.2161)	(0.2158)	(0.4612)	(0.4499)
Year of General Elections		-0.2556**		-0.2566***
		(0.0641)		(0.0656)
FR*IFI (Interaction)			**-0.3317****	**-0.3340****
			(0.1674)	(0.1633)
No obs	654	654	654	654
R²	0.48	0.49	0.48	0.49
No. IFIs	30	30	30	30

*Note: Panel regression with cross-sectional and time effects. Robust standard errors are referred to in parentheses. The ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively.*

- **Positive relation** of the existence of an IFI with FR compliance when FR and IFI interact (3 & 4).

- The negative sign of the interaction may imply **the capacity of IFIs to enable overall compliance** depends on the ability of the rule to be binding (Beetsma et al, 2022).

- Compliance with FR is **negatively related with the year of election**. Maybe due to the political business cycle theory (Malley et al., 2007; Pulatov and Ahmad, 2021)

Results and discussions (2)

FR_COMP	(1) - LS	(2) - LS	(3) - LS	(4) - LS	(5) - LS	(6) - LS	(7) - LS
FR_High	0.4099**	0.2251	0.4249**	0.2941	0.2775	0.4253**	0.4015**
ELECT	-0.2355**	-0.2559***	-0.2385***	-0.2375***	-0.2544***	-0.2421***	-0.2155***
PUB_DISCL	0.1323**						
COMPLY		-0.1453					
RES_MAN			0.0704***				
INFO				0.1048***			
TASKS					0.2605***		
MEDIA						0.0772*	
POL_PRES							0.6201***
FR_High *PUB_DISCL	-0.1284*						
FR_High *COMPLY		0.0261					
FR_High *RES_MAN			-0.0773***				
FR_High *INFO				-0.0537			
FR_High *TASKS					-0.2515**		
FR_High *MEDIA						-0.1024**	
FR_High *POL_PRES							-0.5077***
No obs	641	654	641	641	654	641	633
R^2	0.5078	0.4907	0.5088	0.5120	0.4936	0.5069	0.5071
No IFIs	30	30	30	30	30	30	30

Note: Panel regression with cross-sectional and time effects. Robust standard errors are referred to in parentheses. The ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively.

- **"High" Fiscal Rules:**
  - Positive and significant relation the FR Compliance with individual characteristics
  - ...but the interaction effect is diminishing

- Similar are the results when applying a dynamic panel estimator (LSDVC).

Results and discussions (3)

FR_COMP	(1) - LS	(2) - LS	(3) - LS	(4) - LS	(5) - LS	(6) - LS	(7) - LS
FR_Low	-0.4097**	-0.2246	-0.4244	-0.2941	-0.2778	-0.4252**	-0.4014
ELECT	-0.2351***	-0.2551***	-0.2380***	-0.2373***	-0.2539***	-0.2416***	-0.2154***
PUB_DISCL	0.0034						
COMPLY		-0.1199					
RES_MAN			-0.0069				
INFO				0.0510*			
TASKS					0.0075		
MEDIA						-0.0258	
POL_PRES							0.1121
FR_Low *PUB_DISCL	0.1286*						
FR_Low *COMPLY		-0.0246					
FR_Low *RES_MAN			0.0773***				
FR_Low *INFO				0.0537			
FR_Low *TASKS					0.2522**		
FR_Low *MEDIA						0.1027**	
FR_Low *POL_PRES							0.5079***
No obs	640	653	640	640	653	640	632
R²	0.5077	0.4907	0.5088	0.5119	0.4935	0.5068	0.5070
No IFIs	30	30	30	30	30	30	30

*Note: Panel regression with cross-sectional and time effects. Robust standard errors are referred to in parentheses. The ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively.*

- **"Low" Fiscal Rules:**
  - The interaction effect is strengthening the compliance with FR

- Similar are the results when applying a dynamic panel estimator (LSDVC).

Results and discussions (4)

Most of our indices (characteristics) <u>found to be significant determinants of</u> compliance with fiscal rules either alone or/and when they interact with fiscal rules.

- Public Disclosure

- Adequacy of resources

- Good and timely access to information

- Breadth of IFIs' tasks

- High media visibility

- High degree of independence

Results and discussions (5)

	(1)	(2)
	FR_Comp	
	LSDVC	LSDVC
FR_Comp(-1)	0.4810***	0.4812***
	(0.0321)	(0.0324)
TOTAL	**0.0161****	-0.0043
	(0.0078)	(0.0052)
ELECT	-0.1730**	-0.1735**
	(0.0865)	(0.0882)
FR_High	0.0628	
	(0.1866)	
FR_Low		-0.0611
		(0.1838)
FR_High*total	**-0.0204****	
	(0.0094)	
FR_Low*total		**0.0204****
		(0.0093)
No of obs	627	626
No IFIs	30	30

"Total" index and FR Compliance

Similar results.

The sum of IFIs characteristics is related with higher compliance:

- There is significant and positive correlation of FR compliance with the "Total" index individually (specification 1); but the effect is diminishing when interaction exists.
- When the interaction is with **Low** number of fiscal rules (specification 2), the effect is strengthening.

*Note: The ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively. Bias-corrected least square dummy variable (LSDVC) dynamic panel estimator Bootstrapped standard errors based on 100 replications in parentheses.*

Results and discussions (6)

	(3)	(4)	(5)	(6)
	Exp_Rule_Comp		Exp_Rule_Dev	
	LSDVC	LSDVC	LSDVC	LSDVC
FR_Comp(-1)	0.2222***	0.2222***	0.1049***	0.1185***
	(0.0430)	(0.0431)	(0.0433)	(0.0421)
TOTAL	0.0035	-0.0020	**0.0290***	0.0146
	(0.0038)	(0.0023)	(0.0171)	(0.0100)
ELECT	-0.0737**	-0.0738**	-0.2201	-0.2174
	(0.0364)	(0.0371)	(0.1568)	(0.1548)
FR_High	0.0627		0.4714	
	(0.0779)		(0.3466)	
FR_Low		-0.0628		-0.4543
		(0.0791)		(0.3291)
FR_High*total	-0.0055		**-0.0427**	
	(0.0040)		(0.0178)	
FR_Low*total		0.0055		**0.0428**
		(0.0041)		(0.0173)
No of obs	626	625	626	625
No IFIs	30	30	30	30

"Total" index & Expenditures Rules

No statistical significance in case of expenditure rule compliance dummy

A beneficial impact of Total index on the expenditure rule compliance gap (Exp_Rule_Dev).

As the previous results….

- interacting with a **High number of fiscal rules** diminishes the impact **of IFIs' characteristics** (5).

- Interacting with **Low FR, IFIs characteristics** improve the compliance gap (6).

Do not ensure compliance with the expenditure rule "per se", automatically, but may improve the compliance gap

*Note: The ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively. Bias-corrected least square dummy variable (LSDVC) dynamic panel estimator Bootstrapped standard errors based on 100 replications in parentheses.*

Conclusions (1)

- **High degree of homogeneity** within the EU IFIs, in particular tasks:
  - Assess compliance with EU fiscal rules
  - Assess, endorse or produce macroeconomic forecasts
  - Endorse or assess budgetary forecasts

Heterogeneity in tasks like:

  - Assess one-off and/or discretionary measures
  - Do policy costing

Challenges still exist:
  - Insufficient human resources
  - Delayed provision of information
  - Incomplete or non-reliable information

Conclusions (2)

- Positive and statistically significant relationship between **the presence of IFIs and compliance with fiscal rules** when there is an interaction between IFIs and the fiscal rules framework.

- Particular institutional characteristics of IFIs are related to higher compliance with fiscal rules:
  - public disclosure,
  - adequate level of resources,
  - good and timely access to information,
  - high independence level of the IFI,
  - breadth of IFIs' tasks
  - high media visibility

Conclusions (3)

- IFIs should aim to achieve **higher scores on the institutional features' index,** even if some of these characteristics individually do not appear to have a significant impact on compliance.

- Regarding the number of fiscal rules, when there are too many fiscal rules in place, the ability of IFIs to influence **overall compliance** and **the expenditure rule compliance gap** is weakened

- In the context of a more flexible and less complex new EU fiscal governance framework, the **capacity of IFIs could be elevated to effectively contribute to the compliance with European fiscal rules**.

Thank you!

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