



EU INDEPENDENT FISCAL INSTITUTIONS


HOW TO STRENGTHEN FISCAL SURVEILLANCE TOWARDS A MEDIUM-TERM FOCUS

EFB THIRD ANNUAL CONFERENCE
26 FEBRUARY 2021 ~ 10.30– 11.10 (CET)

This paper was prepared by an ad-hoc working group of the Network of the EU Independent Fiscal Institutions under the coordination of Lucía Rodríguez (Independent Authority for Fiscal Responsibility, Spain).

The group included the Independent Authority for Fiscal Responsibility (Spain), the Council of State (the Netherlands), the Parliamentary Budgetary Office (Italy) and the Secretariat of the Network of EU IFIs.

This paper has been reviewed by the EU IFIs Network. The analysis and views expressed do not necessarily represent the positions of individual members of the Network.



SETTING THE SCENE

- **After the GFC a large number of Member States introduced medium-term budgetary provisions for the first time or considerably revamped the existing ones**
- **These provisions have been in place for around six years now**
- **2014-2019: period suitable for assessment**
 - No major macroeconomic surprises
 - Need to unwind public finances' imbalances
 - What was to be expected if MTBF had worked? PERFORMANCE, STABILITY and PREDICTABILITY
- **Is this what we find analyzing data in the SCPs?**

Outline

- I. Setting the scene
- II. Revamped national frameworks
 - i. Performance
 - ii. Stability
 - iii. Predictability
- III. National frameworks and MTBF Index
- IV. Survey's results
 - i. Gap between legislation and implementation
 - ii. Aspirational rather than constraining targets
 - iii. Disconnection between fiscal and budgetary elements
- V. Main take-aways

Outline

I. Setting the scene

II. Revamped national frameworks

i. Performance

ii. Stability

iii. Predictability

III. National frameworks and MTBF Index

IV. Survey's results

i. Gap between legislation and implementation

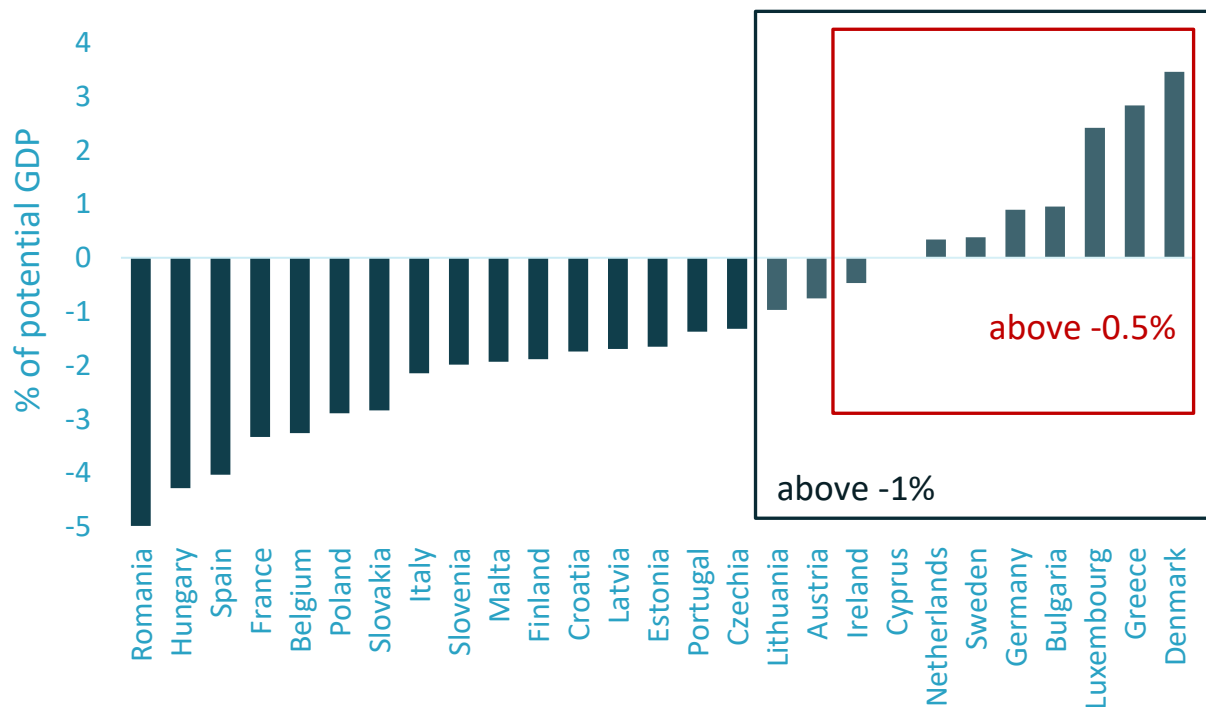
ii. Aspirational rather than constraining targets

iii. Disconnection between fiscal and budgetary elements

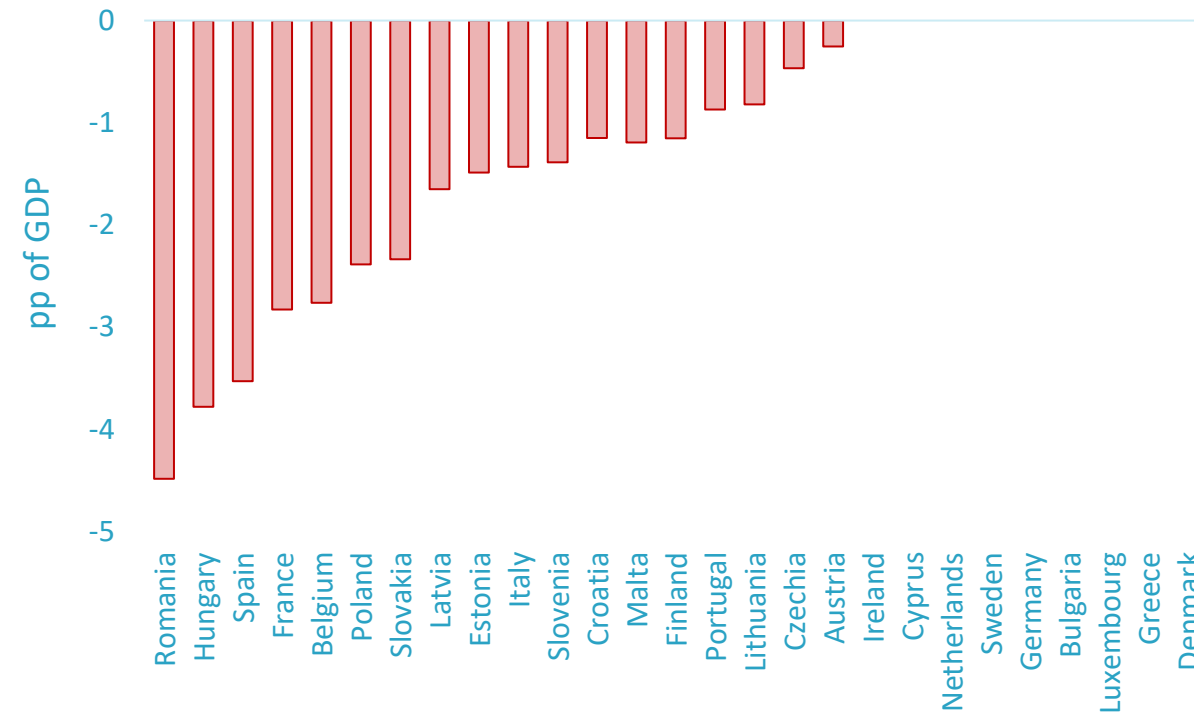
V. Main take-aways

PERFORMANCE

Structural Balance, 2019



Overall performance slippage, 2014-2019



Outline

I. Setting the scene

II. Revamped national frameworks

i. Performance

ii. **Stability**

iii. Predictability

III. National frameworks and MTBF Index

IV. Survey's results

i. Gap between legislation and implementation

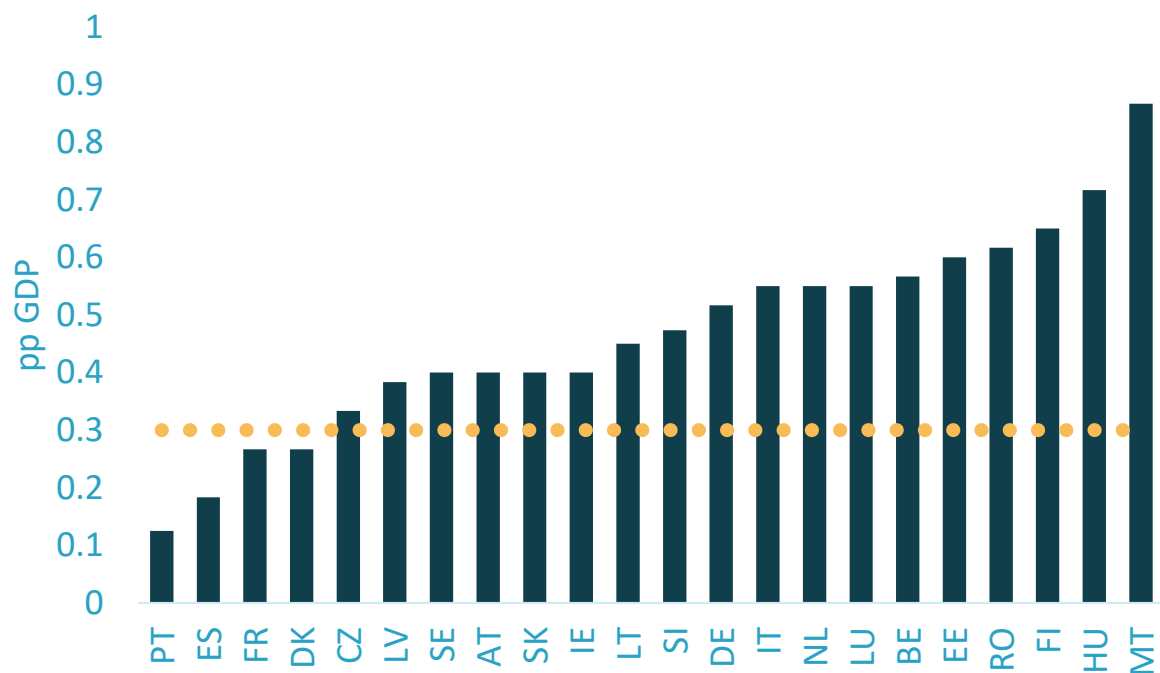
ii. Aspirational rather than constraining targets

iii. Disconnection between fiscal and budgetary elements

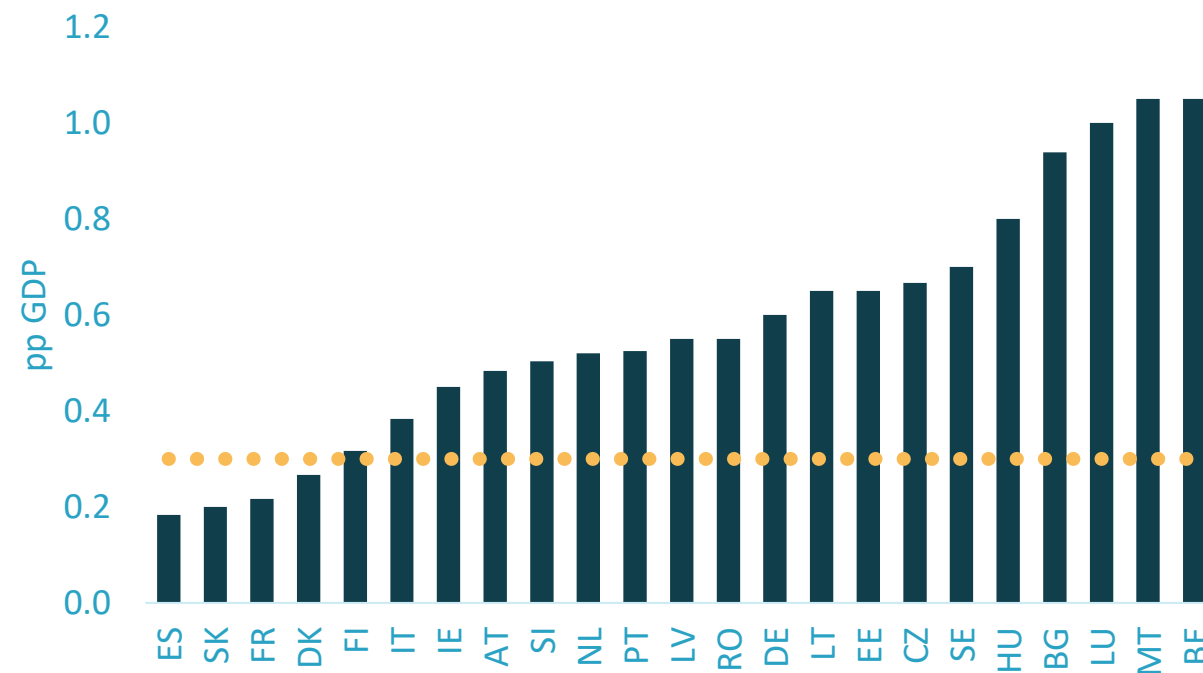
V. Main take-aways

STABILITY

Average change in the adjustment planned over 1 year

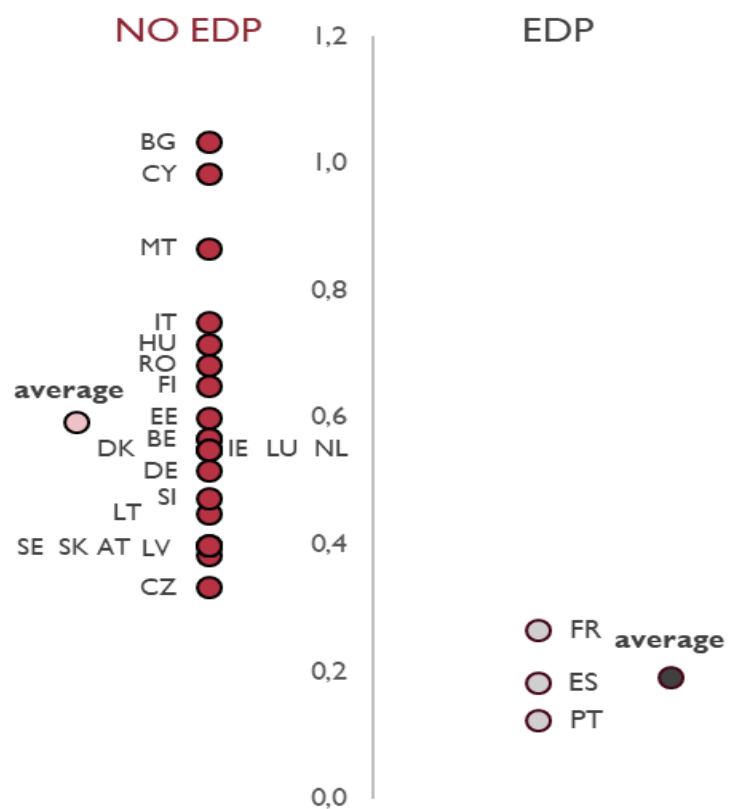


Average change in the adjustment planned over 3 years

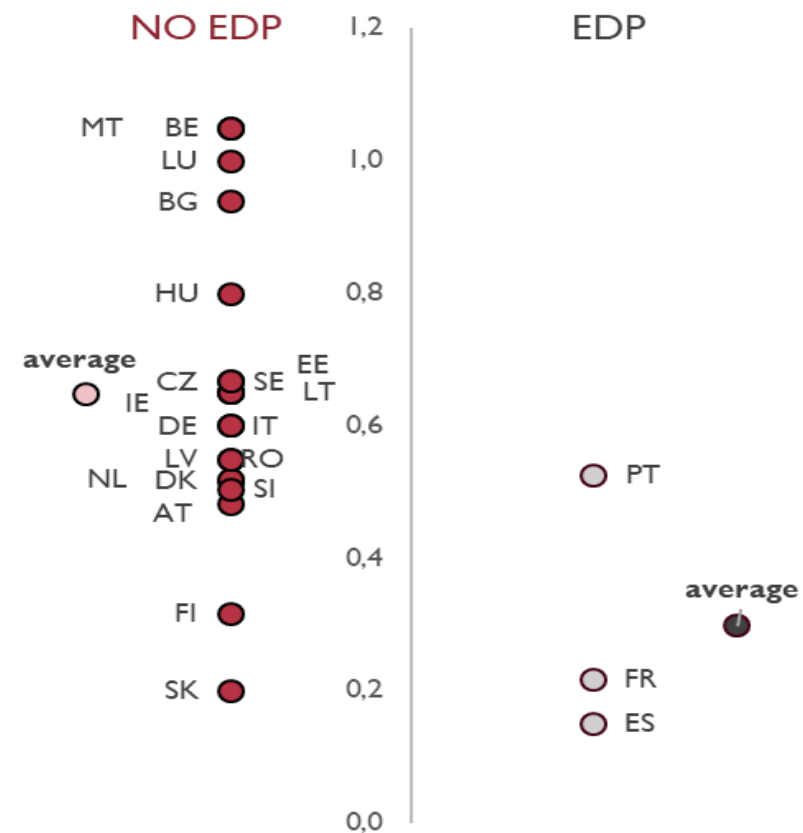


STABILITY

Average change to the adjustment planned over 1 year



Average change to the adjustment planned over 3 years



Outline

I. Setting the scene

II. Revamped national frameworks

i. Performance

ii. Stability

iii. Predictability

III. National frameworks and MTBF Index

IV. Survey's results

i. Gap between legislation and implementation

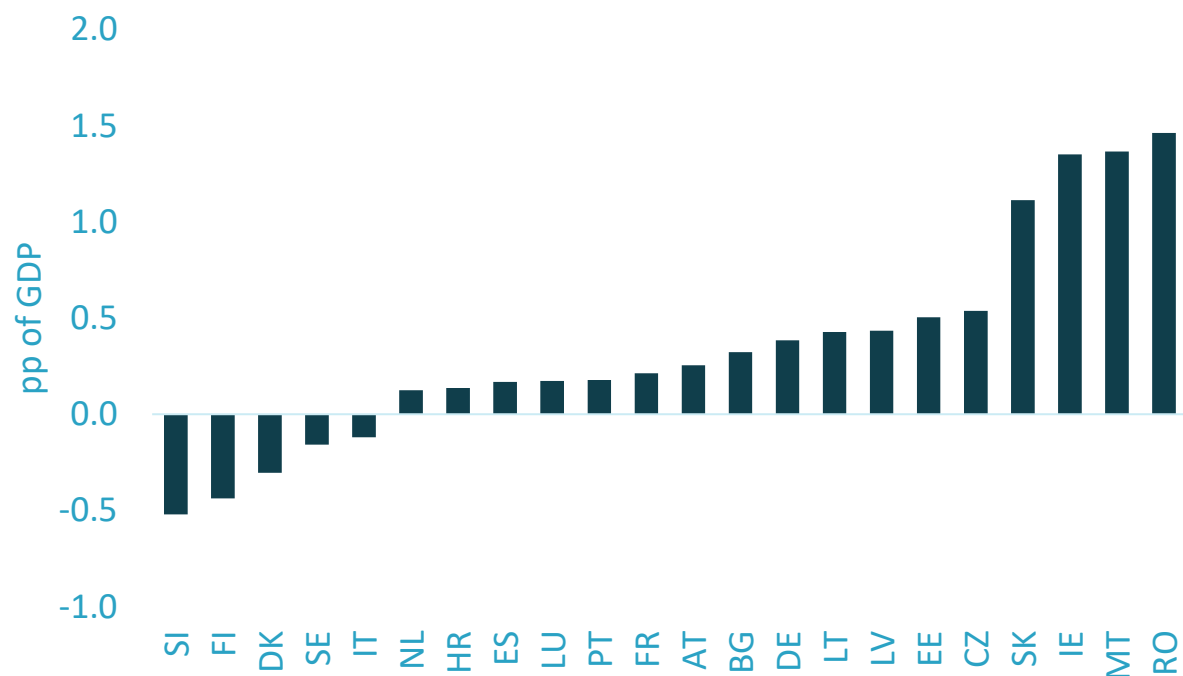
ii. Aspirational rather than constraining targets

iii. Disconnection between fiscal and budgetary elements

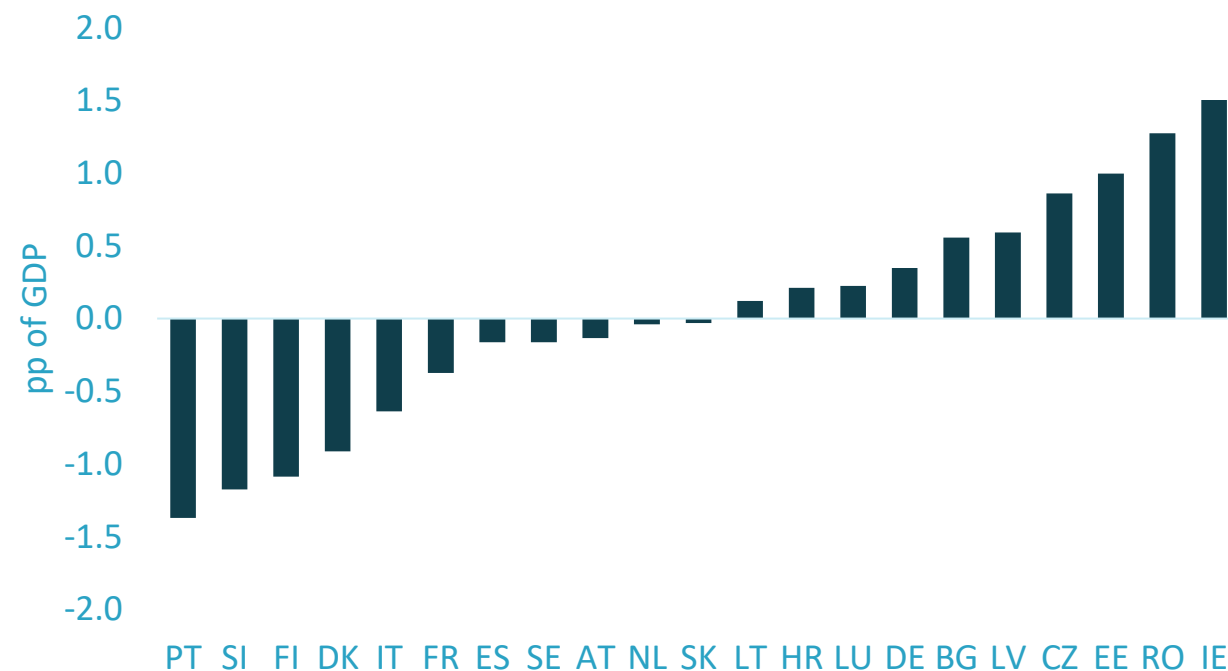
V. Main take-aways

PREDICTABILITY

Discretionary component of expenditure-
to-GDP slippages
(outturn vs plan in t-1)

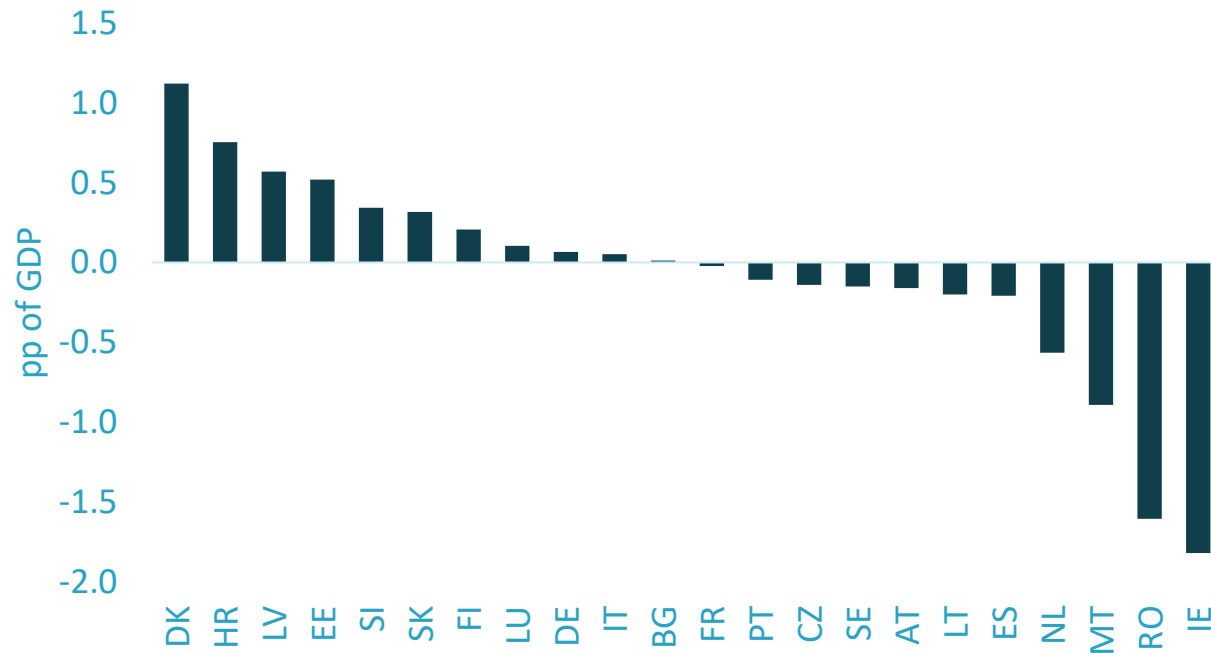


Discretionary component of expenditure-
to-GDP slippages
(outturn vs plan in t-3)

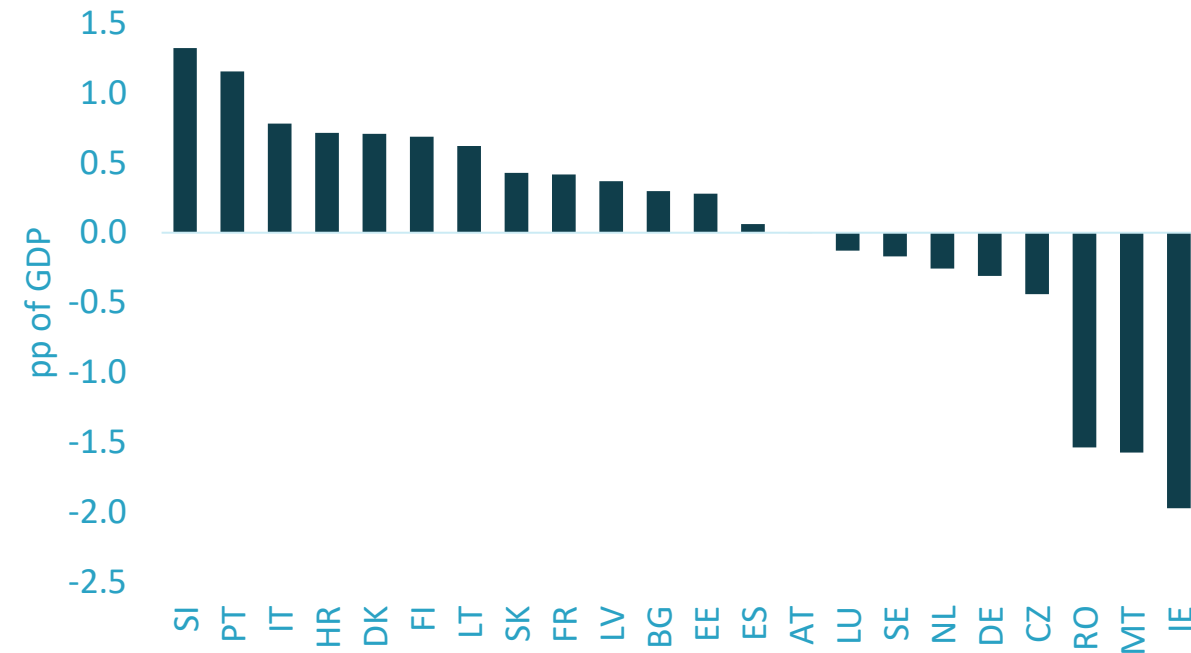


PREDICTABILITY

Discretionary component of deficit-to-GDP ratios slippages (outturn vs plan in t-1)



Discretionary component of to deficit-to-GDP slippages (outturn vs plan in t-3)



Outline

I. Setting the scene

II. Revamped national frameworks

- i. Performance
- ii. Stability
- iii. Predictability

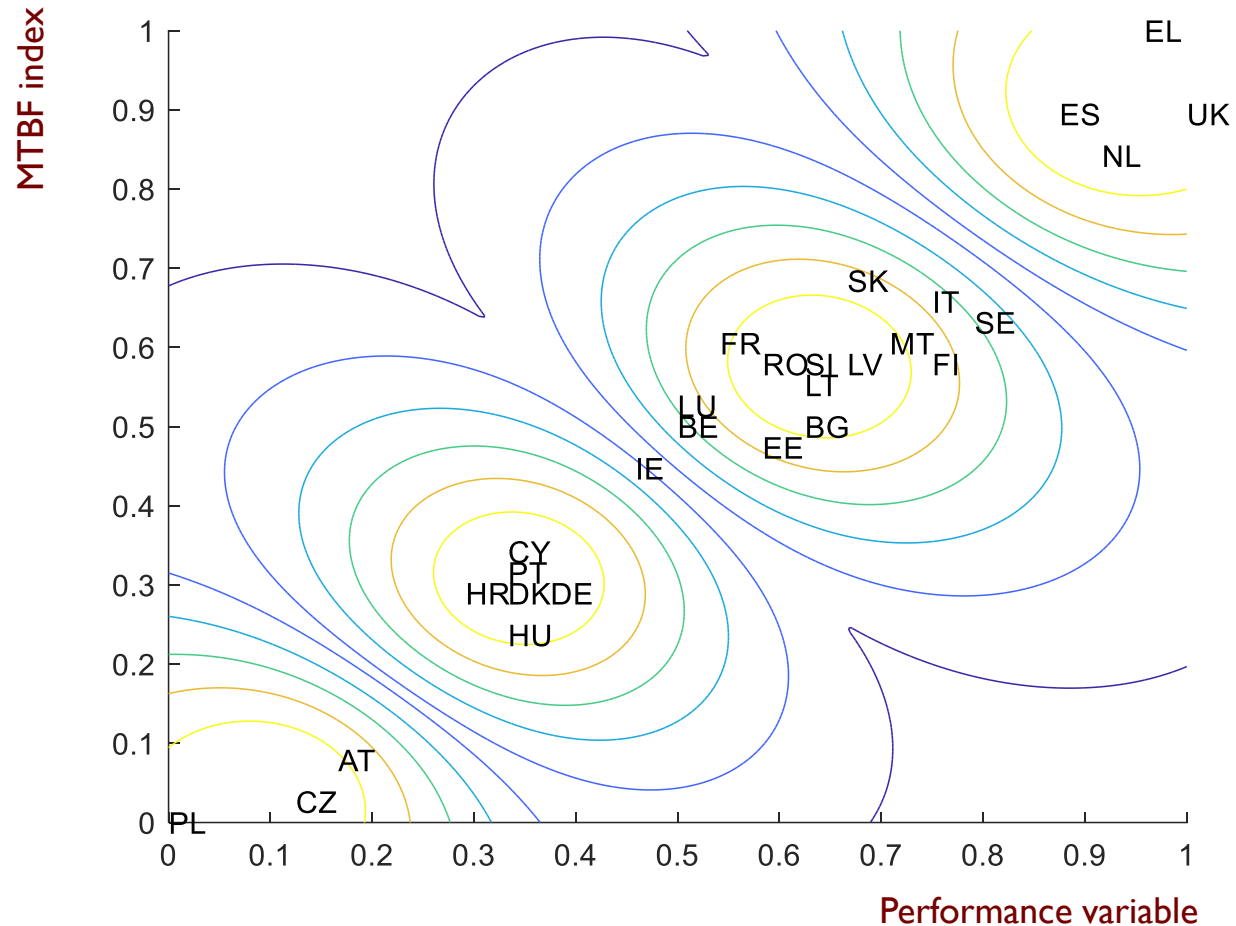
III. National frameworks and MTBF Index

IV. Survey's results

- i. Gap between legislation and implementation
- ii. Aspirational rather than constraining targets
- iii. Disconnection between fiscal and budgetary elements

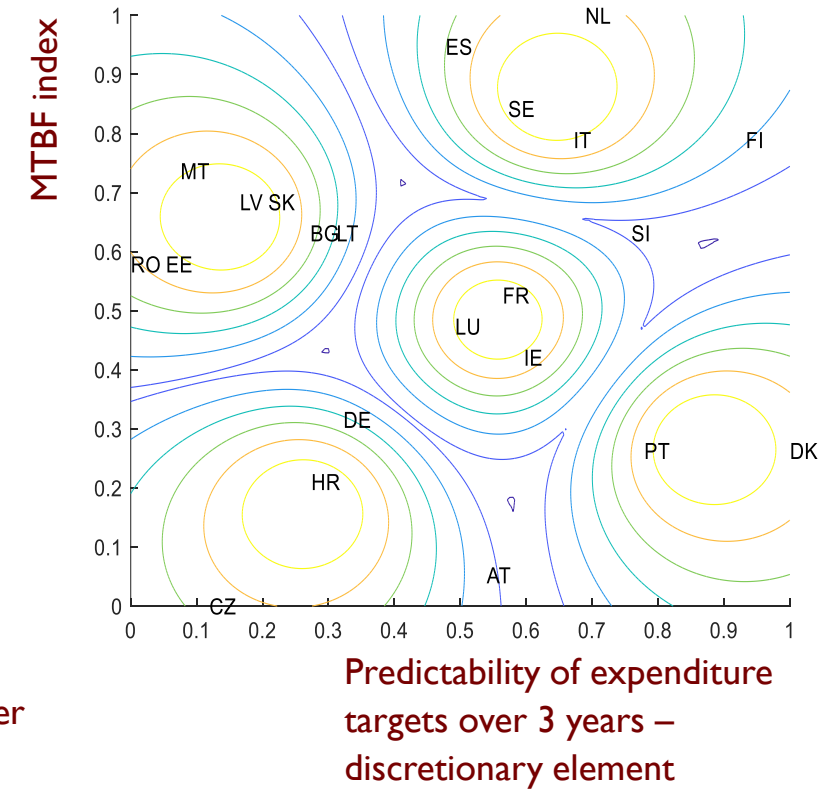
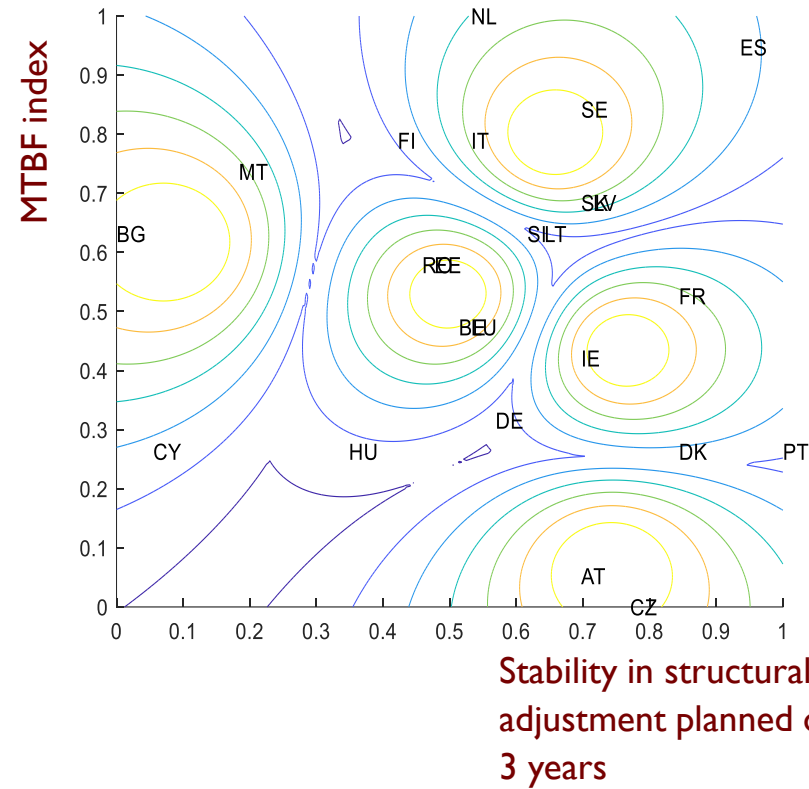
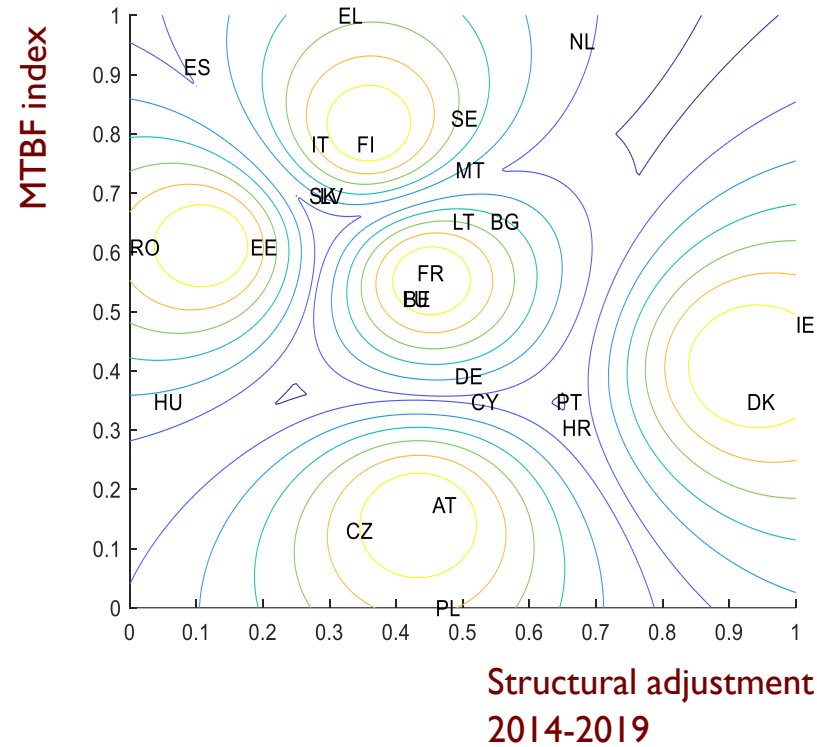
V. Main take-aways

HETEROGENEITY : CAPTURED BY THE MTBF INDEX?



The kind of relationship we expected to find...

HETEROGENEITY : NOT CAPTURED BY THE MTBF INDEX



The kind of relationship we found instead ...

Outline

- I. Setting the scene
- II. Revamped national frameworks
 - i. Performance
 - ii. Stability
 - iii. Predictability
- III. National frameworks and MTBF Index
- IV. Survey's results
 - i. Gap between legislation and implementation
 - ii. Aspirational rather than constraining targets
 - iii. Disconnection between fiscal and budgetary elements
- V. Main take-aways

GAP BETWEEN LEGISLATION AND IMPLEMENTATION

- IFIs replying that things work differently than supposed to (e.g. ex post compensation for slippages)
- Politically-relevant fiscal targets are sometimes different than the legislated ones
- **Goes in both directions:**
 - in some cases implementation is looser than legislation
 - in other cases is the other way around (e.g. countries with stricter binding political benchmarks even though no legal basis for it – DE, DK)

Outline

- I. Setting the scene
- II. Revamped national frameworks
 - i. Performance
 - ii. Stability
 - iii. Predictability
- III. National frameworks and MTBF Index
- IV. Survey's results**
 - i. Gap between legislation and implementation
 - ii. Aspirational rather than constraining targets**
 - iii. Disconnection between fiscal and budgetary elements
- V. Main take-aways

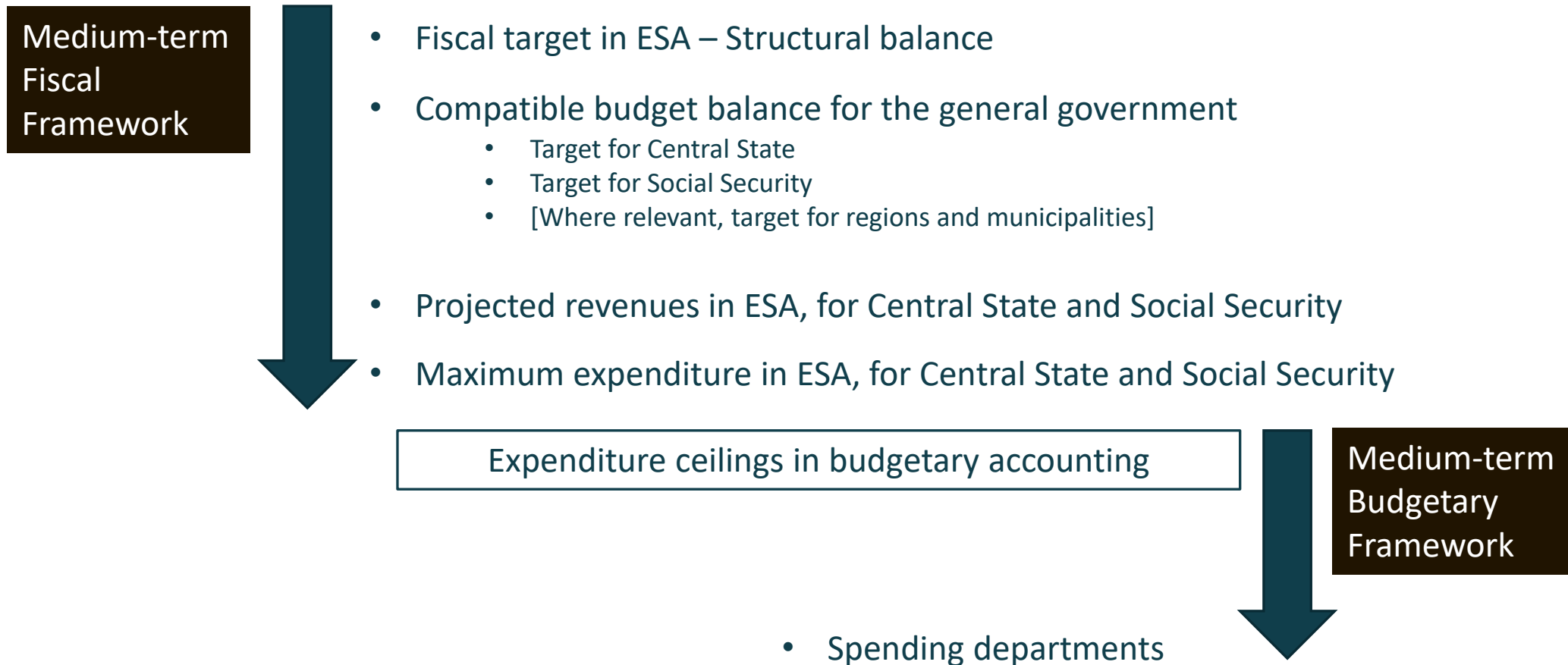
ASPIRATIONAL RATHER THAN CONSTRAINING TARGETS

- IFIs characterizing the process as an annual one with the filling out of outer years in the horizon being an “academic” exercise
- IFIs describing outer years’ targets as not realistic
- Asynchronous changes to different years included in the planning horizon result in an incoherent view of the orientation of fiscal policy.

Outline

- I. Setting the scene
- II. Revamped national frameworks
 - i. Performance
 - ii. Stability
 - iii. Predictability
- III. National frameworks and MTBF Index
- IV. Survey's results
 - i. Gap between legislation and implementation
 - ii. Aspirational rather than constraining targets
 - iii. Disconnection between fiscal and budgetary elements
- V. Main take-aways

DISCONNECTION BETWEEN FISCAL AND BUDGETARY ELEMENTS



Outline

- I. Setting the scene
- II. Revamped national frameworks
 - i. Performance
 - ii. Stability
 - iii. Predictability
- III. National frameworks and MTBF Index
- IV. Survey's results
 - i. Gap between legislation and implementation
 - ii. Aspirational rather than constraining targets
 - iii. Disconnection between fiscal and budgetary elements
- V. Main take-aways**

MAIN TAKE-AWAYS

- **Improving legislated aspects of MTF is important but not enough**
- **What do best performers have in common?**
 - Strong political commitment
 - Constraining medium-term targets
 - Expressed over variables that are easily reconcilable with budgetary elements
 - Embedded in a MTBF

MAIN TAKE-AWAYS

- **Gaining credibility:**
 - Post – GFC : codification and (over)ambition
 - Post – COVID: stable and realistic targets that are easily reconcilable with the budgetary pillar of the process
- **Medium term targets:**
 - On the one hand, difficult for MS with national frameworks that mirror EU one (many) to plan for the medium term if SGP requirements only known for t+1 (preventive arm)
 - On the other hand, setting structural requirements for longer periods not viable... hence?
- **Difficult to have functional m/t frameworks without (i) changing the underlying fiscal rules and how targets are formulated and (ii) strengthening MTBF**



CONTACT US

EMAIL - SECRETARIAT@EUIFIS.EU

PHONE - 32 2 229 3932

WEBSITE – WWW.EUIFIS.EU

ADDRESS - 1, PLACE DU CONGRÈS,
BRUSSELS

SUBSCRIBE TO OUR NEWSLETTER 

FOLLOW US ON TWITTER! 

FOLLOW US ON LINKEDIN! 