



**Comments on
Independent Fiscal Institutions in the European Union: Is Coordination
Required?**

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EFB Workshop "Independent Fiscal Institutions in the EU Fiscal Framework"

28 February, 2019

The paper (I)

Is coordination among IFCs and between them and EC required?

Three sub-questions:

- How do national IFCs influence fiscal policies?
 - Media presence
- In the EU sound fiscal policy is a public good: is there a need for coordination?
 - Heterogeneity
 - Risk of cacophony
- If coordination failures are relevant, how coordination should look like

The paper (II)

Conclusions:

- Case for coordination at two levels exists:
 - Horizontal: risk that IFIs fail to strengthen commitments to fiscal rules
 - Vertical: to limit cacophony between IFIs and EC which is costly in terms of reputation and effectiveness
 - Potentially ex-ante alignment of recommendations between IFIs and EC

General comments (I)

Aren't we proposing a cure which was the source of the disease?

- EU fiscal governance framework: Coordination is central
- This is a second best relative to true centralization. Historically achieved through ex-ante commitment in the SGP (“ex-ante coordination”):
 - Rules in forms of targets to be achieved by sovereign governments setting their policies
- In practice enforcement of rules limited = failure of coordination.
- What about a decentralized approach?

General comments (II)

- The governance reform of 2011: recognition of the failure
- IFIs two EU legal bases:
 - The two-pack (EA only): Independent production/endorsement of macro forecasts & monitoring of fiscal rules
 - TSCG (Fiscal compact): independent monitoring institutions to assess activation of correction mechanisms
- Fiscal Compact meant to ensure enforcement of EU rules by constitutionalization of fiscal rules
 - If budget or estimated fiscal account is found to be non-compliant with the deficit or debt criteria, the state is obliged to rectify the issue.
 - An automatic correction mechanism has to be established to correct potential significant deviations
 - A national independent monitoring institution should be mandated to provide fiscal surveillance

General comments (III)

It is a failure in coordination that led to a new framework where governments pursue fiscal stability as their own national objective, enshrined in their national law

- The idea of setting up IFIs came from the experience of the some MS and their good track record
- In AT and NL, IFIs existed already and focused on national fiscal rules.
- Does this make the EC work under the SGP redundant or even an obstacle for IFIs? Possibly.
- For the time being unclear if IFIs can effectively promote fiscal soundness in all MS.
- Can this be corrected through coordination?
 - No. Back to the original problem and even damaging if perceived as reducing national ownership

Specific comments

1. Rationale for coordination IFIs-EC: Relevance of spillover & fiscal soundness as EU public good
 - The argument is rather weak in this context. IFIs do not set fiscal policy
 - Soft coordination among IFIs will not change the institutional setting. Exchange of best practice can improve effectiveness
 - Risk of cacophony more relevant in theory, in practice is it serious?
2. EC Perspective:
 - Considerations about BoP, euro forex and monetary policy when formulating CSRs. Is it the case?
3. Information asymmetry:
 - IFIs do not participate in the EC-MS talks but differences should be limited. Large should be excluded because SGP ensures full predictability (disregarding political EC).