



EUROPEAN CENTRAL BANK

EUROSYSTEM

Centralization vs decentralization of the EU fiscal framework

EFB annual conference

11/05/2023

Nadine Leiner-Killinger, Head of Section, European Central Bank
Disclaimer: The views expressed don't necessarily reflect those of the
European Central Bank

Two perspectives on the role of IFIs in EU surveillance

- ❑ **EU IFI network/ Sebastian Barnes: Working in the same directions?**
Assessing the relationship between EU and domestic fiscal frameworks.
 - ❑ insights and experiences from “practitioners”

 - ❑ **George Kopits: Strengthening EU Independent Institutions**
 - “bird’s eye view” by a pioneer of fiscal rules and frameworks
- ***Excellent kick-off for discussion on role of independent assessment for reform of EU economic governance framework***

EU IFI network/Sebastian Barnes: main findings...

Two-level fiscal framework (EU/national):

1. **Potential problem for fiscal policies:** where strictness of EU/national fiscal frameworks differ: “*game the system*” – governments may systematically choose to comply with the least binding requirements (→ **issue of enforcement?**);
2. **Potential problem for IFIs:** where EU requirements transposed in national law: credibility of IFIs challenged when different assessment compared to COM

...based on EU IFIS survey, with...

Original contribution of paper: EU IFI survey (2012-2022, 30 IFIs): there are differences in IFI/COM assessment of

- (i) **fiscal position:** problem: DRM/one-offs/OGs (→ not too surprising)
- (ii) **compliance with EU or EU-based domestic fiscal rules:** more often the case that *“fiscal policy is considered appropriate by IFI and too strict by COM”* then vice versa, evidence from case studies (FR, IE, FI) (→ surprising? reasons? *“Don’t know”?*)

“Over time, this may weaken the reputation and perceived effectiveness of the national IFI.” (→ does IFI assessment become irrelevant?)

...implications for EU economic governance reform.

Policy recommendations (ex-ante and ex-post), affecting IFIs/COM:

- IFIs to have assessment role
 - over national macroeconomic projections
 - and budgetary projections;
 - producing technical analysis of debt paths
- Legal obligation at EU level to take into account assessment of national IFIs, whether or not it is followed

George Kopits argues within a broader setting, deriving...

Concurs with EU IFIs: relationship between IFIs and COM can be improved

+ New element: relationship between IFIs/EFB

- “*work in progress*” with significant scope for improvement: to be finetuned to maximise effectiveness within reformed framework
- **IFIs**: challenging task in securing ownership (“imposed by external factors”) – although they deliver: more transparency; presence in public debate; reducing optimistic bias (see e.g. Buettner/Kauder for revenue projections)

“significant scope for strengthening national EU IFIs with the support of the EFB and the Commission”

...options for the future: How should COM cater for independent assessment - bottom up or top down?

EU IFI network:

monitoring/enforcing minimum standards,

- self-governed, permanent staff,
- exercise peer review on compliance with minimum standards

EFB: incorporate IFI evaluation in country-reviews, publish in annual report

→ **More ownership by Member States?**

EFB (like EBA) with stronger COM role:

monitoring/enforcing minimum standards,

- enhanced independence

EU IFIs (agent of BRU?): cooperate with EFB on compliance w. minimum standards

Is COM EGR proposal closer to ↓ ?

Has Council preference for ↑ ?

What is national ownership?

“National ownership” or unwanted watchdog?

COM legislative proposals (26 April): “The package includes a strengthened country-specific dimension aimed at enhancing **national ownership**, incl. by [...] a **stronger role for IFIs**” [e.g. budgetary forecasts, DSA, compliance – **IFI vs COM?**]



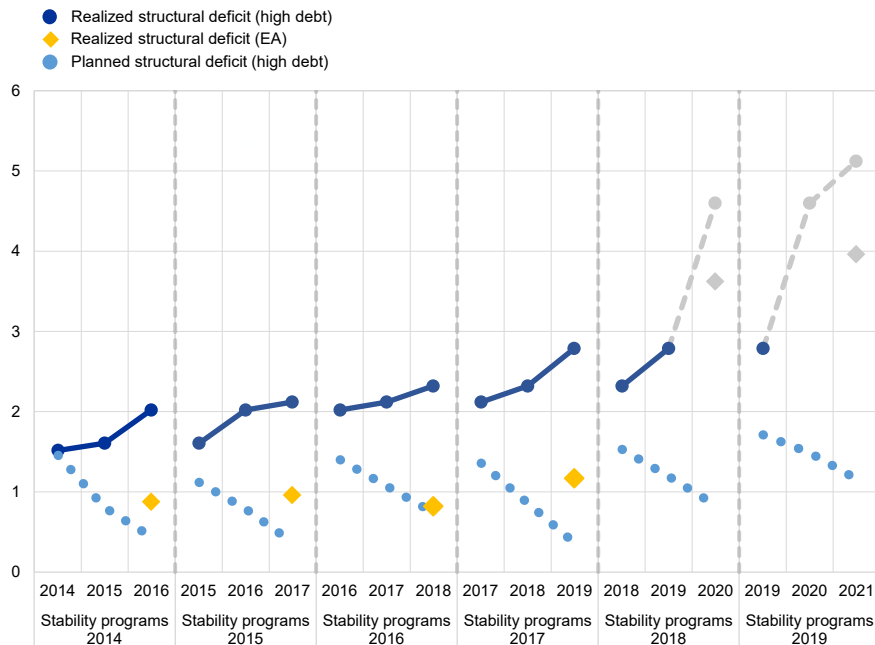
Council conclusions (14 March): “The current role of [IFIs] in producing or endorsing macroeconomic projections should be **maintained** and adapted to the medium-term fiscal-structural plans while minimum standards could be explored. IFIs should **not** play a role in the design phase of the national plans.”



Both: “explore” stronger role for the European Fiscal Board

Independent assessment important for economic governance..

Structural deficits as moving targets (Debt >90%)



COM legislative proposals (26 April):

- Focus on countries with high debt/debt challenges
- Would countries with high debt benefit comparatively *more* from scrutiny by IFIs in fiscal plans? Is there analysis by EU IFIs?

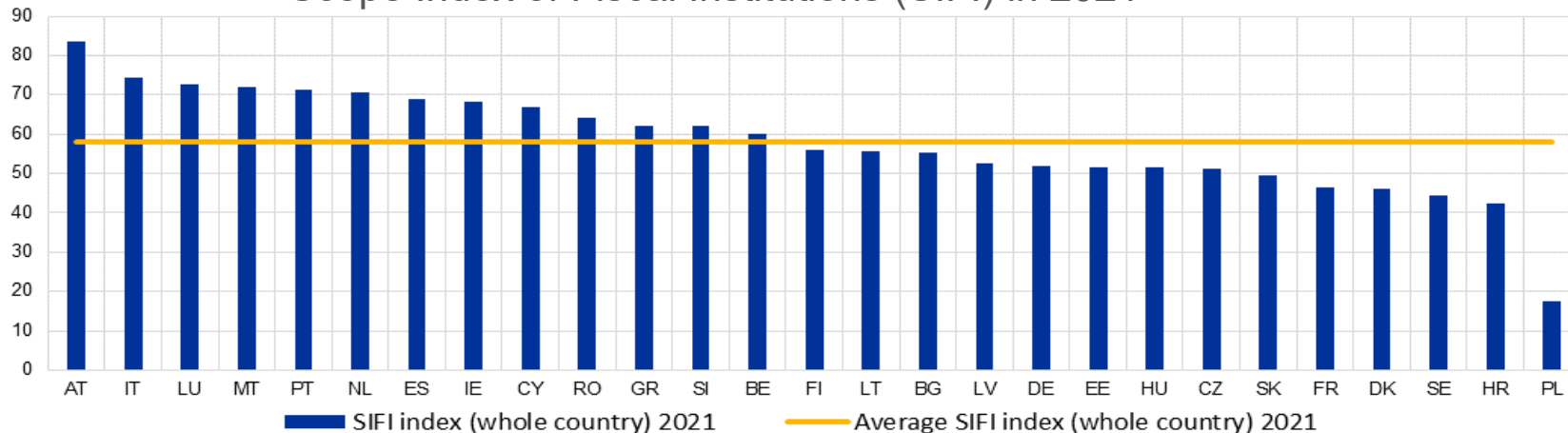
Source: Stability programs & AMECO

Note: GDP-weighted average of high debt countries:

BE, CY, ES, FR, GR, IT, PT

...but will take time to build up, which requires...

Scope Index of Fiscal Institutions (SIFI) in 2021



For 2020:

	AT	IT	MT	PT	NL	RO	ES	IE	LU	CY	BE	SI	FI	LT	BG	LV	DE	EE	HU	CZ	GR	FR	DK	SK	SE	HR	PL
Start of activity	1970	2014	2015	2012	1945, 2014	2010	2014	2011	2014	2014	1989, 1994	2015	2013	2015	2015	2014	2013	2014	2009	2017	2010	2013	1962	2012	2007	2013	n.a.
Number of employees (per 10M)	23.4	3.6	57.7	21.4	80.5	7.8	7.6	15.9	124.9	55.5	93.2	33.2	265.2	32.1	11.6	53.1	1.8	60.2	7.2	14.0	13.1	1.6	78.6	37.6	11.5	15.4	n.a.

...thinking about effective solutions already now.

- **Learning from Eurosystem?** Could **IFIs** gain further credibility through (apart from peer review of minimum standards) peer review of their real-time monitoring of fiscal policy making? Insights from “IMF independent evaluation office”?
- **Is there a middle way?** Not strengthening independent assessment within EGR would be a very bad signal
 - ✓ stronger role for IFIs
 - ✓ **and** the EFB (visible “head”; triggers initiatives/working groups e.g. quality, EA fiscal stance)



Background slides

COM proposals for IFIs...

Independent Fiscal Institutions (IFIs):

- i. new EU-wide **minimum standards** for independence.
- ii. **technical capacity and tasks**: produce or endorse (macro and) budgetary forecasts, debt sustainability assessments, impacts of policies on fiscal sustainability & sustainable & inclusive growth; monitor compliance with national & EU fiscal rules; conduct regular reviews of national fiscal framework; participate in regular hearings at national parliament.
- iii. **Comply-or-explain** principle for IFIs' assessments and opinions.

Unclear role of IFI's in assessing COM proposed trajectories

COM proposals for EFB...

European Fiscal Board (EFB):

- i. COM will explore how to strengthen the role of the European Fiscal Board, while preserving surveillance role conferred on COM by EU Treaties
- ii. **Possible new tasks:** informing periodic evaluation of reformed framework & providing assessments on implementation of reformed governance system; could also provide opinion to inform Council decision on activating (or extending) general escape clause