

# **Strengthening EU Independent Fiscal Institutions**

**George Kopits**

**Centralization vs. Decentralization of the EU Fiscal Framework  
Fifth Annual Conference, European Fiscal Board  
Brussels, May 11, 2023**

# Impulse

**“It would be a tall order for the Commission staff, even if enhanced by an army of the most competent economists, budget specialists, lawyers, and accountants, to monitor simultaneously 27 budget bills in time for the national parliaments to hold their debates and budget approvals. ... The experience of a handful of countries demonstrates that a home-grown independent fiscal watchdog is best equipped to conduct real-time surveillance of fiscal policymaking. ... The EU ought to urge member states to establish their own national fiscal watchdogs. The Commission could guide this process by setting up minimum standards of independence, accountability, and terms of reference.”**

**G. Kopits, “Brussels Can’t Monitor 27 Budgets” *WSJ*, October 11, 2010**

# Outline

- **Context: EU fiscal framework**
- **Rationale and evolution of EU IFIs**
- **Effectiveness ?**
- **Minimum standards ?**
- **Future options**

# Context: EU fiscal framework

## *Shifting role of the Commission*

- Initially technical guardian of the SGP
- Since 2004 increasingly political role, confirmed in 2014

## *Roles of Commission, EFB, and EU IFIs*

- Monitoring role of EU IFIs set in six- and two-pack reforms, 2011-13
- Roles: -- EFB surveillance of EU IFIs' monitoring function  
-- Commission enforcement of compliance with EU framework
- ECA criticism of Commission for ignoring EFB advice and EU IFI assessments by using "margin of discretion"
- Commission's recent proposal for reform: strengthening EU IFIs

# Rationale and evolution

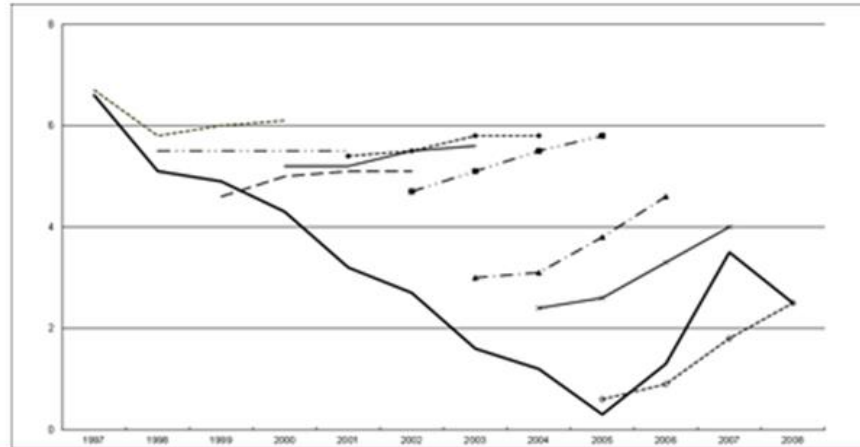
## *Background*

- **Origin: Country-specific historical episodes (often a financial crisis)**
- **Initially: home-grown, home-owned**
- **Opacity in public finances (Puviani, 1903)**
- **Goodhart's law in compliance with numerical constraints (e.g., SGP)**
- **Procyclical expansionary bias**
- **Optimistic macro-fiscal forecast bias**

# Rationale and evolution

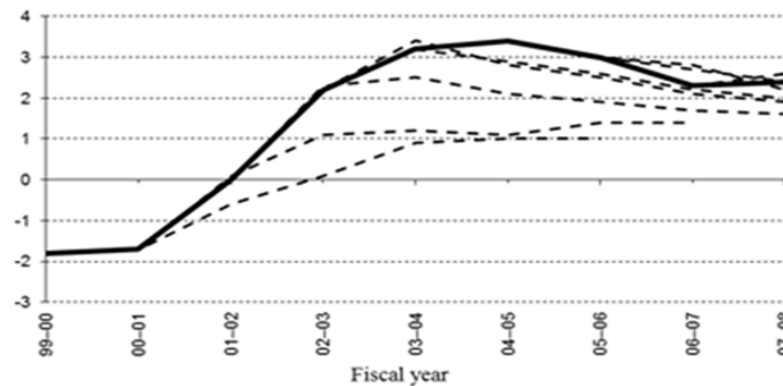
## *Optimistic bias in Italy, 1997-2008*

(Primary surplus forecast and actual, in % of GDP)



## *Optimistic bias in the UK, 1999-2007*

(PSBR forecast and actual, in % of NI)



# Rationale and evolution

## *EU independent fiscal institutions*

- **Lessons from the Euro debt crisis**
- **Requirements under six- and two-pack reforms**
  - establishment of EU IFIs in euro area
  - preparation or endorsement of macro forecasts underlying fiscal forecasts
- **Wide variety of statutory basis, characteristics, functions**
- **Voluntary EU IFI Network and Commission-sponsored EUNIFI**
- **Increasingly, adoption of good practices**
- **Ultimate test: public confrontation with delinquent government  
(last year: Portugal, Slovakia, UK)**

# Effectiveness ?

## *Criteria, methodology, results*

- **Cross-country estimates of IFIs on fiscal performance or on indicators of influence (e.g., press reports)**
- **Yet measurement of IFI influence on policy is elusive**
- **Increasingly, IFI influence becomes subtle, preemptive, not easily observable (seldom confrontation)**
- **An indirect indicator: Effect on fiscal transparency ?**



# Effectiveness ?

## *Scope of IFI and fiscal transparency*

Member State	Start	Scope of IFI 2017	Transparency Index	
			Start	2021
Bulgaria	2015	54	65	71
Croatia	2013	42	61	64
Czech Republic	2017	51	59	60
France	2012	46	76	72
Germany	2013	52	71	73
Hungary (2.0)	2011	36	49	44
Italy	2012	74	60	75
Portugal	2012	66	62	60
Romania	2010	69	47	63
Slovakia	2012	45	57	65
Slovenia	2015	59	68	66
Spain	2013	69	58	54
Sweden	2007	43	76	85
Average		54	62	66

# Minimum standards ?

## *Basis*

- OECD Principles for IFIs; EP and Council directive on EU IFIs.
- EU IFI Network, 2016: minimum standards
- Commission now proposes “tasks”, incl. fiscal and macro forecasts

## *Overview: Minimum standards of good practice*

- Effective independence (including nonpartisanship)
- Resource adequacy (human and financial)
- Unlimited access to information on public finances
- Unbiased macro-fiscal forecasting plus policy costing, including debt sustainability analysis (for assessment of present and future compliance with national fiscal framework)
- Transparency (including active outreach through the media)

# Future options

## *Scope for strengthening EU IFIs (incl. in non-euro area)*

- **Some EU IFIs are still deficient in independent, real-time, forward-looking monitoring of public finances**
- **Key: Need to design and implement minimum standards**
- **EFB and Commission: Need for clearer definition of roles in cooperative support of EU IFIs**
- **National ownership: Any appearance that EU IFI is an “agent of Brussels” should be avoided**

# Future options

## *Bottom-up option*

- Extension of EU IFI Network as a voluntary, self-governing, self-funded body, with elected head and recruited permanent staff
- Network sets, evaluates, and enforces compliance with minimum standards
- EFB incorporates evaluation in its annual review of EU IFIs
- Commission helps enforce minimum standards, based on evaluation by EU IFIs

## *Top-down option*

- EFB operates as a self-governing EU agency, funded by the Commission, with head elected by EU IFIs (similar to status of European Banking Authority)
- EFB evaluates and reports on compliance with minimum standards, set by Commission and EFB in close cooperation with EU IFIs
- Commission enforces minimum standards, based on evaluation by EFB

# Future options

## *Commission proposal*

- **Broadly straddles the two basic options, combining elements of both**
- **Unchanged role for EFB, despite Council remit to explore ways for strengthening it**
- **Stops short of designing and implementing minimum standards; simply listing “tasks” for EU IFIs**
- **Tradeoff between national ownership and independence of EU IFIs vs. some tasks assigned to EU IFIs remains unresolved**