Centralization vs decentralization of the EU fiscal framework

EFB annual conference

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*
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
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?)
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:

<table>
<thead>
<tr>
<th>Country</th>
<th>AT</th>
<th>IT</th>
<th>MT</th>
<th>PT</th>
<th>NL</th>
<th>RO</th>
<th>ES</th>
<th>IE</th>
<th>LU</th>
<th>CY</th>
<th>BE</th>
<th>SI</th>
<th>FI</th>
<th>LT</th>
<th>BG</th>
<th>LV</th>
<th>DE</th>
<th>EE</th>
<th>HU</th>
<th>CZ</th>
<th>GR</th>
<th>FR</th>
<th>DK</th>
<th>SK</th>
<th>SE</th>
<th>HR</th>
<th>PL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees (per 10M)</td>
<td>23.4</td>
<td>3.6</td>
<td>57.7</td>
<td>21.4</td>
<td>80.5</td>
<td>7.8</td>
<td>7.6</td>
<td>15.9</td>
<td>124.9</td>
<td>55.5</td>
<td>93.2</td>
<td>33.2</td>
<td>265.2</td>
<td>32.1</td>
<td>11.6</td>
<td>53.1</td>
<td>1.8</td>
<td>60.2</td>
<td>7.2</td>
<td>14.0</td>
<td>13.1</td>
<td>1.6</td>
<td>78.6</td>
<td>37.6</td>
<td>11.5</td>
<td>15.4</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

...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
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
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