The ongoing reform of the EU economic governance framework concerns the design, monitoring, and enforcement of the Stability and Growth Pact. In particular, the orientations for reform issued by the European Council as well as the recent proposals of the European Commission call for strengthening the independent fiscal institutions (IFIs), which are at the forefront in monitoring the public finances of member states. In order to understand the significance of the role of the IFIs in the European Union, as envisaged by the Council and the Commission, this paper reviews the structure and dynamics of IFIs of member states and explores ways to strengthen the effectiveness of IFIs, including through their interaction with EU institutions, within the new governance framework.

The first section is devoted to examining the relevance of the EU fiscal framework in the development and operation of IFIs over time. The second section provides an overview of the rationale and evolution of EU IFIs. The third seeks to assess their effectiveness in influencing government policy decisions. The fourth outlines minimum standards that EU IFIs may be expected to adopt in the light of internationally accepted good practices. The fifth section formulates two alternative options for future cooperation among EU IFIs and with EU institutions, and in particular, the European Fiscal Board (EFB). The final section concludes.

I. Context: The EU fiscal framework

For an understanding of the current relevance of the EU fiscal framework for EU IFIs it is necessary to trace the development of certain key institutional features of the framework over the past three decades or so. From the initial application of the SGP in 1997, the European Commission, as the foremost guardian of fiscal governance, has been in charge of surveillance of fiscal policy in member states. Accordingly, in its technical capacity, the Commission was required to report to the European Council about noncompliance with the deficit and debt reference values, and concomitantly, noncompliance with the excess deficit procedure (EDP)

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when warranted. In turn, the Council was the supreme political institution responsible for enforcing the commonly agreed rules, including financial sanctions upon violation of the EDP.

In 2003, the relationship between the Commission and the Council reached a watershed when the Commission deemed that both France and Germany had violated the EDP and recommended to step up the procedure moving closer to the sanctions set out in the Treaty, but the Council decided to sidestep the Commission’s proposal. The European Court of Justice overruled the Council’s decision but to no avail. The demonstration effect of this event paved the way to numerous violations by other member states\(^1\) and undermined the original role of the Commission, inhibiting it from recommending procedural steps that would lead to sanctions for noncompliance with the SGP, despite an optimistic macro-fiscal forecast bias in a number of member states.\(^2\) In the meantime, Eurostat was not authorized to examine primary sources of macroeconomic and fiscal data of member states. These developments contributed to the onset of the euro debt crisis.\(^3\)

In the wake of the crisis and urged from the outside,\(^4\) EU authorities recognized, though with a lag,\(^5\) the need to enhance oversight of member states, in the context of reforming the fiscal framework. As part of the reform, they authorized on-site inspection of primary data sources by Eurostat and began to support the establishment of IFIs. Meanwhile, on their own initiative, several EU member states created IFIs to help restore the government’s credibility in financial markets. By the end of 2011, under the so-called six-pack reform of the SGP, the Council issued a directive for member states to endeavor preparing realistic macro-fiscal forecasts, including in reference to those of “independent bodies”, if available.\(^6\) In 2013, under the two-pack reform, the European Parliament elevated the role of IFIs to the force of law, by requiring each euro member

\(^1\) Sinn (2018) recorded 121 violations of the deficit reference value through 2017, not justified by escape clauses. Noncompliance was never sanctioned.


\(^3\) See Kopits (2017) on the drivers of the crisis.

\(^4\) As an early advocate, Kopits (2010) called for surveillance of fiscal policies by EU IFIs because such national institutions are far better equipped than the Commission to conduct thorough real-time monitoring of budgetary practices in member states.

\(^5\) In 2010, the Commission failed to provide support to the original IFI [1.0] adopted in Hungary, as conditionality under an EU-IMF adjustment program. Thus, by the end of the year, the Orbán government “defanged” (in the words of the Financial Times lead editorial, December 8, 2010) the original well-functioning fiscal council and replaced it the following year with an entirely acquiescent IFI. The heads of the Dutch, Swedish, UK IFIs protested publicly the abolition of Hungary’s council; see Calmfors, Chote and Teulings (2010).

\(^6\) European Council (2011).
state to have an IFI, with the remit to prepare or endorse official macroeconomic forecasts – though not the corresponding official fiscal forecasts – underlying budgetary plans in real time and to monitor compliance with national fiscal rules.\(^7\)

However, in 2014, the incoming Commission President declared that the Commission was to become a ‘political institution’, with authority to propose legislation, whereby in fact it no longer serves purely as a technical monitoring and advisory body, as envisaged initially. The Commission assumed functions comparable to those of a finance ministry – unlike for example in the area of competition policy, where the Commission retained semi–autonomous regulatory and supervisory authority. Against this background, and with some member states growing increasingly concerned about the Commission’s intent to play the role of the guardian of the Treaty, in 2015, the five EU Presidents called for the establishment of the EFB, “to coordinate the network of national fiscal councils and conform to the same standard of independence. It should advise, not implement, policy. Enforcing the rules would remain the task of the Commission, which could deviate from the views of the EFB, provided that it has justifiable reasons and explains them.” \(^8\)

Henceforth the Commission was to share its original role, namely, of technical oversight of fiscal developments and of compliance with fiscal rules in member states, as well as evaluation of the fiscal stance in member states and in the euro area as a whole, with the EFB. The Commission ratified the independence of the EFB and the above role, including to “cooperate with the national fiscal councils. The cooperation … shall in particular aim at exchanging best practices and facilitating common understanding on matters related to the Union fiscal framework.” \(^9\) This was further enshrined in a resolution of the European Parliament, to “stress that the EFB, as the advisory board of the Commission, should be accountable to Parliament, and that, in this context, its assessments should be made public and transparent.” \(^10\) In any event, as a new institution, the EFB made a useful start in the assessment of IFIs in their mission, mainly by devoting a substantive chapter to IFIs in its annual report that includes a review of the activities in a selected pair of member states.

In a thorough performance audit,\(^11\) the European Court of Auditors (ECA) was critical of the Commission’s failure to fully implement the requirements on compliance by member states with national fiscal frameworks pursuant to the six-pack and the two-pack reforms of the SGP,

\(^7\) European Parliament (2013).

\(^8\) See Juncker and others (2015)


\(^11\) European Court of Auditors (2019).
including cooperation with IFIs. This implies potential inconsistencies between the Commission’s and the IFIs’ assessment of compliance with fiscal rules – as occasionally they indeed materialized.\textsuperscript{12} In addition, the Court questioned whether the EFB had sufficient independence, as required by EU legislation, and criticized the Commission for ignoring advice by the EFB and assessments by IFIs. It noted that such deficiencies may damage the effectiveness of the EU fiscal framework.

Overall, the assigned roles of the EFB and the Commission as regards IFIs, divided between surveillance and enforcement, respectively, have an inherent logic. Both are charged to “coordinate”, but more appropriately “cooperate” with IFIs\textsuperscript{13} in order to ensure compliance with the EU framework. Yet, neither institution seems to live up to its full potential, in part owing to a rather uncharted interpretation of its mandate without violating – or perceived to be violating – the IFIs’ independence. Admittedly, the nature of the relationship between the two institutions on the one hand and with the IFIs on the other is to be regarded “as work in progress”, with significant scope for improvement. They need to be finetuned to maximize their effectiveness, in line with the envisaged reform of the EU framework.

With a view to raising the effectiveness of the rules-based EU fiscal framework, as well as the underlying institutional arrangements, the Commission published and the Council broadly endorsed orientations for reform.\textsuperscript{14} Based on these orientations, most recently, the Commission has issued a comprehensive set of legislative proposals that, \textit{inter alia}, seeks to correct the deficiencies identified by the ECA, as well as to clarify and strengthen the future roles of the EU IFIs\textsuperscript{15} – discussed in sections IV and V. The EFB is only mentioned in the explanatory part of the legislative proposal. Hence, unless the Commission, the Council or the Parliament intend to make it explicit in the reform package, the future of the EFB remains unclear.

\section*{II. EU IFIs: Rationale and evolution}

By the first decade of this century, there was a mere handful of a new generation of independent fiscal institutions. Unlike national audit authorities whose mandate was to monitor \textit{ex post} a wide range of government operations – originally purely from a traditional legal perspective, but lately

\begin{itemize}
\item \textsuperscript{12} In fact, in 2019, using the “margin of discretion” clause, the Commission overruled the Italian IFI’s assessment of serious non-compliance by the government of national and EU fiscal rules; see the discussion in European Fiscal Board (2020).
\item \textsuperscript{13} There is strong preference for voluntary coordination, as opposed to coordination which may infringe on the independence of the IFI.
\item \textsuperscript{14} See European Commission (2022b) and European Council (2023).
\item \textsuperscript{15} See European Commission (2023a, 2023b).
\end{itemize}
with the introduction of performance audits – the new IFIs focus primarily on *ex ante* evaluation of public finances in real time. Spurred by lessons from the global financial crisis, an increasing number of countries worldwide adopted such institutions. Within the EU, as discussed above, the crisis revealed considerable gaps in the disclosure of information on public finances and the underlying macroeconomic assumptions in some member states, which represented an impediment to verifying compliance with the reference values of the SGP.

Opacity is usually manifest mostly in favorable official explanation of the effects of proposed policy measures, plus optimistic macro-fiscal forecasts. Since time immemorial, governments tend to overstate the benefits and understate the costs of proposed expenditure projects and tax changes.\(^{16}\) Concomitantly, official short- and medium-term forecasts, as well as long-term scenarios, tend to show favorable structural fiscal balances and modest public indebtedness as a ratio of economic activity. Typically, such an outcome is driven by favorable assumptions about underlying macroeconomic variables: high and sustained real growth rate and low interest rates. EU member states have been particularly prone to produce favorable fiscal results and optimistic forecasts when they face the pressure of complying with fiscal rules. This is a common symptom of the well-known Goodhart’s law: a statistical indicator, such as the budget balance, ceases to be reliable once it is declared an official policy target. The prevalence of the optimistic forecast bias is graphically illustrated by the cases of Italy and the United Kingdom, prior to the establishment of IFIs (Figures 1 and 2).

Prior to the financial crisis, the rationale and origin of the handful of then existing home-grown IFIs (Belgium, Canada, Hungary, Netherlands, Sweden, UK, US)\(^ {17}\) can be traced to different country-specific historical events or circumstances, albeit all primarily aimed at creating accountability in public finances and countering the natural tendency of governments to indulge in opacity.\(^ {18}\) The pursuit of transparency entailed a high degree of effective independence from the governments under scrutiny.

Within the EU, following the debt crisis, IFIs proliferated throughout the entire membership to regain credibility and to conform with the reformed fiscal framework. Unlike the earlier institutions, a distinctive aspect of these IFIs is that they face a more challenging task in securing national ownership, given that some of them may seem to have been imposed by external forces rather than established on the basis of sufficient conviction by the leadership and the general

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16 In his classic treatise, published 120 years ago, Puviani (1903) provides historical evidence in support of such behavior under the theory of fiscal illusion.

17 An in-depth review and analysis of the rationale for these institutions can be found in Kopits (2013). For an update, see also Larch and Thygesen (2020).

18 Or, as characterized bluntly by the former head of the Australian IFI, the objective is to “keeping the bastards honest”.

public – notwithstanding the thrust of the post-crisis reform toward national ownership of the EU fiscal framework through local legislation adopting key elements of the framework. Moreover, the skeptical domestic perception may be fed equally by IFIs’ image as national watchdogs for the SGP.

Since 2013, EU IFIs have been joining two associations with some duplication in objectives: exchange of opinions and information toward a unified position on issues of mutual interest. Whereas the EUNIFI was initiated by the Commission to provide a platform to interact informally with EU IFIs, the Network of EU IFIs is a voluntary gathering of EU IFIs mainly to promote their interests. In several respects, the two associations can be regarded as projects that have yet to be completed, especially in the interactions of IFIs with the Commission and the EFB.

Figure 1. Italy: General government primary surplus forecasts and outturn, 1997-2008 (In percent of GDP)

Note: Solid line shows annual outturn; dashed lines indicate medium-term forecasts.

Source: Balassone, Zotteri and Franco (2013)
Figure 2. United Kingdom: Public sector borrowing forecasts and outturn, 2001-08
(In percent of national income)

*Note:* Solid line shows annual outturn; dashed lines indicate medium-term forecasts.

*Sources:* Chote and Wren-Lewis (2013).

Beyond the common denominator of achieving transparency and independence, there is significant heterogeneity among EU IFIs in terms of structure and mandate, which reflect at least in part differences in historical background, legal standards, or overall political considerations. As regards structure, while some IFIs are standalones, others are attached to the government, the legislature, central bank, the audit authority – without affecting their effective independence. Some are headed by a single leader; others consist of collegial leadership. A few are large; the majority are small in size. The scope of some is limited to the national government, others cover subnational governments as well. The enabling statutory basis ranges anywhere from government decree to constitutional law. In spite of some variation in mandate (budgetary forecasting, costing of policy proposals, long-term sustainability analysis, risk assessment, policy advice), by now practically all EU IFIs in the euro area comply with requirements regarding preparation or endorsement of macroeconomic forecasts and assessment of compliance with domestic fiscal rules.

Over the past decade, the majority of IFIs have made progress on a learning curve before reaching cruising altitude in their activities and before gaining a reputation – both at home with the general public and abroad with financial markets – for independence, competence, and courage. Whereas many had a chance to prove their independence and technical competence, few have been called upon to confront a government that intends to ignore a critical evidence-

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19 For a classification of all EU IFIs in terms of their characteristics, see Jankovics and Sherwood (2017).
based opinion of the IFI, supported by statutory requirement. In the past year, three IFIs stood out as having been challenged in this regard. In Portugal, Slovakia, and the United Kingdom, the respective IFIs refused to go along with the government’s attempt to fast-track the legally mandated budgetary process. In all three cases, the IFI prevailed, and the government was forced to back down, establishing a valuable precedent in each country. The Slovak case was perhaps most significant in that both the President of the Republic and the Constitutional Court formally pronounced themselves in favor of the IFI’s position.

III. EU IFIs: Effectiveness

A frequently asked question is how effective an IFI is, if at all, in influencing government policy decisions. Assessment of the effectiveness of an IFI is rather complex. Conceptually, effectiveness can be defined in terms of impact on fiscal performance, measured by an indicator of changes in the primary structural budget balance relative to a counterfactual outcome in the absence of the IFI that cannot be observed. Other potential measures of impact are on public perception, as revealed in opinion surveys and press coverage, or on market perception as reflected in levels and changes in sovereign risk premiums and ratings. While such approaches at measuring effectiveness may be informative, none of them are immune to measurement limitations. By the same token, econometric analysis on the basis of a cross-country sample of highly heterogeneous IFIs is equally subject to severe shortcomings.

However, alternatively, effectiveness might be assessed by means of a key component of policymaking, such as the transparency of public finances, on which the IFI may have a more proximate impact by virtue of its fundamental rationale, namely, of promoting openness. In an attempt to gauge the possible impact of EU IFIs on fiscal transparency, it might be of interest to attempt matching the scope of each IFI against the level of, and change in, budgetary transparency since the year of establishment of the IFI (or closest to that year), if available for a

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20 Early successful cases of confrontation include Canada, Sweden, and the US. In Hungary and Venezuela, the government de facto abolished well-functioning IFIs.

21 In Slovakia, the IFI deemed that the government’s proposed measures violated the constitutional requirement of consistency with long-term debt sustainability. In Portugal, the government attempted to submit a medium-term no-policy change forecast for the stability program without incorporating envisaged policy measures over the forecast period. In the UK, a short-lived government unveiled a mini-budget bill without the support of official macro-fiscal forecasts by the IFI mandated by law.

22 Estimates of the effectiveness of IFIs on fiscal performance with cross-country data by Debrun and Kumar (2007) and Beetsma and Debrun (2016), though methodologically robust, are highly questionable in substance and of limited usefulness for design or implementation of IFIs. Estimates on a similar data set can be found also in IMF (2013). Notably, the underlying survey data covers IFIs that are not comparable across countries, are not amenable to quantification, and include entities that do not necessarily conform to minimum standards of good practice.
given member state (Table 1). The Scope Index, developed by the Commission, is an estimate of the breadth of activities encompassed in each EU IFI’s legal mandate weighted by the importance of the activity in terms of EU legislation. The Transparency Index, estimated by the International Budgetary Partnership, is based on a comprehensive survey of the availability and quality of information contained in budget documents in each country included in the survey.

Table 1. Selected EU Member States: Scope of IFI and Fiscal Transparency

<table>
<thead>
<tr>
<th>Member State</th>
<th>Start</th>
<th>Scope of IFI 2017</th>
<th>Transparency Index Start 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>2015</td>
<td>54</td>
<td>65</td>
</tr>
<tr>
<td>Croatia</td>
<td>2013</td>
<td>42</td>
<td>61</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2017</td>
<td>51</td>
<td>59</td>
</tr>
<tr>
<td>France</td>
<td>2012</td>
<td>46</td>
<td>76</td>
</tr>
<tr>
<td>Germany</td>
<td>2013</td>
<td>52</td>
<td>71</td>
</tr>
<tr>
<td>Hungary</td>
<td>2011</td>
<td>36</td>
<td>49</td>
</tr>
<tr>
<td>Italy</td>
<td>2012</td>
<td>74</td>
<td>60</td>
</tr>
<tr>
<td>Portugal</td>
<td>2012</td>
<td>66</td>
<td>62</td>
</tr>
<tr>
<td>Romania</td>
<td>2010</td>
<td>69</td>
<td>47</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2012</td>
<td>45</td>
<td>57</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2015</td>
<td>59</td>
<td>68</td>
</tr>
<tr>
<td>Spain</td>
<td>2013</td>
<td>69</td>
<td>58</td>
</tr>
<tr>
<td>Sweden</td>
<td>2007</td>
<td>43</td>
<td>76</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>54</td>
<td>62</td>
</tr>
</tbody>
</table>

Sources: European Commission (2022a); International Budget Partnership (2021).

The indices reveal considerable variety of scores for IFI scope and fiscal transparency. Overall, the transparency index shows an improvement across EU member states since the establishment of IFIs. The scores exhibit a rather weak positive correlation between the two indices that can be

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23 The Scope Index is a weighted average of the following activities: promotion of transparency; monitoring of fiscal policy and rules; macro-fiscal forecasting; policy costing; sustainability analysis; and policy advice.

24 The Transparency Index is calculated for each participating country on the basis of answers to 109 questions. Each country is assigned a score from 0 to 100 as a simple average of the responses to each question. Countries with a score above 80 are deemed to have extensive information available; scores in the 61 to 80 range denote availability of substantial information; and scores in the 41 to 60 range denote only limited availability.
interpreted only loosely as causal relationship. In general, the presence of the IFI seems to be aligned with a relatively high level and increasing or broadly stable level of transparency. Yet at the high end of the transparency score, Sweden’s IFI scope is lower than average, given complementary functions performed by other well-established independent institutions. The case of France is somewhat similar presumably because the IFI is embedded in the well-established national audit authority and functioning in tandem with other institutions. More straightforward is the case of Italy, which exhibits the IFI with the highest scope and the strongest rise in fiscal transparency. At the low end of the spectrum, Hungary [2.0] displays the lowest IFI scope value and the lowest and declining transparency score attributable to the sharp institutional erosion experienced under the present regime.

Nonetheless, at a practical level, the central question on effectiveness involves the influence of the IFI on specific policy settings or policy decisions. This influence can take place explicitly or implicitly. Even with the most established IFI can seldom explicitly influence policymaking that is observable in an episode where the government or the legislature changes policy course, modifies a budget bill, or retracts a proposed measure when confronted by an adverse IFI opinion – such as in the three recent cases mentioned in the preceding section.

Far more frequent, though less tangible, is the implicit influence exercised through the legislative debate, policy dialogue in think tanks, or public reaction to IFI views reported in the media. Most powerful implicit influence takes place in a preemptive manner, through the technical arm of the executive or legislature, which alerts the political decision-makers as to the potentially critical IFI assessment that would elicit a given policy measure under consideration. Such implicit influence eludes statistical documentation and can only be supported with anecdotal evidence, yet it intensifies over time as the role of the IFI becomes routine and anticipated by the press and the public.26

An evaluation of the effectiveness of IFIs is clouded by the above considerations. More generally, the institution may be simply a formal manifestation of the government’s political commitment, underpinned by the electorate’s preference for discipline nurtured by lessons from past crises – such as in the case of the Netherlands and Sweden. And as noted, it is difficult to ascertain the influence of the IFI through more subtle means, as fiscal behaviour over time may be conditioned by the mere presence of the institution — whereby the government anticipates, and therefore averts, a potential confrontation with the institution. On the other hand, not even a

25 In Sweden, the National Institute of Economic Research is charged with oversight of macroeconomic and fiscal accounts and preparation of macro-fiscal forecasts. In France, the role of the National Institute for Statistics and Economic Studies (INSEE) is focused on analysis and evaluation of current economic trends and issues.

26 For example, the US Congressional Budget Office earned a reputation for impartiality well into the Carter administration, following the Nixon and Ford administrations, only after it was able to display the same critical demeanour toward the Carter administration; see Joyce (2011).
robust IFI can guarantee sound fiscal policymaking. In fact, the government can ignore altogether the opinions of the IFI, regardless of the proven excellence of the institution, as for example the Trump administration demonstrated with respect to the US IFI.

IV. EU IFIs: Minimum standards

Following the great financial crisis, the OECD took the initiative in formulating the Principles for Independent Fiscal Institutions, drafted by a Reference Group appointed for this task. By 2013, altogether 23 principles were identified and recommended for the OECD membership under nine broad headings: local ownership; independence and nonpartisanship; mandate; resources; relationship with the legislature; access to information; transparency; communication; and external evaluation. Almost in parallel and largely overlapping with the OECD, the EP and the Council defined the principal attributes of IFIs in the euro area. Both the principles and characteristics are to be viewed as criteria for good practice, rather than as minimum standards. In turn, inspired by these initiatives, the Network of EU IFIs in 2016 outlined minimum standards, with the support of the EFB: adequate level of resources and management flexibility;

27 As observed by the founder of the US Congressional Budget Office, Alice Rivlin (2013), “IFIs can play an important role in ensuring a realistic and well-informed debate based on honest numbers, focusing attention on the consequences of action (or inaction), and identifying sustainable solutions to budget dilemmas. They cannot instill political courage to make unpopular decisions. Political leaders have to do that for themselves.”

28 The very existence of an IFI is under threat by a government that cannot tolerate critical assessments by independent institutions. The first institution to succumb was Venezuela’s Congressional Budget Office, following three years of operation, terminated by President Chávez in 2000. Similarly, after two years of successful operation (2009-11), Hungary’s original Fiscal Council lost all funding, its remit was significantly curtailed, and its technical staff abolished under Prime Minister Orbán; in 2011, it was replaced with an entirely acquiescent successor council.

29 The Reference Group, chaired by the author and comprised by the heads of IFIs from Canada, Korea, Netherlands, Sweden, United Kingdom, and United States, drafted the OECD Principles on the basis of good practices outlined by Kopits (2011).

30 See OECD (2014).

31 According to the Directive of the European Parliament and Council (2013) the five distinguishing characteristics of IFIs are: a statutory regime grounded in national laws, regulations or binding administrative provisions; not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body; capacity to communicate publicly in a timely manner; procedures for nominating members on the basis of their experience and competence; and adequate resources and appropriate access to information to carry out their mandate.
good and timely access to information; implementation of the so-called comply-or-explain principle; and safeguards against political pressures.  

In the recent proposal for a Council Directive, the Commission practically reiterates the five characteristics of EU IFIs that had been identified in the two-pack reform of 2013: independence from any public or private body; timely communication of their assessments; resource adequacy; timely access to information; and external evaluation. In addition, the proposal proceeds beyond these characteristics, by enumerating seven tasks for the EU IFIs, which come close to being interpreted as minimum standards: preparation or endorsement of the official annual and multiannual fiscal forecasts, as well as of the underlying macroeconomic forecasts; preparation of debt sustainability assessments underlying the government’s medium-term plans or endorsement thereof; preparation of assessments of the impact of policies on debt sustainability and growth (a.k.a. policy costings); monitoring compliance with the Union fiscal framework; conducting regular and detailed reviews of the national fiscal framework, in terms of consistency, coherence, and effectiveness of the framework; and regular participation at parliamentary hearings and discussions. The proposal would also require member states to ensure that governments comply with, or justify publicly noncompliance with, the assessments and opinions of their respective IFIs, that is, the comply-or-explain principle.

For purposes of evaluation and enforcement of EU IFIs, minimum standards must be defined in practical terms and possibly subject to thresholds for compliance, considering feasibility of implementation. While respecting country-specific features, this endeavor should lead to greater homogeneity across member states though only in elements deemed indispensable for the IFIs’ effectiveness. To this end, a list of minimum standards, distilled from relevant OECD and EU statutes, as well as from accumulated real-world experience of IFIs, should include the following: effective independence, resource adequacy, forecasting and policy costing, access to information, and transparency.

**Effective independence** is inherent to all IFIs and must be continuously upheld, regardless of their legal status – whether standalone or embedded in the executive, legislative, judicial branches, or in some other decentralized government agency – that varies across countries. As a corollary, the leadership of the IFI, whether consisting of either a head or a council, should be nonpartisan (as distinct from bipartisan or partisan). Namely, it must be made up of seasoned professionals in the macro-fiscal area, unaffiliated to a political party or interest group. It should not include individuals appointed by various regional governments or interest groups (trade unions, businesses, etc.) to implicitly represent their views. Opinions and forecasts of the IFI are

32 See Network of EU Independent Fiscal Institutions (2016) and EFB (2019). An initial call for minimum standards for EU IFIs can be found in Kopits (2010).

33 See European Commission (2023b).
to be the result of analytical expertise instead of a compromise of subjective views.\textsuperscript{34} In addition, the institution must be flexible to securing and allocating its resources deemed necessary to meet its mandate. This includes selection of the technical staff, hiring consultants, setting the work program, and undertaking relevant research projects.

However, in some member states, the IFI’s independence is qualified by statute with regard to its mandate. For example, it may be limited to the scrutiny of the central government only, excluding decentralized agencies or subnational governments; it may not have authority to perform policy costings; or it may relegate certain critical functions to an outside independent institution. The treatment of such limitations needs to be evaluated on a case-by-case basis, so as to determine whether they are consistent with the minimum standard.

**Resource adequacy** is an essential ingredient for any IFI to fulfill its mandate. Adequacy of financial and human resources in terms of quantity and quality must be commensurate with the tasks at hand. The size of the IFIs annual budget is partly determined by local conditions, such as public salary scales and scope of the functions assigned to the IFI – especially labor-intensive and seasonal nature of costing of policy proposals. The IFI’s must be protected from any attempt by the executive or the legislature to exercise leverage over the IFI.\textsuperscript{35} An approach to guarantee sufficient financing over time is to appropriate funds over a rolling multiyear budget, as in the case of the United Kingdom. An alternative is to secure funding through the central bank, as for example in Austria and Slovakia.\textsuperscript{36} The technical staff must be endowed with analytical capacity in macroeconomics and fiscal policy, as well as be knowledgeable in budgetary practices and taxation. The size of the technical staff should be commensurate with the tasks at hand, including seasonality dictated by the budgetary process. At a minimum, they should reach, say, at least 20 to 30 employees.\textsuperscript{37}

**Unbiased forecasting and policy costing** are central functions of an IFI in assessing the prospect of compliance with fiscal rules. Ideally, IFIs should be authorized to prepare all official macro-fiscal forecasts over a short-, medium-, and long-term horizon on behalf of the government. But,

\textsuperscript{34}In this regard, in Austria, Belgium and Germany the structure of the IFI leadership is a corporative body that appears to be at odds with this requirement.

\textsuperscript{35} Sweden was an early example of an unsuccessful threat by the finance minister to withdraw funds from the fiscal council because of a disagreement over the council’s evaluation of the government’s procyclical fiscal stance. In Hungary, the government, through its parliamentary majority, refused to fund the original IFI and then replaced with the present entirely subservient institution.

\textsuperscript{36} In Portugal, the budget is proposed by the government to parliament, upon a favorable opinion by the governor of the central bank and the president of the audit authority.

\textsuperscript{37} In the Netherlands, all policy proposals must be evaluated in terms of its budgetary and economic impact, including the proposals by political parties (at their request) during an election campaign, which entail a staff of more than 200 employees.
at a minimum, EU IFIs should prepare or endorse the government’s macroeconomic forecasts, as required in the two-pack reform. Accordingly, the IFI must prepare its own conditional macroeconomic forecasts – that is, conditional by assuming no-policy-change over the forecast horizon – on an annual basis, which serve as a useful baseline for evaluating the annual budget bill, for assessing the medium-term budgetary plan, and for long-term sustainability analysis.\textsuperscript{38} IFIs should be equipped to estimate the budgetary cost and economic effects of policy measures and reforms proposed by the government. Given the significant resources needed for a comprehensive costing of all proposals, at present only a few IFIs are responsible for this task.\textsuperscript{39}

However, there are alternatives, as a minimum standard, to undertaking such a fully-fledged policy costing. One is to legally oblige the government to undertake the costing, subject to monitoring and endorsement by the IFI. Another approach is for the IFI to estimate the cost of only fiscal reforms and major policy measures that entail a significant expenditure level or tax revenue loss – in excess of a threshold.\textsuperscript{40} Both forecasts and costings should be supplemented with quantitative risk assessments.\textsuperscript{41} All told, the forward-looking nature of risk-adjusted forecasts and costings help the IFI to ascertain the likelihood that a given member state is likely to comply with numerical fiscal rules without the necessity of a correction, and concomitantly, to estimate the extent of a necessary correction.

To fulfill the remit of evaluating fiscal policy, including estimation and forecasts of its effects, IFIs must have \textit{unlimited access to financial information} from all public sector entities. Access to data must be timely and, in high-frequency format, usable for analytical and computational purposes. Equally, access to methodology and assumptions underlying the government’s budget plan and policy proposals is indispensable. This is a legal requirement in many member states. Yet it is often neglected, whereby the IFI is compelled to report publicly the deficiencies to the competent authorities.\textsuperscript{42} In some member states, the IFI has negotiated memoranda of

\textsuperscript{38} Notably, these functions are envisaged for EU IFIs by the Commission as part of the new EU economic governance: “Independent fiscal institutions would play an important role in each Member State in assessing the assumptions underlying the [medium-term structural-fiscal] plan, providing an assessment on the adequacy of the plans with respect to debt sustainability and country-specific medium-term goals, and monitoring compliance with the plan.” See European Commission (2022b).

\textsuperscript{39} The Netherlands and the United Kingdom are among the few IFIs that have been in charge of preparing the government’s official forecast.

\textsuperscript{40} In the UK, the Treasury must score the effects of all proposals, which, if deemed unsatisfactory, upon review by the IFI, is returned for further correction or amendment. In Canada, only large expenditure or tax reduction proposals are scored by the IFI.

\textsuperscript{41} On the methods of assessing fiscal risks in OECD countries, see Kopits (2014).

\textsuperscript{42} For example, in Portugal the IFI has faced obstacles in obtaining timely data from the social security administration.
understanding with various government agencies (for example, the social security agency) in order to secure the uninterrupted flow of requested information. The only possible limitation pertains to information on national defense whose availability may be restricted or subject to certain conditions on national security grounds.

_Transparency_ is an overarching goal of any IFI in two respects. First, the IFI seeks to shed light on the condition of public finances at present as well as the future outlook.\(^{43}\) To this end, reports must provide a clear and accurate assessment of the government’s medium-term stability or convergence program, the annual budget bill, and the long-term debt sustainability analysis, as well as the likelihood of meeting the numerical fiscal rules without a policy adjustment. Second, the IFI must communicate its macro-fiscal diagnosis through effective periodic reports to the legislature, including through hearings at the appropriate legislative committee(s), as well as through contacts with the public at large or by means of press conferences, interviews, or other outreach to the media. The government must refrain from imposing any restriction on such outreach.

The above standards have common features with the list of characteristics set out in the two-pack reform, as well as the list of standards recommended by the Network of EU IFIs. However, two tasks proposed by the Commission seem questionable on various grounds and are absent herein. One is the requirement to monitoring compliance with the Union fiscal framework, which may be seen by the public as a policing role imposed by the EU authorities, thus weakening national ownership of the IFI, in contradiction to a key objective of the new framework. There are two risks. First, assessments of compliance with the rules by the IFI and by the Commission can diverge, as the latter overrules the former undermining the IFI’s reputation.\(^{44}\) Second, there is already an independent entity assessing the implementation of the EU fiscal rules, namely, the EFB. Adding a new assessor can give rise to consistency or redundancy issues.

The other task is implementation of the comply-or-explain principle. Laudable as it seems, adoption of this principle assumes that elected government officials can be automatically compelled to acknowledge, recognize, and accept the IFI’s opinion. In practical terms, such an obligation would need to be incorporated in the national fiscal framework – as done in relatively few member states – ratified in the national legislation, and if necessary, enforced by the courts. Otherwise, it is the prerogative of an elected government to ignore the opinions of the IFI, at most incurring a reputational cost and a possible reprimand from the Commission. But in addition, the principle is unnecessary insofar as the press – being the best friend of the IFI – is likely to demand an explanation for noncompliance from the government.

\(^{43}\) In some countries, notably Sweden, the transparency criterion is fulfilled by independent national audit authority, rather than by the IFI – as indicated in the previous section.

\(^{44}\) See European Court of Auditors (2019), including the case of Ireland in 2016.
In all, although in principle the above minimum standards should be applicable and enforceable at a practical level, they are in fact rather difficult to do so at present on several counts. For one, the IFI may face a statutory impediment for compliance that could be removed only through domestic legislative action. More generally, it is necessary to establish an appropriate mechanism of implementation. Such a mechanism would involve either peer review and enforcement by other EU IFIs, or alternatively, monitoring by the EFB and enforcement by the Commission. The following section discusses two options for consideration in the context of the new fiscal governance.

V. Options for the future

As flagged in the previous sections, there is significant scope for strengthening EU IFIs with the support of the EFB and the Commission. In fact, some IFIs seem to fall short of their potential in independence and effectiveness in promoting transparency of government finances in a forward-looking manner. The key to correcting such deficiencies lies not only in declaring the need for minimum standards, but also in implementing them. As for the EFB and the Commission, they would benefit from a clearer definition of their respective roles, particularly in supporting the mandate of the IFIs in each member state to monitor compliance with minimum standards, as well as with national fiscal rules. 45 While fully respecting the independence of the EFB, as prescribed by EU law, it behooves the Commission to consider the EFB’s evaluation of EU IFIs, as part of their national fiscal frameworks, in the oversight of the agreed fiscal trajectory to the target debt ratio. Pursuant to this objective, two alternative options are offered of which either one, or some combination thereof, would be consistent with the reform of the EU economic governance framework under consideration by the Council and the Commission. 46

Under the bottom-up option, the Network of EU IFIs would assume the role of setting, monitoring and enforcing minimum standards of good practice. The Network would be a self-governing entity, to be joined by any EU IFI on a voluntary basis. The Network, with technical support from an enlarged permanent staff (financed by the membership), would exercise peer review, that is, jointly evaluate and score each other’s compliance with the minimum standards

45 An important precondition for effective assessment of compliance, the numerical fiscal rules must be simplified, as argued by Kopits (2018) and Marinheiro (2021). The latter recommends a simplified approach – amenable for surveillance by IFIs – in calculating the net primary expenditures intended to serve as the single operational indicator for the national medium-term fiscal-structural plans designed by member states.

46 Following a discussion of the orientations for the reform, the European Council (2023) concluded: “The current role of national 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. A stronger role for the European Fiscal Board in the economic governance framework should be explored.”
and make the results public. The EFB, in turn, would incorporate such evaluation in country reviews published in the annual reports. The Commission, in its dialogue with member states on the observance of fiscal rules, would take into account the assessments by the IFIs and evaluation by the EFB in compelling the competent authorities to correct any deficiencies in minimum standards. If warranted, it could recommend commensurate sanctions for decision by the Council.

In the top-down option, the central role in evaluating compliance with minimum standards would be assigned by EU regulation to the EFB which could act, much like the European Banking Authority (EBA). The EFB, recycled as an EU agency, would continue to be funded by the Commission, but with enhanced independence and decision-making authority chaired by a head elected by the membership. Thus, it would resemble the self-regulatory status of the EBA though without replicating its functions. 47 Besides retaining its present activities, the EFB, with an enlarged secretariat, would be entrusted to monitor well-defined minimum standards by each EU IFI and to disclose its findings. As in the bottom-up option, the Commission would be responsible, following appropriate procedures, for enforcement of minimum standards. In addition, under this option, the European Parliament, the Council and the Commission would expand the coverage of the two-pack regulation to the entire EU membership, beyond the euro area, and to broaden the terms of reference and resources of the EFB, as noted.

A critical aspect of both options is the creation of a mechanism for implementing minimum standards by all EU IFIs, whether in the form of the self-governing Network or in the form of a closer cooperative arrangement with a reformed EFB. Both options would strengthen the effectiveness of IFIs vis-à-vis their respective governments. In the bottom-up option, ownership by member states and by the public at large would be stronger. In the event, the IFI’s assessment of the government’s fiscal policy is likely to command greater credibility. By comparison, the top-down option would presumably strengthen the authority of the EFB, and thereby, the hand of the Commission in pursuit of a more robust fiscal framework, albeit at the risk of potential cost in terms of collateral damage to local perceptions about the independence of the IFI. The tradeoff could be satisfied with adoption of some combination of the two options under the new EU fiscal governance.

In the orientations for reform, the Council seems to favor the status quo as regards the role of IFIs and calls for merely exploring minimum standards, thereby leaning a bit closer to the bottom-up option. The Commission, on the other hand, proposes enhancing national ownership and strengthening the role of IFIs, through the adoption of prescribed specific tasks. Thus, the Commission’s proposal straddles the two options, combining elements of both, yet without really solving the potential tradeoff between them. However, neither the Council nor the Commission

47 The EBA, encompassing all EU national banking supervision agencies, was established to foster a level-playing-field in sound banking practices and to avert systemic risk and unfair competition among commercial banks operating across the EU – through regulation and supervision.
moves beyond exploring a stronger role for the EFB. In all, apparently, both options and any variants involving the roles of the EFB and the EU IFIs seem still open in the ongoing debate over a range of issues in the design and operation of the new EU fiscal framework.

VI. Concluding remarks

A review of the experience of the role of EU institutions as well as of the performance of EU IFIs over the past decade suggests that significant progress has been achieved toward transparency in public finances, overall fiscal discipline, and compliance with national and EU fiscal rules in member states. Yet prevailing differences in statutory basis, structure, and functions among EU IFIs has rendered completion of these goals somewhat uneven across member states.

As an upshot, there remains considerable scope for further improvement by strengthening the mandate and capacity of EU IFIs in real-time monitoring of fiscal policymaking in member states. Concomitantly, it is widely recognized that a vital ingredient is the introduction of minimum standards of good practice. These standards encompass five areas: effective independence, resource adequacy, forecasting and policy costing, access to information, and transparency. In their practical application, as outlined above, these minimum standards need to be subject to an appropriate enforcement mechanism.

In the context of the new EU fiscal governance, two options are offered for this purpose, involving closer cooperation among EU IFIs, in tandem with the EFB and the Commission. The bottom-up option stresses the voluntary participation of EU IFIs; the top-down option calls for a leading role for the EFB and the Commission. Selection of either option or some combination of both involves a challenging task ahead. In some member states, adoption of minimum standards may require legislative action to revise the mandate and structure of the IFI, along with an expanded endowment in human and material resources to meet those standards. As for the EU IFIs, the reform – especially under the top-down option – should require preparation or endorsement of costing the effects of major policy changes, besides preparation or endorsement of both macroeconomic and fiscal forecasts, in order to anticipate likely deviations from observance of national fiscal rules – functions included under the suggested minimum standards – as well as expansion of the two-pack regulation to IFIs in non-euro member states.

Lastly, a word of caution: the Commission may want to avoid overruling an unfavorable EU IFI assessment of the member government’s forecasts or its policy costings – unless unequivocally warranted by proven methodological or factual errors. Failure to accept the IFI’s assessment could establish an undesirable precedent and create moral hazard on the part of some member governments. Moreover, regardless of the option adopted under the new EU fiscal governance, any cooperation between the EU institutions and an IFI should be transparent and conducted at
arm’s-length. Any overreach by EU authorities could weaken the credibility of the EU and the IFIs, undermining local ownership of the national fiscal framework as a whole.

Overall, both the Council and the Commission have made some progress toward strengthening the role of EU IFIs, including the introduction of minimum standards of good practice, in the proposals for reform of the EU fiscal framework. Nevertheless, there is still significant work ahead, particularly in defining the future design and functions of the EFB, drawing on lessons from the experience accumulated over the years.

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