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Fiscal councils in European Union

A short retrospective review and current challenges in terms of functionality and effectiveness

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A short retrospective review and current challenges in terms of functionality and effectiveness

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Abstract The EU countries have set up independent fiscal institutions (IFIs), mainly following the global financial crisis of 2008-2009, with a mandate to objectively assess the fiscal policy and its performance. The paper focuses on reviewing the activity of EU IFIs, trying to highlight their typology, minimum operating standards, channels of influence, effectiveness assessments, and their current mission in the 2020 context of the COVID-19 pandemic. Given the differences in the mandates with which IFIs are invested between the EU countries, the European Commission has recommended a set of common principles, among these, sufficient human and financial resources, a high degree of flexibility in the resources allocation, the access to relevant information, the Comply or Explain procedure, the protection against political interferences. Formally, IFIs do not have the power to intervene on fiscal and budgetary policies, but they have a “soft” power of influence, exercised by increasing public attention to these policies, based on two pillars: credibility and communication. From this point of view, IFIs can be considered as an “accountability-multiplier”. There is a consensus that one of the best practices of IFIs in the EU is to conclude MoUs with the budgetary authorities, as the main tool for operating according to the minimum standards. In the context of the current fight to mitigate the economic and social impact of the SARS-CoV-2 virus pandemic, the European Commission has, for the first time, activated the general escape clause of the SGP, enabling the national governments to take measures to support the economy in order to cope with the crisis. Under these conditions, the IFIs' mission is drastically reduced, at least during the period of activation of the clause, but they must continue to be active in the economic arena. In the exceptional circumstances of this situation it must bear in mind that, once the health crisis will be enough controlled to allow the normal resumption of economic activities, the need to monitor and apply the fiscal principles will return in force.

Key words: fiscal responsibility, IFIs mandate, fiscal rules, MoU, COVID-19 pandemic

JEL codes: G28, H30, H60, H87, O23

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1. Introduction

Following the global financial crisis of 2008-2009, many European countries have set up independent fiscal institutions (IFIs), also known as fiscal councils. IFIs are independent, watchdog-type public institutions with a mandate to assess objectively and, in some cases, provide non-partisan advice on fiscal policy and its performance. They are composed of specialists in the field, usually from academia and experts from financial and banking institutions. IFIs serve - often in combination with credible fiscal rules - to promote sound fiscal policies and sustainable public finances.

The first IFIs date back to 1936 in Belgium, and later similar institutions were established in the Netherlands (1945), Denmark (1962), Austria (1970) and the United States (1974). Based on the experience of these first IFIs, during the 1990s both economists and academia increasingly emphasized the idea that good practices developed by independent central banks should be extended to the fiscal-budgetary field.

Following the global financial crisis of 2008-2009, the number of such institutions almost tripled (from 10 at the end of 2006 to 37 at the end of 2015), the largest increase being recorded in the European Union (EU). By 2019, all EU member states had established independent fiscal institutions. This is due to the fiscal and budgetary reforms taking place within the EU after the crisis. The idea of setting up independent fiscal institutions is older, being supported by International Monetary Fund[1] and OECD staff members through its Economic Survey publications. Academic literature has addressed the need for such institutions since the mid-1990s. Thus we mention von Hagen and Harden (1994)[2], Blinder (1997)[3], Wyplosz (2002, 2005)[4], Calmfors (2003, 2005)[5], Wren-Lewis (1996, 2003)[6].

In combination with fiscal-budgetary rules (limiting budget deficits and public debt), these new institutions were designed to strengthen budgetary discipline. Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States introduced for the first time the need for independent fiscal institutions to be involved in the budgetary process. According to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (2013), euro area Member States must have an

[1] Annett, A., Decressin, J. and M. Deppler (2005), *Reforming the Stability and Growth Pact*, IMF Policy Discussion Paper, 05/2, Washington, D.C.; Kumar, M. S. and T. Ter-MKinassian (2007), *Promoting Fiscal Discipline*, IMF, Washington, D.C.

[2] von Hagen, J. and I.H. Harden (1994). *Budget Processes and Commitments to Fiscal Discipline*, European Economy Reports and Studies 3.

[3] Blinder, A. (1997). *Is Government too Political?*, Foreign Affairs 76, pp. 115-126.

[4] Wyplosz, C. (2002). *Fiscal Policy: Institutions vs Rules*, în: Stabiliseringspolitik i valutaunionen, SOU 2002:16 Underlagsrapporter, Fritzes, Stockholm; Wyplosz, C.(2005). *Fiscal Policy: Institutions versus Rules*, National Institute Economic Review 191.

[5] Calmfors, L (2003). *Fiscal Policy to Stabilize the Domestic Economy in the EMU*, CESifo Economic Studies, 49, 319-53; Calmfors, L. (2005). *What Remains of the Stability Pact and What Next?*, Swedish Institute for European Policy Studies, 8.

[6] Wren-Lewis, S. (1996). *Avoiding Fiscal Fudge*, New Economy, 3, pp. 128-132; Wren-Lewis, S. (2003). *The Compatibility between Monetary and Fiscal Policies in EMU: A Perspective from the Fiscal Theory of the Price Level*, în: Monetary and Fiscal Policies in EMU: Interactions And Coordination, Buti, M. (ed), Cambridge University Press.

independent institution to monitor compliance with fiscal rules at the national level and also to validate and/or provide macroeconomic projections.

Following the Five Presidents' Report - entitled "Completing Europe's Economic and Monetary Union", the European Fiscal Board was established in October 2015, a supranational entity that would fulfill the role of an IFI at EU level. Its main responsibilities are: to assess the implementation of the Union's budgetary framework and the adequacy of budgetary guidelines in the euro area and at European level; to make suggestions for the future evolution of the Union's budgetary framework; to assess the prospective budgetary orientation for the euro area as a whole, on the basis of economic reasoning, as well as the appropriate national budgetary guidelines, in accordance with the rules set out in the Stability and Growth Pact; to cooperate with national IFIs; to provide ad-hoc advice to the President of the Commission[7].

In 2010, one of the first independent fiscal institutions after the crisis was established in Romania (in 2007 in Sweden and in the same year in the United Kingdom) - the Romanian Fiscal Council, which was set to oversee the proper functioning of public finances. It operates according to the provisions of the Fiscal Responsibility Law no. 69/2010 which entered into force on April 23, 2010.

2. Mission and functions of IFIs in the EU. Legal requirements and correction mechanisms

Discretionary fiscal policies suffer from two major shortcomings, which are interdependent: a propensity for growing budget deficits and pro-cyclicality. The budget deficit involves higher public expenditures than revenues, and pro-cyclicality involves fiscal policy actions that amplify the phases of the business cycle (e.g. tax reductions during boom phases or tax increases during recessions).

In order to keep these shortcomings under control, a series of fiscal rules have been introduced, mostly numerical. Thus, the two nominal convergence criteria are implemented across the EU: limiting the budget deficit to 3% of GDP and the public debt to 60% of GDP. These constitute a prevention mechanism to ensure the soundness of public finances. They are set out in the EU's Stability and Growth Pact (SGP) which denotes a set of rules governing the coordination of fiscal policies in EU countries.

In April each year, euro area countries submit stability programs to the Commission and the Council, while non-euro area countries submit convergence programs to the same institutions. These include the country's medium-term budgetary objective (MTO), as well as information on how it will be achieved, and an analysis of the effects that changes in the main economic assumptions underlying the program could have on the country's fiscal position. The Commission examines these programs and, if the criteria are not met, the Council will initiate an Excessive Deficit Procedure (EDP) on the basis of the Commission's recommendations. The latter mechanism requires the country to present a plan with the

[7] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb_en

corrective measures and policies it will apply, as well as the deadlines for their implementation, and it is possible to impose fines on euro area countries that do not comply with the recommendations[8].

But these fiscal rules alone cannot prove effective in the absence of independent institutions that enhance their visibility and increase control over them. Deviations from optimal fiscal policies are due to a number of phenomena such as the fiscal illusion, the time inconsistency of fiscal policies, as well as the inclination of some governments to strategically reduce the fiscal space of following governments[9].

Through continuous monitoring by these independent institutions, the level of transparency and accountability in the budgetary process increases. At the same time, the information asymmetry is diminishing and the quality of the debates on fiscal policy is increasing. Through independent analysis, evaluation and forecasting, such entities can raise public awareness concerning the consequences of certain fiscal policy pathways, contributing to a culture of stability. Therefore, a fiscal council can increase the electoral and reputational costs of non-compliant policies and breached commitments. Last but not least, an IFI can make direct contributions to the budgetary process - e.g. forecasts or assessments of structural positions, technically assisting governments in avoiding non-compliance with fiscal rules. They can identify sensitive fiscal policy options and even make recommendations. The activity of IFIs is all the more effective if there is good collaboration and openness between them and government authorities[10].

A 2017 analysis of the International Monetary Fund[11] shows that only in the case of states that have fiscal rules, accompanied by the existence of independent arrangements to monitor compliance with them, are recorded lower public debt costs, this result being found even in countries with a "mixed" record in terms of fiscal responsibility. Also, Debrun and Kinda, in an empirical study from 2014[12], showed that the activity of IFIs is correlated with budget executions complying with fiscal rules and better accuracy forecasts, if these institutions have the following characteristics: they are independent from a political standpoint; they are present and vocal in the public space (especially through the media); they have a mandate to monitor the numerical targets of budget execution (especially the budget deficit); they make fiscal-budgetary forecasts and/or critically analyze those performed by the government.

The mandates with which IFIs are invested at EU level differ from country to country, but common responsibilities can be identified for making/approving/analyzing macroeconomic and budgetary forecasts, as well as monitoring compliance with established fiscal rules. In Romania, the Fiscal Council fulfills attributions such as: evaluates the macroeconomic projections taken into account when substantiating the revenue forecast of the general consolidated budget, estimates the impact of measures likely to influence the budget balance, analyzes the budget execution and the extent to which it corresponds to the proposed targets,

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[8] https://eur-lex.europa.eu/summary/glossary/excessive_deficit_procedure.html?locale=ro

[9] László Jankovics and Monika Sherwood (2017). *Independent Fiscal Institutions in the EU Member States: The Early Years*, European Economy Discussion Papers, European Commission.

[10] IMF (2013). *The Functions and Impact of Fiscal Councils*, p. 7.

[11] IMF (2017). *A Greater Role for Fiscal Policy*, în: Fiscal Monitor April 2017.

[12] Debrun and Kinda (2014). *Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise — A New Dataset*, IMF Working Paper, No 14/58.

monitors compliance with fiscal rules, issues recommendations on current and future fiscal policy.

In what concerns the independent macroeconomic forecasts for the preparation of the 2019 draft budget[13], the involvement of IFIs in euro area countries was as follows: in 6 countries it was carried out by IFIs (Belgium, Netherlands, Luxembourg, Austria, Slovenia and Finland), in 12 countries it was approved by IFIs (Germany, Estonia, Ireland, Greece, Spain, France, Cyprus, Latvia, Lithuania, Malta, Portugal and Slovakia), out of which in 6 countries it received critical comments (Estonia, Greece, France, Portugal and Slovakia), Italy approving only the macroeconomic forecast of the final form of the state budget. In what concerns the convergence programs for non-euro countries, they were not based entirely on IFIs' macroeconomic and budgetary forecasts in any of the Member States.

3. Typology and structural characteristics

IFIs can be divided into three basic institutional models[14]:

Model 1. Independent institutions, which are closest to the model suggested in academic literature. They are not related to the political factor in terms of appointment and accountability mechanisms. These institutions operate on the basis of Fiscal Responsibility Laws which guarantee their independence. We find this institutional model in Romania, Bulgaria, Cyprus, Germany, Greece, Hungary, Ireland, Malta, Portugal, Slovakia, Sweden.

Model 2. IFIs that are formally under the executive or legislative leadership of the political system, with a well-defined mandate and strict guarantees of independence from the parliamentary bodies of which they are an integral part (known as Parliamentary Budget Offices) or within a ministry. The latter have operational independence as a result of the reputation gained from their non-partisan role in the budgetary process and public debate. We find this institutional model in EU countries such as Belgium, Croatia, Denmark, the Netherlands, Slovenia. Parliamentary budget offices can be found in Austria, Croatia, Greece, Ireland, Italy.

Model 3. IFIs associated with other independent institutions such as central banks (Austria - Fiscal Advisory Council - FISK, Estonia) and audit institutions (Finland, France, Lithuania). This approach allows IFIs to benefit from the independence of the host institution and from the economies of scale involved by integrating its activities under the umbrella of a single institution, but requires clear procedures to avoid confusion about the mandates and functions of the host institution and of the IFIs.

Countries such as Austria (models 2 and 3), Finland (models 2 and 3), Greece (models 1 and 2), Ireland (models 1 and 2) have two entities acting as IFIs.

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[13] European Parliament, *Economic Governance Support Unit, The role of national fiscal bodies - State of play*, April 2019.
[14] IMF (2013). *The Functions and Impact of Fiscal Councils*, p. 10.

As it can be observed (**Figure no. 1**), EU IFIs are heterogeneous in terms of their characteristics. Firstly, there are large differences concerning the terms of office, which may be limited to a number of years or involve permanent employees (Independent Monitoring and Evaluation of Fiscal Policy Function - National Audit Office of Finland). The shortest term of office is 3 years in Sweden and the longest in Romania, of 9 years. With regard to the renewal of mandates, they may be unlimited (Austria, Belgium, Croatia, Denmark, Estonia, Finland, Germany, Hungary, Ireland - Oireachtas Parliamentary Budget Office, Luxembourg), renewed only once (Czech Republic, Cyprus, France, Greece - Parliamentary Budget Office, Ireland - Irish Fiscal Advisory Council, Latvia, Lithuania, Netherlands, Malta, Portugal, Slovenia, Sweden, United Kingdom) or cannot be renewed (Romania, Greece - Hellenic Fiscal Council, Italy, Slovakia, Spain).

The size of the board and of the technical staff also differs. Thus, there are fiscal councils that have only technical staff (Austria - Parliamentary Budget Office, Independent Monitoring and Evaluation of Fiscal Policy Function - National Audit Office, Ireland - Oireachtas Parliamentary Budget Office, Lithuania, Netherlands, Spain), while the largest number of board members is 24 in Belgium, and the lowest is 2 in Hungary and the United Kingdom. There are also major differences in the mechanism for appointing board members: who appoints and where the members come from.

The Romanian Fiscal Council is an independent institution, established by the Fiscal Responsibility Law no. 69/2010 which is composed of 5 members with experience in the field of macroeconomic and budgetary policies, subject to strict eligibility criteria. The members of the Fiscal Council are appointed by decision of the Parliament for a period of 9 years, at the proposal of the Romanian Academy, the National Bank of Romania, the Bucharest University of Economic Studies, the Romanian Banking Institute and the Romanian Association of Banks, which each nominate one person.

On September 11, 2015, at the third informal meeting of EU IFIs held in Bratislava (Slovakia), the EU Independent Fiscal Institutions Network (EU IFIs) was established. The network is a voluntary and inclusive institution, open to all independent fiscal supervisory entities operating in the EU. It provides a platform for exchanging views, expertise and resources in areas of common interest. The agreement has already been signed by 30 IFIs from 26 European countries, the list being: Austria, Bulgaria, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

Figure no. 1. IFIs in the EU

Country	Name of the IFI	Year of establishment	Term of office (years)	Renewal of mandate	Personnel	
					Board	Technical staff
Austria	Fiscal Advisory Council (FISK)	1970	6	Unlimited	15	6
	Parliamentary Budget Office (PBO)	2012	5	Unlimited		8
Belgium	High Council of Finance (HRF/CSF)3	1936	5	Unlimited	24	15
Bulgaria	Fiscal Council	2015	6	n/a	5	n/a
Czech Republic	Czech Fiscal Council (CFC)	2018	6	Once	3	8
Cyprus	Fiscal Council of Cyprus	2014	6	Once	3	3-6
Croatia	Fiscal Policy Committee	2013	5	Unlimited	7	n/a
Denmark	Danish Economic Council	1962	Up to 6	Unlimited	21	30
Estonia	Fiscal Council of Estonia	2014	5	Unlimited	5	1,5
Finland	National Audit Office of Finland	2013	Permanent employees	n/a		4
	Finnish Economic Policy Council (EPC)	2014	5	Unlimited	5	2
France	High Council of Public Finance (HCFP)	2013	5	Once	11	2,5
Germany	Independent Advisory Board to the Stability Council	2013	5	Unlimited	8	1
Greece	Hellenic Fiscal Council	2015	5	Cannot be renewed	4	13
	Parliamentary Budget Office	2011	5	Once	5	11
Hungary	Fiscal Council (established 2011)5	2011	6	Unlimited	2	3
Ireland	Irish Fiscal Advisory Council (IFAC)	2011	4	Once	5	6
	Oireachtas Parliamentary Budget Office (PBO)	2017	5	Unlimited		12
Italy	Parliamentary Budget Office (PBO)	2014	6	Cannot be renewed	3	24
Latvia	Fiscal Discipline Council	2014	6	Once	6	4
Lithuania	Budget Policy Monitoring Department – National Audit Office of Lithuania (BPMD)	2015	5	Once		7
Luxembourg	National Council of Public Finances (CNFP)	2014	4	Unlimited	7	2
Netherlands	Netherlands Bureau for Economic Policy Analysis (CPB)	1945	7	Once		117
Malta	Fiscal Advisory Council	2014	4	Once	3	4
Portugal	Portuguese Public Finance Council (CFP)	2012	7	Once	5	18
Romania	**Romanian Fiscal Council**	**2010**	**9**	**Cannot be renewed**	**5**	**10(6)**
Slovakia	Council for Budget Responsibility (CBR)	2012	7	Cannot be renewed	3	15-20
Slovenia	Slovenian Fiscal Council	2017	5	Once	3	4
Spain	Independent Authority of Fiscal Responsibility	2014	6	Cannot be renewed		35
Sweden	Swedish Fiscal Policy Council (FPC)	2007	3	Once	6	5
United Kingdom	Office for Budget Responsibility (OBR)	2010	5	Once	2	22
EU	European Fiscal Board (EFB)	2016	3	Once	4	7

Source: OECD, *Independent Fiscal Institutions Database*, 2019

4. Minimum operating standards

While the constituent format of IFIs has been left to the discretion of the states (taking into account the specific circumstances of their establishment, the specific administrative structure and the particularities of the internal institutional environment, at EU level, and in particular, of the euro area countries which signed the TSCG - Fiscal Compact - applied since 2013), the European Commission has established a set of common principles for monitoring budget projections, mechanisms for correcting deviations from the MTO and/or excessive deficits, strengthening economic and budgetary surveillance for the purpose of maintaining financial stability, including on the role and independence of IFIs, as institutions responsible at national level for monitoring compliance with these principles and rules[15].

The EU IFIs, based on the experience of its members (fiscal councils and institutions with similar responsibilities in the EU) and on some inaccuracies in the legal framework for the functioning of these institutions at national level, has redefined and adapted these principles to the specifics of their responsibilities, promoting them as minimum operating standards[16], recommended to be implemented in all EU countries[17]. They are briefly presented below.

First of all, IFIs must have **sufficient and stable human and financial resources** to ensure full functional autonomy in fulfilling their mandate. It was found that, in general, the resources of IFIs in the EU are lower than those of similar institutions in non-EU countries. The immunization of IFIs' budgets against possible discretionary interventions/reductions by decision-makers can be done through multi-annual budgeting. When establishing the budgets of IFIs, the standards corresponding to the status of independent institutions must be taken into account, similar to the case of central banks. It is important for the management of IFIs to have a **high degree of flexibility in allocating resources** within the envelope of their own budgets, as well as total autonomy in hiring and/or firing technical staff, provided there is an attractive and competitive salary package which gives the necessary attributes of competence and stability.

The access to relevant information, in real time and unrestricted, is an essential principle and a prerequisite for ensuring the functionality of IFIs. This information, provided by government fiscal authorities, in addition to the numerical details strictly concerning the configuration of the fiscal-budgetary projection, must include the methodologies and assumptions considered in the macroeconomic projection and budgetary planning, with the possibility for IFIs to request additional information from ministries of finance or directly from other providers, as well as their obligation to make them available in a timely manner. The transmission of data and information by government tax authorities before they become public may prove useful, while ensuring their confidentiality. It is essential that the degree of accessibility to information related to the field of activity of IFIs is similar to that granted to other national

[15] European Commission (2012). *Common principles on national fiscal correction mechanisms*, COM (2012) 342 final, Brussels, June 20.
[16] See: *Defining and Enforcing Minimum Standards for Independent Fiscal Institutions*, EU IFIs Network, February 2016.
[17] It should be noted that in 2014, the OECD Council recommended IFIs in the Member States to follow a series of principles, similar to those established at EU level (Von Trapp L., Nicol S. *Designing Effective Independent Fiscal Institutions*, OECD, Paris, 2008, p. 20-22).

public authorities (Parliament, Constitutional Court, Court of Accounts, etc.). Also, the participation of IFIs in government committees/commissions on statistical issues involving fiscal data and/or budgetary procedures may be appropriate.

Implementation of the principle/procedures "Comply or Explain" according to which the fiscal policy authorities have the obligation to respond publicly, within a set timeframe, to the opinions/recommendations formulated by the IFIs. Given that the IFIs' mandate covers a wide area of responsibilities, it is recommended to create the appropriate legal framework for this requirement, with clear deadlines for fiscal authorities, as well as the obligation to justify and substantiate the informational content of responses, both in the case of the opinions, as well as of the IFIs' recommendations, the latter having to be supplemented with the implementation schedule of the compliance actions. In this respect, the importance of organizing bilateral technical meetings that would contribute to clarifying/reconciling differences of opinions cannot be omitted.

Protection against political pressure/interference is crucial to ensuring the functionality of IFIs. The selection and appointment of members needs to be made on the basis of professional experience and competence, in compliance with strict rules on conflict of interests, and the mandate should be set independently of electoral cycles, and may include parliamentary public hearings.

In addition to opinions and recommendations on fiscal-budgetary projections, IFIs have the opportunity to prepare reports and analyzes on their own initiative, in line with the mandate. Depending on the institutional framework for each country, it is considered that the most appropriate protection against possible political pressures can be ensured by IFIs' accountability exclusively to Parliament. Another line of defense, complementary to it, is the **international monitoring** at the EU level, which involves the creation of tools to coordinate the practices of IFIs, an idea under debate in the European Commission.

In 2019, in order to implement these principles and standards, aiming to ensure the increase in the operational capacity of IFIs, a proposal to incorporate them into European legislation was made or, if this cannot be done within a reasonable timeframe, to introduce them in a **Code of Conduct** voluntary signed by all EU Member States, accompanied by a recurrent monitoring procedure by the European Commission, complemented by an appropriate evaluation mechanism[18].

5. Channels of influence and evaluations of the effectiveness of IFIs

In general, although there are difficulties in quantitatively assessing the impact of IFIs on fiscal-budgetary outcomes, they are considered to have a positive influence in the context of budgetary processes and an accountable public finance management.

Formally, IFIs do not have the power to intervene on fiscal-budgetary policies, but they have a "soft" power of influence, exercised by increasing public awareness on these policies,

[18] See: *Network Statement on the Need to Reinforce and Protect EU IFIs*, EU IFIs Network, January 2019.

especially in the case of significant slippages from fiscal discipline and responsibility. The soft power of IFIs is based on two pillars: credibility and communication.

Credibility is gained over time and depends on the recognized expertise of members, the quality of analysis, the substantiation of opinions and recommendations, independence from the government, political neutrality. However, a high degree of credibility does not matter too much if it is not accompanied by an **effective and consistent communication**, capable of leading to increased fiscal transparency or higher political costs for governments that ignore IFIs' recommendations[19].

The communication channels are multiple, respectively through the publication of opinions and reports, organization/participation in public debates, seminars and conferences, parliamentary hearings, interaction with the press and media channels.

By publicly providing objective information on the state of public finances, the impact of current and projected fiscal-budgetary policies, or signaling the deviations from previous commitments and/or breaches of fiscal discipline rules, including from the perspective of potential irreconcilabilities regarding intergenerational equity, IFIs can contribute to clarifying the political scene and electoral options by correctly informing citizens.

Thus, voters can knowingly sanction macroeconomic and fiscal-fiscal policy errors, the unfulfillable electoral promises and/or medium and long-term adverse costs, rewarding on the other hand sustainable policies and rational political actors, while market participants can benefit from a clearer perspective on the functionality of power balances, the soundness of public finance management and the quality of central and local government institutions[20].

A European Commission study classifies the types of impact according to the influence of the opinions and recommendations formulated by IFIs transmitted on three channels[21]. Thus, first of all, the IFIs work developed according to their mandate have a **direct impact** on the government fiscal authorities, which must adjust their strategy and budget construction in relation to the opinions and recommendations received. Second, a high degree of credibility of IFIs, can stimulate the government to follow a precautionary approach in conducting fiscal policy, due to the fear of being exposed to possible justified public criticism, which represents an **implicit impact**. Third, the opinions and recommendations of IFIs are likely to increase the scrutiny of the institutions involved in the control of budgetary processes (Parliament, EU authorities, etc.), which, although is potential, is defined as an **indirect impact**.

From this point of view, as is revealed in the mentioned study, IFIs can be considered as "**accountability-multiplier**", the messages transmitted having a wide variety of receivers, thus contributing to increase their overall effectiveness, according to their reliability and credibility levels.

Internally, these recipients include the general public, who benefit from additional information, national parliaments, which can use the IFIs deliverables to document their own

[19] Claeys G. (2019). *How visible are independent fiscal institutions in public debate?* BRUEGEL BLOG, Topic: European Macroeconomics & Governance, April 3.

[20] European Commission (2019). *Assessment of EU fiscal rules*, European Fiscal Board, EC, Brussels, August, p. 51.

[21] European Commission (2014). *Report on Public Finance in EMU*, European Economy 9, pp. 56-60.

analyzes, including the annual budget executions, public institutions with responsibilities for monitoring the compliance with legal rules (Constitutional Court, Court of Accounts), which can use information for better substantiation their assessments.

Externally, the European Union institutions use the deliverables of IFIs to document the fiscal monitoring reports, and also the international financial institutions (IMF, World Bank), the rating agencies and/or business associations and foreign investors interested in independent evaluations from a reliable source, in terms of the macroeconomic and fiscal-budgetary developments, the medium and long-term sustainability of public finances, the predictability of fiscal legislation.

According to a recent study published under the auspices of the IMF[22], the results of an econometric analysis on the **effectiveness** of IFIs revealed that the work of independent fiscal councils contributes to mitigating the biased optimism of the budget projection and improving its accuracy. At the same time, the study reveals that complying with the rules is encouraged, due to IFIs influence on the accuracy of budgetary planning. However, the authors draw attention to the fact that, given the still limited experience of IFIs and the difficulties in setting statistical causal relationships, these results should be interpreted with caution. Other studies addressing this issue also show that, for the time being, there is insufficient information, data and evidence to support unequivocal affirmations about the effectiveness of the IFIs[23].

In terms of **effectiveness**, is to be emphasized that, it must be assessed in relation to the ultimate goal of IFIs activity, namely to strengthen the fiscal responsibility of the authorities, as defined by the implemented fiscal rules.

On the opposite, in terms of the **ineffectiveness** of IFIs' activity, this may be determined by the insufficient allocation of financial and human resources in relation to the assigned mandate, regulatory breaches in guaranteeing access to data and information, lack of communication channels and adequate working conditions with the government fiscal authorities, sometimes even conflicting with them, including due to political interference.

Based on the *Fiscal Governance Database*, DG ECFIN started in 2017 to assess the **breadth of IFIs' attributions and tasks** according to their official mandate on **covering the issue of fiscal responsibility**, by calculating the SIFI index (Scope Index of Fiscal Institutions). This index covers 6 dimensions of the IFIs' mandate:

- Monitoring the compliance with fiscal rules
- Macroeconomic/budgetary forecast
- Evaluation of fiscal policy (financial impact - policy costing)
- Analysis of the long-term sustainability of public finances
- Promoting fiscal transparency
- Fiscal policy recommendations

[22] Beetsma R., Debrun X., Fang X., Kim Y., Lledo V., Mbaye S., Zhang X. (2018). *Independent Fiscal Councils: Recent Trends and Performance.* IMF Working Paper, No 17/195, International Monetary Fund.
[23] Beetsma R., Debrun X., Sloof R. (2017). *The Political Economy of Fiscal Transparency and Independent Fiscal Councils*. IMF Working Paper, No 17/195, International Monetary Fund; Jankovics and Sherwood, 2017; Beetsma et al. (2018).

The results of this evaluation for 2018 for the EU-28 states are presented in **Table 1.**

Table 1. SIFI scores for independent fiscal institutions in EU-28 countries in 2018

Country	Score	Country	Score
AUSTRIA	83.57	**IRELAND**	68.21
BULGARIA	55.18	**ITALY**	74.29
BELGIUM	60.00	**LITHUANIA**	55.71
CZECH REP.	51.25	**LUXEMBOURG**	66.96
CYIPRUS	66.79	**LATVIA**	52.50
GERMANY	51.96	**MALTA**	77.14
DENMARK	46.25	**NETHERLANDS**	70.54
ESTONIA	51.43	**PORTUGAL**	66.43
GREECE	48.57	**POLAND**	17.50
SPAIN	68.93	**ROMANIA**	**69.29**
FINLAND	37.50	**SWEDEN**	42.86
FRANCE	46.43	**SLOVENIA**	59.46
CROATIA	25.00	**SLOVAKIA**	44.64
HUNGARY	51.43	**UNITED KINKDOM**	77.14

Source: *Scope Index of Fiscal Institutions 2018 Vintage,* 30 March 2020.

With the specification that these results should not be interpreted as a complete proxy of the IFIs effectiveness[24], over a relatively large range of values, respectively between 17.50 and 83.57, it is found that **Romania is evaluated with a score of 69.29** (on sixth place in the EU-28 ranking) meaning a high extent of coverage of fiscal responsibility tasks assigned by the mandate to the Fiscal Council, which is not surprising considering the particular circumstances of its establishment[25].

6. Good practices: MoU and coordination/cooperation intentions

There is a consensus that one of the best practices of IFIs in the EU is to **conclude Memorandum of Understanding** (MoU) agreements with the fiscal authorities, as the main instrument for operating within the minimum standards described above, for establishing an adequate framework for collaboration, as well as effective mechanisms for interaction with internal partners, facilitating access to information and exchange of views, compliance with Comply or Explain procedures, in the spirit of fiscal responsibility and mutual inter-institutional respect.

[24] Jankovics L., Sherwood M. (2017). *Independent Fiscal Institutions in the EU Member States. The Early Years*. European Economy Discussion Papers 067, DG ECFIN, European Commission, July, p. 15.

[25] The legislation on fiscal-budgetary responsibility (Law no. 69/2010), which specifies the attributions, organization and functioning of the Fiscal Council (Chapter X, Art. 53-Art.61), was one of the conditionalities of the Stand-By agreement concluded in May 2009, through which the IMF provided Romania with a financial assistance package totaling 12.95 billion euro (*Romania: Request for Stand-By Arrangement*—Staff Report; Staff Supplements; and Press Release on the Executive Board Discussion, IMF Country Report No. 09/183, 2009, June, p. 23).

From this point of view, according to a survey conducted in 2016, a number of 12 IFIs reported having signed MoUs, usually with the Ministries of Finance[26].

Some of these (in Bulgaria and Cyprus) covered only the provision of economic and budgetary data, including the management of information requests, others (in Ireland, Italy, the United Kingdom, Portugal and Latvia) included in addition, information exchange arrangements, details of specific working relationships with government agencies, statistical authorities, ministries, research institutes.

However, in many cases (Bulgaria, Cyprus, Germany, etc.), MoUs are not available on the web pages, not even the national language versions, which is likely to reduce their potential contribution to the transparency of IFIs activities.

By scrutinizing the MoUs available on the IFIs sites that make them public (Italy, Portugal, Ireland, Estonia, Latvia) it is noticed that, despite the heterogeneity of their structure, there are some common elements, covering the essential aspects of an adequate collaboration to strengthen fiscal responsibility and respect IFIs' mandate, such as the definition of working procedures and the precise specification of information requirements, timing and communication channels. For example, the **deadline for submitting the draft budget for the opinion of the Fiscal Council is 1-2 weeks before its submission to the Government for approval**, during which the Ministry of Finance responds to the clarifications and/or additional information requested by the IFIs, including by organizing joint meetings, if appropriate.

Another important provision in the MoU for two countries (Ireland and Latvia) that can be a reference example is the **establishment of a reconciliation mechanism** for situations where divergence of opinion arises between the Ministry of Finance and the Fiscal Councils.

It is known that European legislation has established the general framework of IFIs' responsibilities, the most important being monitoring compliance with national rules on taxation and fiscal discipline and/or with those of the Member States of the Euro area, primarily numerical fiscal rules, the verification of the occurrence of the circumstances that can lead to the activation of the correction mechanisms, respectively, conformity of the procedures with the national rules in these cases, the evaluation of the quality of the forecasts that substantiate the fiscal-budgetary projections, etc.[27]

Given the lack of harmonized practices, as noted in a 2018 European Fiscal Board report[28], there are in fact significant differences in the responsibilities and constraints faced by IFIs in critical areas, such as access to information, macroeconomic and budgetary forecasts preparation, timing and coverage of opinions and assessments on the implementation of fiscal rules and associated compliance risks, the existence of structured channels of communication with decision-makers etc., which makes necessary, from the perspective of achieving a high degree of convergence, **to align with EU best practices** and to harmonize the tasks and responsibilities, as well as the operational capacity, which would allow increased efficiency of these institutions.

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[26] Jankovics and Sherwood, cited work, p. 19.

[27] European Commission (2019). *Assessment of EU fiscal rules*, European Fiscal Board, EC, Brussels, August, p. 51.

[28] European Commission (2018). *European Fiscal Board Annual Report*, EFB, Brussels, September, p. 46.

As Xavier Debrun, one of the most renowned analysts in the field of IFIs, points out in addressing the issue of their coordination within the EU, two dimensions would be relevant, namely **vertical,** conditioned by an information system between each national fiscal council and the European Commission, an element already constituted, by the establishment in 2015 of the independent European Fiscal Board, with an advisory role in coordination and surveillance of the economic and budgetary policies of the Member States (EU Decision 1937), as well as **horizontally**, for which the idea of creating a platform for the exchange of opinions, expertise and concerns of common interest materialized through the voluntary establishment in 2015 of the EU IFIs network, to which most fiscal councils in member countries, including Romania, are currently affiliated[29].

However, a common framework of cooperation and coordination capable of articulating, in a consistent and coherent way, all the components of a functional architecture of the IFIs system at EU level still have some important phases to go through, requiring, as a fundamental premise, an agreement of the member states on the harmonization of the regulatory, competence and activities' agendas corresponding to the fiscal councils' mandates, involving however major difficulties in mitigating the asperities of this process in relation to the likely restraints of Member States concerning the adjusting of their national legal framework, which may be a lengthy process.

5. IFIs in the context of the COVID-19 pandemic

In the context of the current fight to mitigate the economic and social impact of the global pandemic caused by the SARS-CoV-2 virus in early 2020, as part of its response strategy[30], the European Commission activated in March this year, for the first time, the general escape clause of the Stability and Growth Pact, enabling the national governments of the Member States to take measures to support the economy in order to adequately cope with the crisis, by temporarily not observing the requirements and rules of the European budgetary framework.

The mission of EU IFIs is drastically reduced in these circumstances, at least during the period of activation of the escape clause, in relation to the mandate to monitor fiscal rules, but they must continue to be active in the economic arena.

Many IFIs in EU countries (France, Italy, Austria, the Netherlands, Portugal, Malta, Slovenia, Croatia, etc.) have stated in the form of statements and/or opinions on the budget revisions that the impact of the pandemic on the economy is particularly severe, the degree of uncertainty of the macroeconomic and budgetary scenarios being at their highest levels and depending, to a decisive extent, on the health crisis duration, on the moment and the degree

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[29] Debrun X. (2019). *Independent Fiscal Institutions in the European Union: Is Coordination Required?* European Fiscal Board Workshop*: Independent fiscal institutions in the EU fiscal framework*, EFB, Brussels, February 28, p. 35.

[30] To mitigate the economic and social effects of the COVID-19 crisis, the European Commission's package of measures and support initiatives amounts to 750 billion euro, to which are added more than 2,200 billion euro at national level (measures to increase the capacity of health sector, state aid schemes for companies, liquidity measures, support for vulnerable people, etc.).

of resumption and recovery of economic activities, as well on the effects of positive contagion, mainly on extra- and intra-EU value added chains.

The position of EU Member States differs in terms of the possibilities and capacity to cover the need to finance anti-crisis measures, most of which have a significant fiscal space through the budgetary consolidation achieved in recent years, stating that in 2019, more than half of these countries had surplus in the budget balances. However, the impact on deteriorating economic and financial situation in EU countries in 2020 as a result of the COVID-19 pandemic impact and its mitigation costs are extremely severe.

According to the European Commission's Spring 2020 forecast, in the context of a 7.4% decline in GDP at EU-27 level, the budget deficit is expected to exceed 8% of GDP, and in the most vulnerable countries (Italy and Spain), reaching even over 10% of GDP[31]. The European Commission's forecast for 2021 is more optimistic, predicting a GDP growth of 6.1%, with budget deficits declining in most Member States (of which, in 15 countries, below the 3% of GDP threshold), while in one country (Romania), the budget deficit is projected to increase, respectively to 11.4% of GDP (from 9.2% in 2020).

Given that the activation of the escape clause is temporary, respecting the condition of not threatening the medium-term fiscal sustainability and stating that during that period the SGP procedures are not suspended, it is expected that, probably in 2021, with the recommencement of economic growth, the clause will cease and the fiscal rules will be enforced again.

In this regard, a position paper of the European Fiscal Board of March 2020[32] states that, in the circumstances of the undisputable positive effects of the flexible interpretation of fiscal rules agreed at EU and Eurozone level and its contribution to mitigating the shock of the pandemic crisis, it is not too early to start thinking in terms of the exceptional nature of this situation and to claim the need to applying the fiscal principles once the health crisis will be sufficiently controlled to allow the normal resumption of the economic activities.

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