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A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?[1]

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Abstract

The *EC communication* on orientations for a reform of the EU economic governance framework asks the European Fiscal Board (EFB) and national independent fiscal institutions (IFIs) to play a more significant role in it. This vision has plenty of merit, but one needs to be careful in how to implement it. Structural reforms and public investment analysis demands an expertise hardly existing at most national IFIs. And involvement in policy design would make its assessment tricky when IFIs are part of the process; an inescapable conflict of interest would ensue. It could also be perceived as a technocratic encroachment on a democratic decision making process. In order to play o more significant role in the EU economic governance framework, national IFIs need more resources according to EU wide acceptable standards of operation, and, first of all, they need to bolster their macroeconomic and debt sustainability analysis capabilities.

[1] This is a revised version of the piece that was posted on the site of the Romanian Fiscal Council in January 2022. The author bears sole responsibility for the views expressed herein, which should not be interpreted necessarily as those of the Romanian Fiscal Council.

Key words: debt sustainability, EU economic governance, fiscal rules, fiscal capacity, IFIs, investment, risk sharing, reforms, transparency

Introduction

For more than a decade, an intense debate has been going among experts and policy-makers on the need to overhaul the economic governance and the fiscal framework of the EU, with the euro area in focus primarily. More then anything else, the financial crisis has made obvious that the EU economic governance is suboptimal, that it is lacking key elements --although, this was, presumably, known from the very start of the euro area. As Otmar Issing, the first chief economist of the ECB often said, a monetary union cannot function properly by sitting on a single leg, its monetary policy. Fiscal rules and frameworks function at both the supranational and national levels, as the EU is a political and institutional construction among member states that maintain strong and broad sovereign prerogatives.

The European Commission (EC) encouraged the public debate on the reform of the EU economic governance framework, including its fiscal rules, and issued various documents to this end. The debate was relaunched in 2021, against the background of extraordinary, extreme events. The resurgence and persistence of high inflation and a consequent sharp tightening of monetary policies while public debts were already a major concern, make the reform of the EU economic governance, of its fiscal framework, more salient, urgent. A recent EC document on this reform is *the Communication* of November 11th 2022[2].

In what follows I share some thoughts on the EU economic governance framework (including its fiscal rules) and the role of national IFIs in it. My perspective is that the adequacy of the EU fiscal framework has to be judged in relation with the overall structure of economic governance in the Union. I stress that I bear sole responsibility for the views expressed herein[3].

1. *The context*

Since the start of the single currency area it was clear that ***formal, institutionalized*** fiscal rules are necessary against the backdrop of no fiscal integration. I say "formal" since common sense, as an informal constraint, should induce rational decision makers to a fiscal, budget policy conduct that shuns recurrent large deficits, unsustainable public debts. In the euro area market discipline (which is mirrored by sovereign bond yields) was blurred by the introduction of the single currency and a single monetary policy. The formal, institutionalized fiscal rules, under the aegis of the Stability and Growth Pact (SGP), operate in conjunction with the one size fits all monetary policy (of the ECB), with its pluses and minuses.

For EU non-euro area member states, financial markets, despite their erratic dynamics, continue to exert a disciplining effect on

[2] *Communication on orientations for a reform of the EU economic governance framework*, Communication from the Commission to the European Parliament, The Council, The European Central Bank, The European Economic and Social Committee and the Committee of the Regions, Brussels, (November, 2022)

[3] Some of these thoughts I aired at meetings of the IFIs Network and at other debates.

macroeconomic policies. However, liquidity squeezes and solvency crises can occur when strong boom and bust cycles are at play[4].

The sovereign debt crisis, which erupted in 2009, indicated inadequacies of the fiscal rules as these were pro-cyclical and paid insufficient attention to big differences in the macroeconomic conditions of member states. Likewise, the rules underestimated spillover effects, which made things worse for the euro area as a whole in the absence of stabilizing instruments –like a joint "fiscal capacity", and of tools to deal with the doom loop between sovereign debt and bank balance sheets (a EU *safe asset* would be such an instrument).

The ECB turned out to be, as a *lender and buyer of last resort*, the de facto rescuer of the single currency area via unconventional operations[5], by a massive injection of base money as counterpart to the acquisition of sovereign bonds. QE (*quantitative easing*), however much maligned by some for its unintended consequences (among which an alleged perpetuation of resource misallocation[6]), prevented the euro area from a possible collapse by bringing down the skyrocketing bond yields of highly indebted member states.

The EU sovereign debt crisis, as a reflection of the financial crisis, showed that its root causes were ***both public and private over-borrowing***. And the ECB and other central banks got a strong reminder that price stability is not synonymous with financial stability. Here one

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[4] Several EU new member states had to be assisted through official financial assistance programs after the global crisis struck and financial markets froze; they had run very large current account deficits that were caused primarily by massive capital inflows and that went into non-tradable sectors. Painful adjustment processes had consequently to be introduced.

[5] QE was also a response to *the zero lower bound*, the inability to use conventional monetary policy to prop up economic activity in periods of sharp downturns.

[6] This line of reasoning one finds in BIS documents. See for instance Jaime Caruana, "Stepping out of the shadow of the crisis: three transitions for the world economy", Speech at the BIS General Meeting, 29 June 2014.

finds a main explanation for the introduction of macro-prudential rules/regulations, that should help keep macro-imbalances under control by influencing the flow of credit. ESMA, EBA, EIOPA are new European regulatory institutions that were created in the aftermath of the financial crisis with a view to deal with systemic risks. The ESM (European Stability Mechanism), too, was instrumental in helping to contain the sovereign debt crisis. These new institutions are a response to the monumental failure of the *light touch regulation* paradigm, that invited the financial debacle which erupted 15 years ago.

While macro-prudential regulations were enacted promptly and have undergone refinements over time, fiscal rules at the EU level stayed basically the same over the years, although the need to respond to peculiar circumstances forced their tweaking and nuancing, reinterpretation.

A European Fiscal Board and national independent fiscal institutions (IFIs) were set up in order to monitor policy compliance with the EU and the national fiscal frameworks.

2. *A new EU fiscal framework is needed*

The pandemic and the energy crises, the invasion of Ukraine, have delayed the overhaul of fiscal rules and of the EU economic governance framework; several action guidelines are however clear:

- simplify and make the rules more transparent, reduce their complexity;
- do not give up the 3% of GDP budget deficit and the 60% of GDP public debt as numerical benchmarks;

- but make the rules attuned to national circumstances, that should encourage compliance and make adjustment of imbalances feasible;
- create tools to deal with asymmetric shocks, such as a "fiscal capacity", and a *safe asset* as an instrument of risk-sharing, that should operate together with risk-reduction measures;
- debt sustainability, a major issue already, is compounded by the tightening of monetary policies which has been asked for by a resurgent high inflation; a "debt trap" is looming here;
- strengthen the role of the European Fiscal Board and of the national IFIs.

Some of the action guidelines mentioned above are mentioned in *the EC Communication*. This document speaks about the need of more "national ownership of polices'', for reasons that are easy to figure out. The European Fiscal Board has been quite vocal in advocating the revision of fiscal rules and stressed the need of a joint *fiscal capacity* and of a *safe asset*. The IMF[7], too, stressed the need of a *fiscal capacity*, as did many other experts.

National IFIs have supported a revision of fiscal rules as well, but there has been less agreement in favor of a joint fiscal capacity, of risk-sharing instruments. It can give food for thought that views in this respect have overlapped with official positions of the respective member states -–with the well known cleavage between "frugal" states and other states. Opinions inside the IFIs network have varied also on whether to judge the adequacy of fiscal rules, of the fiscal framework, in

[7] Arnold N et. al, "Reforming the EU Fiscal Framework –strengthening the fiscal rules and institutions", Washington DC, IMF, 2022. This study suggests, inter alia, turning the EFB into a European Fiscal Council, as an independent European institution, with more prerogatives.

conjunction with the adequacy of the EU economic governance framework -- some views being that the overhaul of the EU economic governance is a "political decision" *par excellence.*

I believe that one can hardly judge the adequacy of fiscal rules unless the design/structure of the euro area economic governance, of the EU as a whole, is addressed; and this structure demands stabilization and risk-sharing instruments --such as a *central fiscal capacity* and a *safe asset*, together with consistent implementation of risk-reduction measures. But reaching the right balance between risk-sharing and risk reduction measures is not easy to define. Moreover, policy compromises on such sensitive issues is very difficult owing to the high heterogeneity of economic circumstances and divergent interests among EU member states.

I would also add that **the functioning of economies and the effectiveness of macroeconomic policies depend on the structure of the global financial system.** When the global financial cycles is derailed by wide-ranging and deep deregulation of finance[8] against the backdrop of the dominance position of a major central bank (the Fed), however prudent fiscal and monetary policies are they can easily be overwhelmed and pursuing a "corridor of stability"[9] is likely to be made ineffective. **In addition, fiscal and monetary policies need to be complemented by macro-prudential rules/policies since excessive private debt can be no less dangerous than large public debt[10]**; this is a major lesson of the

[8] As it did happen with the waves of deregulation of finance that started the *Big Bang* in the City of London in 1986 and continued in the US.
[9] The goal of such a corridor is mentioned by Claudio Borio and Piti Disyatat ("Monetary and fiscal policies: in search of a corridor of stability", presentation made at the DG ECFIN workshop "Fiscal policy in times of high debt and economic turbulence", 31 January, Brussels)
[10] Ricardo Reis, among others, highlights the role of macro-prudential policy in the structure of a policy mix ((see also "What can ke4ep euro area inflation high?", 76th Economic Policy Panel Meeting, Berlin, 20-21 October 2022)

sovereign debt crisis in the euro area and of other episodes of balance of payments crises around of the world.

It is worthy to highlight that *the EC Communication* says that the ability to steer the fiscal stance of the euro area remained limited in the absence of a "central capacity with stabilization features" (p. 3). This tells quite a lot, namely that while, there seems to be a prevailing train of thought in favor of a *central fiscal capacity*[11], a political stalemate among member states impedes its creation; the same happens, presumably, with the European Deposit Insurance Scheme (EDIS).

3. *What role for the IFIs?*

The *EC Communication* stresses that national IFIs have to "play an important role in assessing the assumptions underlying medium term structural fiscal plans, providing an assessment on the adequacy of the plans with respect to debt sustainability and country specific medium terms goals, and monitoring compliance with the plan" (p10).

The Communication seems to ask for an extension of the IFIs' mandates. Whereas up to now IFIs have provided, basically, assessments/endorsements of macroeconomic and budget forecasts[12], the EC new vision would extend the mandate to **an assessment of structural reforms and public investment** (*the medium term fiscal-structural plan*)[13]. This proposal has a rationale. But it cannot avoid the raising of significant questions. Thus, how would reforms in various sectors, in education and medical systems for instance, be evaluated? A

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[11] See also Marco Buti and Marcelo Messori, "A central fiscal capacity to tackle stagflation", VoxEu, 3 October 2022; it is telling that Marco Buti is the head of cabinet of EU Commissioner Paolo Gentiloni and a former Director General of DGECFIN.

[12] Many EU national IFIs do not undertake macroeconomic forecasts themselves.

[13] This is strongly supported by Olivier Blanchard, Andre Sapir and Jerome Zettelmeyer as well in "The European Commission's fiscal rules proposal: A bold plan, with flaws that can be fixed", PIIE.com., 30 November, 2022

few national IFIs may have expertise in such undertakings, but most of them do not. In addition, investment projects are hard to fathom out in terms of concrete results. The outcome of structural reforms, of investments, may take years to show up whereas national IFIs would be asked to provide assessments on a regular basis. Arguably, the EC has to come up with clarifications in this regard. As adjustment paths of large public debts and deficits have to be feasible, and this is a major tenet of the orientations of the *EC Communication*, new tasks of the national IFIs should be approached analogously.

The concerns of the EC are fully justified in view of the enormous challenges that the Union is facing –the energy crisis, climate change, digitalization, the impact of artificial intelligence, an overall productivity problem, security concerns, etc. On the other hand, national IFIs have a validated niche of work that concerns fiscal/budget policy, tax regimes which impact budgets; they can also judge, and some of them do it increasingly, the overall macro policy-mix, though, inadvertently or not, they can insinuate themselves in the realm of monetary policy evaluation. By the way, the ECB and other EU central banks refer often to fiscal policy, which shows that the overall policy mix can hardly be shunned in policy analysis in such a complicated environment.

Nonetheless, getting involved in an analysis of structural reforms and public investment could become "mission impossible" unless proper conditions exist. One can examine the impact of public investment, as an aggregate, on potential economic growth, but to get into an analysis of the composition of public investment is, arguably, very tricky. Spending reviews are done by a few national IFIs (but not by most of them), aside from what is required on the part of national governments[14]. Spending review assessments, which are different from spending reviews per se, may become a component of the work of EU IFIs in the years to come[15]. But to have national IFIs involved in a detailed analysis of spending, of investment, is an open issue.

National IFIs are asked, apparently, to be involved in the design of policies. For the *Communication* says, …"IFIs could provide an ex ante assessment of adequacy of the plans and of their underlying forecasts" (p.16). Examining underlying forecasts sounds sensible, but an involvement, be it subtle, of national IFIs in the policy making process can be problematic. There are at least two relevant aspects involved here. One is of substance in view of the broader scope of assessments that would be asked of national IFIs by the suggested new mandate. And here, it should be said, IFIs may not necessarily have the best views, be they presumed to be an embodiment of "technocracy", of "independent of thinking". For "independence" does not imply best judgement automatically. For instance, public agencies/entities failed as regulatory bodies with their light touch regulation of financial systems. The same happened with fiscal rules, when these were implemented during the sovereign debt crisis and austerity measures were enforced pro-cyclically and with neglect of spillover effects. The procrastination of regulatory agencies in dealing with shadow banking, as well as with the krypto activity, is also unfortunate. The EU energy market, with its underpinning rules, has flaws that have been conspicuously highlighted by the energy crisis. And examples can continue.

[14] In almost 2/3 of OECD member states governments undertake spending reviews on a regular basis.
[15] For instance, Romania's national recovery and resilience plan envisages for the Romanian Fiscal Council to undertake spending review assessments.

Macroeconomic models can hardly cope with *radical uncertainty* and non-liniarities. In addition, economists themselves may have different theoretical propensities, which influence their policy recommendations. Therefore, caution should accompany policy prescriptions. That rigor is needed so that major policy blunders be avoided is very much true, and national IFIs can help shape policy construction to this end and enhance good practices. But one should not take for granted that independence secures best policies by itself.

For the sake of fairness in considering the *EC Communication*, however, it is plausible to assume that the suggested broadening of national IFIs' mandates is an attempt to better capitalize on their knowledge of national circumstances.

A second aspect about national IFIs' involvement, direct or indirect, in policy design is that, to make its assessment would be hard when they are part of this process –an inescapable conflict of interest ensues. If national IFIs get involved in the policy design process, then a "third party" would presumably have to come into the picture, as a genuinely neutral assessment entity.

That the Commission wants independent assessments of national recovery and resilience plans implementation, and more "national ownership" of such plans, is easy to comprehend, but one needs to be careful in asking national IFIs to change their mandates in ways that may expose them publicly unnecessarily; reputational risks could ensue thereby.

It is the *secret of Polichinelle* that policies in not a few EU member states have been seen, especially after the eruption of the financial crisis, as being imposed by external institutions; and this perception added likely to the decried “democratic deficit” rhetoric in the Union. **To think that IFIs could, simultaneously, help strengthen “national ownership of policies” by getting involved in policy design while also staying independent, as independent/neutral guardians, arbiters, of fiscal rectitude and economic policy rationality, is to be pondered on, for it can turn to be counter-productive**. Some may even see it as a surreptitious “technocratic encroachment” on what are and should be democratic policy making processes. De facto and even semantically, IFIs would have to change, and become a sort of “independent economic policy councils”.

There are national IFIs in the EU that operate as large think tanks (ex: in Belgium, in the Netherlands); they undertake a large array of analyses, including of economic platforms of political parties. But to view such entities as role models, that can and should be replicated all over the Union, no matter what, can be misleading. Apart from their current mandates and available resources, cultural, historical, political and institutional settings in the various EU member states are quite varied, and they condition what is feasible and, probably, desirable to do in upgrading national IFIs. There could be an argument in substantiating a very broad policy analysis activity and possible involvement in policy design: when there is a high turnover of succeeding ministers and governments, which can be seen as endemic political and governance instability that may harm policy making, such an involvement could operate as an “economic policy stabilizer”. But is such an argument convincing? Besides, economic policy design and implementation cannot be put on an *automatic pilot*, that may itself be with flaws. It is undeniable, however, that IFIs must be strengthened and the

Commission and the EFB are right to emphasize that minimum common standards have to exist to this end.

At the same time, there should not be a normative approach to national IFIs's assessment of fiscal adjustment paths as these derive from official economic and fiscal forecasts. That IFIs can influence policy-making by their opinions, assessments, is, however, to be expected.

Table: EC proposal of bolstering IFIs' mandate vs. current status

Current status of IFIs	**EC proposal**	**Pitfalls of EC proposal**
Ex ante: Large variety of mandates and capabilities, but a common denominator focus on economic forecasts and budget construction analysis	Ex ante: evaluate assumptions underlying country medium term plans, including **reforms and investment programs**; assess assumptions underlying forecasts and debt development	1/ hardly existing expertise for assessing structural reforms and investment plans 2/ getting involved in policy making may create a conflict of interest and incur reputational risks
Ex post: assessment of budget performance and compliance with national and EU rules	Ex post: monitor compliance with medium term plans and of budgetary outturns with the expenditure path	**Summing up: IFIs need to evolve toward EU wide minimum standards of operation and focus on what they can do best. New tasks should be realistic**

On debt sustainability analysis

Regarding debt sustainability analysis, it is useful to have common conceptual constructs when factoring in aging and climate change costs in national IFIs assessments. As the IMF departmental paper suggests, a common methodology for debt sustainability analysis should be used by the national IFIs (op.cit).

It is also necessary to consider the costs of the war in Ukraine and the probable significant rise in defense expenses in many UE member states in the years to come; *the peace dividend* has probably come to an end. Against the backdrop of the energy crisis and the war in Ukraine, some economies are becoming a sort of "war economies" and resource allocation is heavily impacted. De-globalization and "decoupling" in the world economy would also influence potential economic growth and debt sustainability.

The energy crisis, with the ensuing high rise in the relative price of energy (and of other critical materials), impacts incomes and resource allocation heavily, with massive distribution effects. All these evolutions affect public budgets and debt sustainability analysis should consider them.

National tax regimes should be considered as well in view of very low fiscal revenues in some member states. Likewise, the international fiscal regime needs to be reformed so that tax evasion and avoidance be reduced, however tough this objective is due to extremely powerful vested interests which resist it. Tax-havens type jurisdictions in the EU need to be eliminated.

Debt sustainability assessment has to consider *hidden liabilities* in economies, that come into the open ever more due to monetary policy tightening (and QT, *quantitative tightening*).

Fiscal rules and macro-prudential rules

An evaluation by the EFB of the overall fiscal policy stance of the euro area does make sense. But it cannot be done in divorce of the macro-prudential policy stance in the euro area (as private sector deficits can harm the euro area as much as public sector deficits). And it must consider also the functioning of the global financial system as well, in which a domineering role is played by the monetary policy of the Fed.[16]

It is justified for the EFB to consider overall systemic risks, which go beyond the remit of judging fiscal policies. It would be useful for the chairman of the EFB to attend the ESRB meetings regularly.

National IFIs may also have to judge national macro-prudential policy stances as the latter may impact external imbalances. And heads of national IFIs should attend the meetings of national supervisory bodies that deal with overall systemic risks.

It should be noted that the ESRB and the ECB examine the application of macro-prudential regulations, and increasingly this is extended to the non-bank financial sector, which poses growing systemic risks because it is poorly regulated.

4. *The EU economic governance: risk reduction and risk sharing*[17]

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[16] As Helene Rey says, the trilemmas is a dilemma for most emerging economies and capital flows controls can be useful ("International channels of transmission of monetary policy and the Mundellian trilemma", IMF Economic Review, vol 1, no.64, 2016, 6-35)

[17] I referred to it in "In the euro area discipline is of the essence, but risk-sharing is no less important"", SUERF, Policy Brief, no.30, April 2018

The *EC Communication* does not tackle the risk-reduction vs. risk-sharing issue, though it says that a missing “central fiscal capacity” is limiting stabilization policy options. A central fiscal capacity, as well as EDIS (European Deposit Insurance Scheme), are not yet operating in the EU. And this is consequential for the new EU fiscal framework and national fiscal frameworks, for the work of national IFIs and of the EFB.

Nonetheless, it is ominous that the RRP/NGEU is funded by issuing joint bonds, that may prove to be not a temporary instrument eventually. And this is likely one venue of action in the EU regarding its economic governance framework.

Nota bene: after the ECB announced the QT, a tightening of monetary conditions in the euro area, a special instrument (the transmission protection instrument/TPI)) had to be announced as a means to deal with the situation of highly indebted countries[18].

Risk-reduction vs, risk-sharing

Some member states highlight the need to reduce non-performing (NPL) loans (a *legacy problem*) as a *risk reduction* measure, prior to implementing a *risk-sharing* scheme (such as EDIS --a collective deposit insurance scheme, and a central fiscal capacity). But, over time, the flow of non-performing loans hinges, essentially, on economic performance, and not on a particular level of NPLs. In the absence of mechanisms and instruments that foster economic convergence in the euro area, NPL stocks at national level would tend to diverge again. One can imagine a diversification of banks’ loan portfolio that would diminish the threats posed to their balance-sheets by activities in weaker economies.

[18] At that time, big spikes in Italian, Spanish and Greek bond yields took place. The announcement of the new special ECB facility brought them down.

However, a complete decoupling of banks from weaker member states' economies is not realistic and, more importantly, is not welcome, while contagion effects can still be significant. If banking groups diversify their government bond portfolios while considerable competitiveness gaps persist among member states, and if sovereign bond ratings were no longer "risk-free", a strong preference for holding safer bonds would ensue.

European "safe assets" and financial integration

Eurobonds, as risk-pooling assets, would make the euro area more robust. But, mutualisation of risks is rejected for fear of a "transfer union". Hence came the idea of a synthetic financial asset (sovereign bond-backed securities – SBBS)[19], which results from the pooling and slicing of sovereign bonds into tranches without joint liability.[20] But SBBS pose a key problem: the supply of senior tranches depends on the demand for junior tranches, and this demand is likely to fall dramatically during periods of market stress, when some member states' market access may be severely impaired.

Would the Capital Markets Union (CMU) and Banking Union (BU) overcome market fragmentation and economic divergence in the absence of arrangements that would enable accommodation of asymmetric shocks and foster economic convergence? Some argue that a complete BU (and CMU) would dispense with the need of public risk-sharing. But is it sufficient for a robust EA that risk-sharing applies to

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[19] Brunnermeier M, Garicano L., Lane ph., Pagano M., Reis R., Santos T., Thesmar D., Van Niewerburgh S. and Vayanos D., European Safe Bonds", The Economics Group, 2011. The ESRB resumed their idea in "Sovereign-backed bond securities: a feasibility study", Frankfurt, January 2018.

[20] A senior tranche (deemed to be equivalent in strength to the German Bunds), a mezzanine (medium-risk) tranche, and a junior (seen as highly risky) tranche, with the latter bearing the brunt of losses in case of default

finance only? And would private risk-sharing be sufficient to cope with systemic risks? What about the LoLR function in capital markets in view of the expansion of shadow-banking? Would a collective deposit insurance scheme involve private money only"? Fiscal risk-sharing may be needed in worst case scenarios .

The progress of the euro area, of the banking union, demands a reconciliation between rules and discipline on one hand, and risk sharing (private and public) on the other[21]. But an adequate calibration between rules and risk-sharing, between private and public risk-sharing, is an open question.

Arguably, only private risk-sharing schemes (CMU) would not make the euro area more robust. Financial markets are too fickle and produce systemic risks recurrently. Unless it will get adequate risk-sharing schemes, the euro area will continue to be rigid and prone to recurrent tensions. ECB special operations are a de facto risk-sharing instrument.

The euro area needs liquidity assistance during times of market stress, schemes to cushion asymmetric shocks, sovereign debt restructuring be not triggered automatically (automaticity as a condition for ESM support programmes would cause panic in the markets), rules for adjusting imbalances should not be pro-cyclical, the macroeconomic imbalance procedure (MIP) should operate symmetrically (for both large external deficits and surpluses countries), a euro area-wide macroeconomic policy that should reflect in the fiscal policy stance over the business

[21] See also A. Benassi-Quere et al, "Reconciling risk-sharing with market discipline: m a constructive approach to euro area reform", CEPR, Policy Insight, No. 91, Policy Insight, January 2018; J. Bini Smaghi, "Reconciling risk-sharing with market discipline", Policy Brief, LUISS, 30 January, 2018;

cycle, no de-reregulation of finance and a strong regulation of non-bank financial entities including crypto assets.

5. *Final remarks*

The *EC communication* on orientations for a reform of the EU economic governance framework is more than timely and adds value to a series of similar documents. It puts emphasis on medium term plans that should target robust economic growth and public debt sustainability, feasible adjustment paths for public debts, fiscal risks based assessments and surveillance. More national ownership of these plans is a valuable aim, though the "technology" to achieve it is still to be elaborated.

The EFB and national IFIs are asked to play a more significant role in the architecture of the EU economic governance framework. While this vision has merit, one needs to be careful in how to conceive and implement it. There are benefits, but also pitfalls of broadening the national IFIs' mandates.

IFIs have a niche of work that concerns fiscal/budget policy, tax regimes which impact budgets; they also judge overall macro policy. Getting them involved into an analysis of structural reforms and public investment could backfire unless proper condition exist. An involvement of national IFIs in the policy design process can be problematic. There are at least two aspects involved here. One is of substance in view of the much broader scope of assessments that would be asked of IFIs. And here, national IFIs may not necessarily have the best view, be they presumed to be an embodiment of independent of thinking. A second aspect about IFIs' involvement in policy design is that, to make its assessment would be hard when they are part of the process; an inescapable conflict of interest ensues.

To think that IFIs could, simultaneously, help strengthen “national ownership of policies” by getting involved in policy design while also being independent, supposedly neutral guardians of fiscal rectitude and economic policy rationality, can turn counter-productive. It could be perceived as a technocratic encroachment on a democratic decision making process. And there are cases of “technocratic” governments which had modest results, or even failed.

What is clear is that national IFIs have to make their contribution in discouraging egregious populist temptations and demagoguery, help instill public governance with common sense and vision, consolidated good practices.

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