The Advisory European Fiscal Board

This note provides an overview of the main features and recent developments regarding the advisory European Fiscal Board. This body was established by the European Commission in October 2015, in the context of the implementation of an ‘integrated framework for sound fiscal policies’, proposed in the Five Presidents’ Report of June 2015. The Annex presents excerpts from the latest Annual Reports published by the board.

The Decision by the European Commission

In June 2015, the Five Presidents’ Report on Completing Europe’s Economic and Monetary Union set up a roadmap towards a deep, genuine and fair Economic and Monetary Union. One of the planned immediate initiatives was the creation of an advisory European Fiscal Board (EFB), aimed at providing a public and independent assessment of the budgetary policies of the Member States and the fiscal stance of the Euro area. On 21 October 2015, the European Commission presented a Commission Decision establishing an independent advisory European Fiscal Board (EFB), as part of the package of measures for a Deeper and Fairer Economic and Monetary Union.

Tasks

The EFB is tasked to contribute - in an advisory capacity - to the exercise of the Commission’s functions in the multilateral fiscal surveillance, performed in accordance with Articles 121, 126 and 136 of the Treaty on the Functioning of the European Union (TFEU). The EFB is mandated by the Commission to carry out four main tasks:

1) Providing to the Commission an assessment of the implementation of the Union fiscal framework, in particular through the evaluation of the horizontal consistency in the decisions taken and the cases of serious non-compliance with fiscal rules;

2) Advising the Commission on the prospective fiscal stance appropriate for the Euro area, and on the consistency between national fiscal stances and the advised fiscal stance of the Euro area;

3) Cooperating with national fiscal councils, facilitating the exchange of best practices;

4) Providing ad-hoc advice, upon a request of the President of the Commission (see further below a request made by President Juncker).

Box: The EFB in the Five Presidents’ EMU-report

In accordance with the Guiding Principles of the Five Presidents’ report (Annex 3), the EFB should:

- Coordinate the network of national fiscal councils;
- Advise the Commission and provide an economic judgement on the appropriate fiscal stance at the Euro Area and national level, on the basis of the rules of the Stability and Growth Pact (SGP);
- Issue opinions in connection with the assessment of Stability Programmes and Draft Budget Plans; and
- Provide an ex post evaluation on the implementation of the economic governance framework.
The Advisory European Fiscal Board

Composition, independence and accountability

The EFB is composed of a Chair and four Members. They are appointed by the Commission on a proposal of the President, for a period of three years (renewable once), and selected on the basis of merit and experience in macroeconomics and budgetary policy-making. The Commission Decision reads "in the performance of their tasks, the members of the Board shall act independently and shall neither seek nor take instructions from the Union's institutions or bodies, from any government of a Member State or from any other public or private body. The members of the secretariat shall take instructions only from the Board".1

The Members of the EFB are assisted by a Secretariat, administratively attached to the Commission’ Secretariat-General and led by the Head of the Secretariat, appointed for three years, renewable once.2

Following a call for expression of interest for the selection of the members of the EFB, the Commission appointed on 19 October 2016 the Chair and the four Members, chosen after consultation with the European Central bank (ECB), the Eurogroup Working Group and the national fiscal councils.

The EFB’s Chair is Niels Thygesen, from Denmark, Professor Emeritus of International Economics at the University of Copenhagen and previously member of the Delors Committee, which prepared the outline of the Economic and Monetary Union in Europe in 1988-89. The other members of the EFB are:

- Roel Beetsma (The Netherlands), Professor at the University of Amsterdam.
- Massimo Bordignon (Italy), Professor of Public Economics at the Catholic University of Milan.
- Sandrine Duchêne (France), General Secretary of AXA France and previously Deputy Director-General of the French Treasury.
- Mateusz Szczurek (Poland), Professor of public finance and international economics at Warsaw University, former Finance Minister of Poland.

In accordance with the Commission Decision (Article 6), the EFB provides advice to the Commission and publishes an annual activity report, with summaries of the advices and evaluations provided to the Commission.

In its resolution of 17 December 2015 on completing Europe’s EMU, the European Parliament stressed that "the European Fiscal Board, as the advisory board of the Commission, should be accountable to Parliament and that, in this context, its assessment should be public and transparent".

The Chair of the EFB has presented to the ECON Committee of the European Parliament the following publications:

- The assessment of the fiscal stance for the euro area in 2020, on 24 September 2019;
- The 2018 Annual Report, on 5 November 2018;
- The 2017 Annual Report, on 4 December 2017;
- The assessment of the fiscal stance for the euro area in 2017, on 11 July 2017.

The Chair of the EFB also participated in an open meeting with ECON Coordinators in December 2016.

1 The Five Presidents' Report (its Annex 3), read “the EFB should conform to the same standard of independence” as the national fiscal councils established by Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (Article 6.1b) and Regulation 473/2013 (Articles 2 and 5).

2 Following an amendment of the Commission Decision adopted by the College of Commissioners in February 2016, the Head of Secretariat is appointed by the Commission, after having consulted the EFB Chair. In the original version of the Commission Decision, the function of Head of Secretariat was exercised by the Chief Economic Analyst of the Commission.
Since 2017, the EFB publishes two regular documents per year:

- an **Annual report**, with a review of the implementation of the EU fiscal framework in the previous year. The Annex of this document presents some excerpts from the latest Annual Reports;
- an **Assessment of the fiscal stance appropriate for the euro area** for the next year, with an overview of the general orientation of fiscal policy in the euro area (based on the latest forecast by the Commission) and an advice on the Euro area fiscal stance.

In October 2019, the EFB published the “**Annual report 2019**”. The report provides a comprehensive assessment of the implementation of SGP in the 2018 surveillance cycle. The EFB notes that while in 2018 the macroeconomic situation was in line with initial expectations, fiscal positions turned out better than anticipated, due to high fiscal revenues and the exceptionally accommodative monetary policy by the ECB. Nevertheless, economic conditions and sustainability risks warranted fiscal adjustments in high-debt Member States. The EFB notes that new forms of flexibility and discretion were applied in the 2018 cycle of surveillance, both at the start of the cycle (with the introduction of the so-called “margin of discretion”) and at its end, when the overall assessment of compliance included elements not provided for in the rules. The EFB makes explicit reference to Italy, for which an EDP was not opened “despite its clear departure from the required adjustment path”. The use of two indicators for the assessment of compliance (the structural balance and the expenditure rule) is problematic; furthermore, other elements contribute to the uncertainty, including statistical treatment of fiscal measures and the use of a modified version of the expenditure benchmark or of the output gap. The EFB emphasizes, once again, the “inherent difficulty in imposing sanctions on Member States”.

In June 2019, the EFB published its “**Assessment of the fiscal stance appropriate for the euro area in 2020**”. Based on announced policies, it expects the euro area fiscal stance for 2020 to be on the expansionary side. Nevertheless, the EFB recommends a **neutral fiscal stance**, with appropriate country differentiation. The EFB notes that the recommendation for a restrictive fiscal stance for 2019 was based on the assumption that the strong growth observed in 2018 would continue; such assumption did not materialize and the economy has weakened, in particular in some countries. Therefore, the EFB calls on countries that have not yet achieved their medium-term budgetary objective (MTO) to progress towards it, as required by the Stability and Growth Pact, in particular those with very high debt, which should to

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3 An EGOV not on “The Euro area fiscal stance” provides some information on this topic.
reduce their debt steadily. By contrast, the EFB called on Member States with large available fiscal space (in surplus or having reached their MTO) to use more of it.

> In October 2018, the EFB published its second Annual report ("2018 Annual Report"). The report reviewed the way the EU fiscal framework was implemented in 2017, highlighting positive and negative developments and scope for improvement. The EFB’s independent assessment is less favourable than the Commission’s: it welcomed the return to some timid fiscal consolidation in 2017 in the euro area as a whole, but regretted that some Member States with large fiscal imbalances missed the opportunity of the solid economic expansion to reduce their high public debt faster and build fiscal buffers. The Board noted that flexibility should work symmetrically: after the fiscal framework was softened during the recovery, requirements should have been tightened and compliance more strictly ensured in better economic times. The report presented a detailed proposal for a simpler and more effective Stability and Growth Pact than the current one.

> On 18 June 2018, the EFB published its “Assessment of the fiscal stance appropriate for the euro area in 2019”. The report concluded that the favourable economic outlook offered a prime opportunity to rebuild fiscal buffers, therefore called for a restrictive euro area fiscal stance in 2019. The EFB recommended to making progress with the fiscal architecture of the EMU, and supported the Commission proposal to establish a European Investment Stabilisation Function.

> On 15 November 2017, the EFB published its first Annual report. The report “reviews the way the EU fiscal framework has been implemented, highlighting imperfections and scope for improvement. It provided a comprehensive and independent assessment of how the SGP has been applied in the recent past”.

> On 20 June 2017, the EFB published its first report on “Assessment of the prospective fiscal stance appropriate for the euro area”. It expressed the “view that in 2018 a neutral fiscal stance is appropriate for the euro area as a whole and that such a stance could be implemented through differentiated national fiscal policies within the parameters of the Stability and Growth Pact”.

On 11 September 2019, the EFB published its “Assessment of the EU fiscal rules, with a focus on the six and two-pack legislation”. This document was requested in January 2019 by the President of the Commission, J.C. Juncker, who specified also the broad terms of references. The assessment was carried out against three main criteria: (1) ensuring the long-term sustainability of public finances; (2) stabilising economic activity in a counter-cyclical fashion; and (3) improving the quality of public finances. The EFB has taken an evolutionary and broad approach to the analysis of the SGP implementation, noting that “evidence of what would have happened if the EU had continued to rely on the pre-crisis rulebook is not available, so conclusions are necessarily tentative”. The EFB believes that the reforms introduced with the six and two-pack have “moderately advanced sustainability”. It also notes that, in the absence of a movement towards either a central fiscal capacity or other features of a deeper Economic and Monetary Union (EMU) and coordination of national policies, a burden will continue to be put on the fiscal rules as a partial substitute. The report also shows that compliance with the fiscal rules has been mixed and differs markedly depending on the fiscal rule and the periods of comparison: “An empirical analysis of numerical fiscal rules at the EU level shows that, following the six and two-pack reforms, compliance has generally increased even though it is difficult to establish a clear causality. Compared to the pre-crisis period, average compliance across all EU numerical rules has marginally improved from 57% to 63%. However, the compliance rates of individual rules differ widely when comparing the periods 1998-2007 to 2011-2018. Compliance with the structural balance rule increased from 44% to 63%, while compliance with the debt rule declined from 83% to 59%. In practice, compliance with the debt rule has been waived by referring to other relevant factors (i.e. compliance with the preventive arm and structural reforms) in the assessment. In high-debt countries that made use of flexibility within the SGP, the medium-term sustainability of public finances has weakened.”

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The EFB proposes to overcome the complexity of the current EU fiscal framework by simplifying the EU fiscal rules and by improving the governance of the fiscal framework. The EFB advocates for a reformed SGP which would be based on: one single target (sustainable public debt), which could be made country-specific and cover a seven-year cycle;

- one single instrument (controlling net expenditure growth, to be linked to potential growth); and

- one general escape clause, triggered based on independent economic judgement.

The EFB’s proposes the introduction of a limited “Golden rule” to protect public investment, while avoiding overburdening the EU fiscal rules with too many conflicting objectives; more specifically, the proposed Golden rule would exclude some specific growth-enhancing expenditure from the net primary expenditure growth ceiling.

The proposed simplifications should help in reconciling the objective of sustainability of public finances and economic stabilisation, and would also facilitate an agreement aimed at implementing the euro area fiscal stance.

The EFB also publishes ad hoc methodological or research papers and proceedings from workshops.

Some further reading on public finances in EMU

- The 2019 Stability and Convergence Programmes by the European Commission in July 2019. It provides an overview of budgetary developments in 2018, as well as of the fiscal plans for 2019-2021 submitted by Member States in the 2019 Stability and Convergence Programmes. It also presents an analysis of the recent and prospective fiscal stance in the euro area and in the European Union as a whole.

- The European Fiscal Monitor by the network of EU Independent Fiscal Institutions (IFIs), published in July 2019. It includes country specific contributions from 24 independent national fiscal monitoring bodies of the EU, as well as an overview produced by the Network’s Secretariat. Several national bodies report of (likely) non-compliance with fiscal rules – national or at EU-level – despite favourable economic conditions.

- Implementation of the Stability and Growth Pact by the EGOV Unit of the European Parliament. It gives an overview of key developments under the preventive and corrective arms of the Stability and Growth Pact on the basis of (1) the latest Council decisions and recommendations in the framework of the SGP; (2) the latest European Commission economic forecasts; and (3) the latest COM opinions on the Draft Budgetary Plans of euro area Member States. The document is regularly updated.

- Structural budget balances in EU Member States by the EGOV Unit of the European Parliament. It provides a short overview of the concept and application of the structural balance rule(s) in the EU. It will be regularly updated, in particular, the Annex that shows progress made (based on the latest Commission forecast) by Member States in reaching their structural budget commitments under the preventive arm of the SGP.

- Public finances in Euro Area Member States: Selected indicators by the EGOV Unit of the European Parliament. It presents selected indicators on public finance for the Euro Area Member States and the Euro Area as a whole.

- The European Semester for economic policy coordination: A reflection paper by the EGOV Unit of the European Parliament. It provides an overview of the current EU economic governance framework, in

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Box: Excerpt from the European Parliament resolution of 13 March 2019 on the European Semester:

The European Parliament...

31. Welcomes the European Fiscal Board’s proposal for a radical simplification of the budgetary rules to further improve the current EU fiscal framework; stresses that flexibility, as built into the rules of the SGP, allows Member States to strike a good balance between the objective of ensuring prudent fiscal policy and facilitating productive investments; calls on the Commission to take all country-specific factors into account for the purposes of its debt sustainability analyses.
particular of the so-called EU ‘rule-based’ surveillance framework of national budgetary, economic and social policies. It raises some broad questions on the lessons learned and proposes some reflections for the future.

> **Coordination and Surveillance of Budgetary Policies of Euro Area Member States during the Autumn Cycle** by the EGOV Unit of the European Parliament. It gives an overview of the main steps in the framework of euro area Member States’ budgetary policy coordination and surveillance during the autumn cycle of the European Semester. This enhanced monitoring and is done in accordance with EU law. It aims at identifying and correcting - at an early stage - any risks of deviation from fiscal policy recommendations agreed by the Member States, ultimately by asking an updated draft budgetary plan.

> **The role of national fiscal bodies: State of play** by the EGOV Unit of the European Parliament. It provides an overview of the role played by independent national fiscal bodies in the preparations of forthcoming budgets of EU Member States.
Annex: Selected items from EFB 2019, 2018 and 2017 Annual Reports

2019 Annual report

While the macro outlook was in line with initial expectations, fiscal positions turned out to be better than anticipated. Medium-term fiscal plans in spring 2017 envisaged an aggregate budget deficit of around 1% of GDP for 2018, in both the euro area and the EU as a whole. The actual budget deficit turned out to be around 0.5% of GDP, as the economic expansion led to unexpected windfalls in the collection of income and wealth taxes. In the euro area, revenues came in 0.8% of GDP higher than planned in the stability programmes, of which only 0.1% is explained by new discretionary fiscal measures. At the same time, the continuation of an exceptionally accommodative monetary policy by the European Central Bank throughout the year led to lower-than-expected debt servicing costs. The structural primary balance of the euro area improved by 0.1% of GDP in 2018. This was in line with the overall fiscal adjustment required under the Stability and Growth Pact (SGP), as set out in the country specific recommendations of spring 2017. Around half of the windfalls occurred in Germany, which was already at its medium-term budgetary objective (MTO). Lower interest expenditure generated additional fiscal leeway for euro area governments, but this cannot be considered a fiscal effort, since financing conditions are not directly under the control of the government. As a result, the underlying budgetary positions of many euro area Member States did not improve.

Net expenditure growth in 2018 exceeded potential growth, which is currently estimated at a disappointing 1.0%. In 2018, primary expenditure net of discretionary revenue measures grew by almost 2%, signalling a measurable fiscal expansion. Hence, like in past years, favourable economic conditions have not been used to build fiscal buffers in many Member States, with a fiscal policy overly expansionary.

While the overall picture of formal compliance with the requirements of the preventive arm looks positive, estimates of the underlying fiscal position of several Member States have benefited from statistical revisions in potential output, which tend to be pro-cyclical.

As for individual Member States, the EFB identifies substantial gaps in compliance with the SGP requirements:

- Spain exited its excessive deficit procedure but continued to pursue a nominal strategy.
- Belgium, Ireland, Italy, Hungary, Romania, Slovenia and Slovakia were in significant deviation according to both the indicators (structural deficit and expenditure benchmark). However, only in three cases (Italy, Hungary and Romania) did the Commission conclude that there was evidence of a significant deviation from the requirements of the preventive arm. In the end a significant deviation procedure was launched only for Hungary and Romania, to whom sanctions do not apply.
- For Italy, the Commission did not recommend corrective measures for Italy, despite a significant deviation in 2018. In the 2019 cycle, for the first time since the entry into force of the two-pack legislation, the Commission asked a government to submit a revised draft budget. Once the Italian authorities initially failed to substantially modify the budget, the Commission took the first steps envisaged by the Treaty towards opening an EDP. However, it decided not to open an EDP after the government adopted an amended budget law with a lower projected deficit.
- In the case of Belgium, the Commission considered there was insufficient ground to formally conclude on a significant deviation for 2018 (based on some statistical treatment of measures).
- In the cases of Latvia, Portugal and Slovakia, the overall assessment considered elements beyond the two established indicators of compliance.
- In the case of Slovenia, an alternative estimate of the output gap was used in the final assessment, which made a material difference for the conclusions.
The EFB report concludes with remarks on the independent fiscal institutions (IFIs), which in some Member States played an important role in strengthening transparency and accountability. IFIs also enhanced the transparency of the electoral process by assessing the fiscal impact of political programmes (e.g. in the Netherlands, Latvia and Slovenia). The EFB concludes noting that defining a set of minimum standards would help to make EU IFIs more effective.

2018 Annual Report

The macro-economy of the euro area and the EU gained considerable momentum in 2017. Real GDP increased by 2.4% in both areas, more than half a percentage point faster than anticipated in spring 2016 when Member States presented their updated stability and convergence programmes. The rate of unemployment fell to levels observed during previous cyclical peaks. At the end of the 2017 EU fiscal surveillance cycle, 13 Member States were estimated to have achieved their medium-term budgetary objective (MTO), more than twice as many compared to spring 2016 when the 2017 surveillance cycle started.

Although favourable, the bird’s-eye view masks a number of important issues. First, the improvement of fiscal positions in 2017 differed markedly across Member States. Some took full advantage of better-than-expected economic conditions and even reduced expenditure levels compared to plans, while others used windfall gains to adjust government expenditure (net of one-off increases) upward. The first group included euro area countries where the fiscal position was comparatively sound, whereas the second group comprised countries where the fiscal position was weaker. If all euro area countries had implemented the expenditure levels presented in their 2016 stability programmes, the aggregate budget deficit would have narrowed to 0.7% of GDP, rather than showing a deficit of close to 1% of GDP.

Second, the fact that windfalls were only partly used to improve fiscal positions is also due to the unreliable quality of potential GDP estimates, the linchpin of the EU surveillance toolbox. On the back of statistical revisions of national accounts plus changes of the commonly agreed method for estimating potential output, in spring 2018 the level of 2017 euro area potential GDP was up by close to 2% compared to spring 2016 — by the same amount as actual GDP. At unchanged expenditure levels, such a revision alone would have implied a correction of the structural budget balance of the euro area of close to 1% of GDP. Such an improvement compared to initial projections inevitably entices governments. As a result, the pro-cyclical properties of the structural budget balance came to pass.

Third, the implementation of the Stability and Growth Pact (SGP) did not adapt to the much improved macroeconomic conditions. For countries with weaker fiscal positions, implementation largely followed the practice of previous years when the euro area and the EU economies showed signs of weakness. Some forbearance may have been justified in spring 2016 when the Commission and the Council issued guidance for 2017 and the balance of risks was still perceived to be tilted to the downside. However, in the course of 2017 and then in spring 2018, the implementation of the rules continued to rely on elements of flexibility and judgement introduced to accommodate difficult economic times, while the economic conditions had improved markedly. In sum, 2017 was a clear example of both the asymmetry of the EU fiscal rules and the notorious difficulty of getting the timing of discretion right.

Amid concerns of excessive complexity and lack of transparency, the Commission and the Council agreed on some innovations to the implementation of the SGP. However, these initiatives did not achieve their stated objectives of simplifying the rules, because: (i) they added new elements without resolving potential conflicts with existing provisions and methods; and (ii) they were coupled with initiatives going in the opposite direction bearing witness to the persisting tendency to find and codify new forms of flexibility. As a result, complexity and opacity have actually increased.

Simpler rules and procedures are necessary but will not be enough to ensure effectiveness. One of the main predicaments of the current EU fiscal framework is the increasingly blurred distinction between the analytical assessment underpinning the application of the rules and the final decision of the policy-makers. As long as
concerns about the impartiality of the assessment are not addressed, any attempt to simplify the rules would be short-lived. The quest or drive towards refinements and codification would continue. **One way to enhance trust among Member States and between the Commission and the Council is to clearly separate the role of the assessor from that of the decision maker(s).** Since trust is the flipside of reputation, the governance of the SGP needs to be adapted, either by assigning the task of the assessment to an independent entity, or by endowing the assessor with the necessary independence.

In 2017 some **national independent fiscal institutions** (IFIs) helped promoting fiscal discipline and improving the quality of official forecasts. Others remained silent, partly because of practical, institutional and political constraints. Important conditions for an effective role of IFIs are that they have free access to all the relevant information, at both national and EU level, and that governments have to comply with or explain deviations from their advice.

**2017 Annual Report**

**Assessment on the application of the SGP in 2016**

Application of the full range of flexibility clauses and other contingency provisions of the SGP revealed a degree of complexity that raised questions of transparency and equal treatment in the Council. Discretion and judgement came to play an increasingly important role, raising the issue of who was to exercise them, and how. The actual assessment of compliance with the SGP rules also drew increasing attention because it involves two indicators, or two different methods which, although conceptually equivalent, in practice often support diverging conclusions in terms of compliance or non-compliance. Again, the role of judgement in a system originally designed to be rules-based came increasingly to the fore.

In procedural terms, several developments stood out.

1. Under the preventive arm of the SGP, the Commission’s ex post assessment of a flexibility clause granted to Italy did not provide a firm conclusion as to whether or not the required structural reforms had been implemented.

2. There were inconsistencies, across both time and several countries, in the way the two indicators for assessing compliance were used.

3. Cases of early and late submissions of draft budgetary plans gave rise to discussions among Member States in the autumn of 2015. The period during which plans were to be presented was made clear in September 2016, as were the specific rules for caretaker governments.

4. In May 2016, the Commission put forward country-specific recommendations for Spain and Portugal which extended the deadline for correcting their excessive deficits, in conflict with the existing recommendations issued by the Council under Article 126 of the Treaty.

5. The Commission delayed its assessment of effective action under the corrective arm of the SGP for Spain and Portugal until July 2016, despite having proposed already in May to extend the deadline for correction.

6. Member States with an insufficient rate of debt reduction – Belgium, Italy and Finland - were not placed under the corrective arm of the SGP, thanks to a broad interpretation of the other relevant factors.

These points are significant but they need to be seen in the specific context of the 2016 surveillance cycle. As indicated above, 2016 was not a typical year in the history of the SGP. In one way or another, virtually all the limits implied by the rules turned into actual constraints putting a lot of pressure on Member States, the Commission and the Council. The margins of the rules-based system have been explored and it is actually noteworthy that the number of significant cases was fairly limited.

**Suggestions related to reforming the SGP**
- **Reduce the complexity of the SGP**, while introducing well defined escape clauses to be triggered and applied with the involvement of independent judgement. This would serve the triple aim of simplifying rules, safeguarding flexibility and enhancing transparency.

- Under the corrective arm of the SGP, allow for **updating EDP recommendations in the event of an unexpected improvement of economic conditions**. This would enhance the symmetry of rules and prevent a recurring practice to replace structural adjustments with budgetary windfalls.

- Under the preventive arm of the SGP, require Member States to compensate for past deviations from the adjustment path towards the **medium-term budgetary objective** (MTO). This would prevent Member States from systematically planning deviations within the allowed margins.

- **Broaden and simplify the use of macroeconomic conditionality** in the EU budget in order to strengthen the enforcement of the rules and safeguard the effectiveness of EU finances.

- **Introduce in the SGP a link to the Macroeconomic Imbalance Procedure** (MIP) by regulating the speed of adjustment towards the MTO in relation to Member States’ macroeconomic imbalances. This would address the risks that imbalances may pose to fiscal sustainability.

### The role of Independent Fiscal Institutions (IFIs)

The IFIs vary significantly across the EU Member States in terms of their design, scope, and mandate. This heterogeneity is mainly determined by pre-existing institutional setups prevailing at the national level, including local traditions, historical experiences and country-specific policy challenges. Although national specificities are to be acknowledged in the setup of IFIs, there is also a need to ensure that they enjoy a basic degree of effectiveness and leverage vis-à-vis national governments.

The broad panorama of IFIs offers a unique opportunity to draw lessons of good practice, in line with the mandate of the European Fiscal Board. However, providing a full and comprehensive review of all EU IFIs is a daunting task that goes beyond the scope of this report. Rather, this section takes a selective approach. It first presents a portrait of two specific IFIs – the Irish and the Dutch - with the objective to identify elements of best practice.

### Possible fiscal stabilisation tool for the euro area

A centralised fiscal instrument would add stability to the euro area. (...) The two most prominent proposals for a centralised stabilisation capacity are (i) an investment protection scheme, to remedy the observed pro-cyclicality in public investments; (ii) a common unemployment reinsurance scheme, to give national budgets more breathing space during downturns, when the provision of unemployment benefits becomes significant.

While both proposals have pros and cons, the **EFB is of the view that the investment protection scheme would be easier to implement both technically and politically.**

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Contact: egov@ep.europa.eu

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