Independent fiscal institutions in the EU

Guardians of sound public finances

IN-DEPTH ANALYSIS

EPRS | European Parliamentary Research Service

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Members’ Research Service
PE 659.399 – December 2020
While relatively recent, independent fiscal institutions exist in almost all EU Member States. They complement the function of the fiscal rules within the wider economic governance framework of the EU. This publication aims to give an overview of the reasons why they exist, how they are defined, their typology and the EU regulatory framework that underpins them.

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This paper has been drawn up by the Members’ Research Service, within the Directorate-General for Parliamentary Research Services (EPRS) of the Secretariat of the European Parliament.

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LINGUISTIC VERSIONS

Original: EN

Translations: DE, FR

Manuscript completed in December 2020.

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PE 659.399
DOI:10.2861/523543
CAT: QA-04-20-729-EN-N

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Executive summary

Economic policy choices in the EU rest with national governments, which – with minor exceptions – have to abide by the provisions of the framework of fiscal rules (broadly speaking, the Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, (TSCG)). While this framework started as a limited and simple set of fiscal rules, over the years it has been complemented with more detailed provisions (contained in the ‘six-pack’ and the ‘two-pack’ sets of legislation) in an attempt to strike the right balance between rigour and flexibility. In this context, independent fiscal institutions were established to complement the effect of the fiscal rules.

To fully delegate fiscal policy to independent fiscal institutions is not politically palatable, due to the redistributive nature of fiscal policy and to the inconclusiveness of theory and practice regarding the optimal levels of deficit and debt. Therefore, the majority of these institutions are currently mandated to carry out an advisory and monitoring role in relation to both domestic fiscal policymaking and the EU fiscal rules, so as to increase transparency and accountability. In that context, they produce (or at least endorse) budgetary and/or macroeconomic forecasts, estimate the budgetary impact of proposed measures, analyse the long-run sustainability of public finances, provide recommendations on fiscal policy and assess compliance with the EU fiscal governance framework.

The EU legal framework for independent fiscal institutions is composed of provisions from i) the TSCG; ii) the Council Directive on Requirements for Budgetary Frameworks of the Member States; and iii) Regulation (EU) No 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area. While a Commission proposal to amend these rules in 2017 did not gain traction, they may be amended as a result of the current discussion and consultation on the reform of the EU economic governance framework.

To strengthen the EU economic governance framework in line with the guidelines of the Five Presidents’ Report, in 2015 the European Commission created an independent advisory body – the European Fiscal Board – through Commission Decision (EU) 2015/1937. The board provides the Commission with an evaluation of the implementation of the EU fiscal framework; advises the Commission on the appropriate actual and prospective fiscal stance at both the national level and the aggregate euro-area level; and cooperates with all of the EU Member States’ independent fiscal institutions to exchange best practices and facilitate common understanding on matters related to the EU fiscal framework.

While some of the independent fiscal institutions in the EU have existed for some time, most are less than a decade old. Therefore, it may still be early to provide a conclusive assessment of their impact on discretionary fiscal stabilisation. At the same time, initial experience shows that they can contribute to i) providing better information to both voters and politicians, thereby strengthening the democratic process; ii) identifying and warning against unsustainable trends that can potentially cause fiscal crises; and iii) reinforcing the stability of the euro area as a whole.

At the same time, some academics have already pointed out some elements relative to independent fiscal institutions (such as democratic legitimacy, insufficient harmonisation among institutions) and the European Fiscal Board, which could deserve further discussion in the context of the review of the EU economic governance framework mentioned above.
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1. Independent fiscal institutions

1.1. Deficits and the deficit bias

Modern economies tend to experience variations in economic activity over time. They see shifts from periods of increasing economic activity (economic expansion) to periods of decreasing economic activity (recessions). According to an established school of economic thought, authorities in countries with market economies have two major tools at their disposal to influence the pace and direction of overall economic activity: fiscal policy and monetary policy.

Fiscal policy is ‘the use of public expenditures and revenues by the governments with the intention of influencing the economy’. Policymakers’ ability to adjust their fiscal policy to serve well-defined objectives allows them to respond in a timely manner to events that are not foreseen and may impact the economy of a country. On the other hand, if fiscal policy is distorted, it can have significant economic consequences. In support of this view, it has been noted that the deficit and the debt in a number of major economies have been increasing since the 1970s, during both good and bad times. The persistence of a deficit over so long a period in so many countries suggested to academics at the time that not only economic conditions but also political choices influence public spending. More recently, scholars have analysed the question further and have identified three main sources of deficit bias and their underlying causes:

- **policymakers’ myopia** (as highlighted by Alesina and Tabellini): because it will no longer benefit from the right to spend public resources if it is voted out of office, the incumbent party finds it optimal to spend more now and pass the problem of repaying the debt to its successor, thus causing a ‘partisan’ deficit bias;
- **opportunism** (as shown by Rogoff and Sibert): to improve its re-election chances, the incumbent party opportunistically spends more than a hypothetical social planner, just to appear more competent to voters. This behaviour is facilitated by budgetary opacity that masks the fiscal truth, such as when policymakers are vague about economic

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1 The movement of the economy through these alternating periods of growth and contraction is known as the business cycle. See Jeffrey M. Stupak, ‘Fiscal Policy: Economic Effects’, Congressional Research Service, 2019.


4 A government incurs a deficit when its expenditures exceed its revenues. It generates a surplus if revenues are greater than expenditures. If its revenues equal its expenditures, then it is running a balanced budget.

5 Roel M.W.J. Beetsma and Xavier Debrun, ‘Introduction: Can independent fiscal institutions be useful?’, in Roel M.W.J. Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?

6 This avenue was explored already in the 1970s. In his article, ‘Improving Fiscal Performance Through Independent fiscal institutions’, Robert P. Hagemann notes that ‘The Political Business Cycle’ by William Nordhaus, published in April 1975, is among the first articles to find such a significant relationship.


8 Carlos Mulas-Granados ‘Independent fiscal institutions in theory: First principles’ in Roel M.W.J. Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?


assumptions underpinning the budget or when they resort to creative accounting and off-budget financing schemes;\(^{11}\)

time-inconsistency (again investigated by Alesina and Tabellini): ex-ante policy positions (typically consistent with the national interest) are conveniently considered by policymakers to be less desirable ex-post, when electoral and regional interests dominate. Problems of time inconsistency can also arise when a government saddles a successor (and possible rival) government with a larger debt burden, leaving it less fiscal ‘space’ than otherwise to sustain existing programmes.\(^{12}\) Time inconsistency is not only a potential source of deficit bias but also of pro-cyclicality.

1.2. Responses to the deficit bias

The first response to the deficit bias problem was to formulate fiscal rules designed to constrain governments.\(^{13}\) Until the early 1990s, such fiscal rules were in operation in only a few countries. The following 10 years witnessed both an increase in the countries using fiscal rules and in the number of fiscal rules adopted; this increase has slowed down since the 2000s. Currently, the IMF considers that about 80 countries conduct fiscal policy within a formal framework comprising one or more fiscal rules.\(^{14}\) Given that political factors could always force sovereign governments to violate fiscal rules, these rules have evolved over time.

Nevertheless, the problem with fiscal rules is that they cannot encompass all possibilities. For example, they are less efficient during crises: the global financial crisis, the EU sovereign debt crisis and the recent coronavirus crisis showed the limits of these rules and gave credence to the opinion that rules alone are insufficient to constrain policies. Governments are, after all, constraining themselves, so the capacity of fiscal rules to improve fiscal performance has always depended on how governments perceive the costs (in terms of political capital or other) of breaching them. This led to the second response to the deficit bias, i.e. the establishment of independent fiscal institutions\(^{15}\) that could complement the role of the fiscal rules.

1.3. Independent fiscal institutions

1.3.1. Origins of the idea

Since the beginning of the 1990s, many countries around the world have delegated\(^{16}\) their monetary policy to an independent monetary authority, with the logic that a well-defined principal-agent relationship between the government and the monetary authority could eliminate the inflation

\(^{11}\) Carlos Mulas-Granados, ‘Independent fiscal institutions in theory: First principles’, in Roel M.W.J. Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?.


\(^{13}\) For the European Union, these are the Maastricht criteria, according to which, the government deficit must not exceed 3% of gross domestic product (GDP) and the public debt must not exceed 60% of GDP, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

\(^{14}\) Beetsma and Debrun, ‘Introduction’ op. cit.

\(^{15}\) The option of delegating fiscal policy to an independent fiscal authority that would conduct fiscal policy along technocratic criteria is not contemplated by any country today, because these bodies raise issues of democratic legitimacy and accountability, and because politicians have been very reluctant to delegate a significant part of their mandate to a group of unelected technocrats.

\(^{16}\) In his paper “The Troika is Dead, Long Live the Domestic Troikas?": The Diffusion of National Independent fiscal institutions in the European Union’, Tobias Tesche notes that the term delegation describes a situation in which a principal grants an agent authority that is subject to ex-ante and ex-post controls. If the agent acts outside his mandate, he will be sanctioned under the ultimate threat of revoking the granted authority.
Independent fiscal institutions in the EU

In this relationship, the monetary authority can do things such as changing interest rates or targeting the exchange rate or the money supply to ensure price stability or low inflation, without regard to incumbent approval ratings or re-election prospects. It was in this context that the idea surfaced in academic discussion on whether a similar choice should be made with regard to fiscal policy.

A similar delegation of fiscal policy to an independent fiscal authority was seen as a method of counteracting the deficit bias. The idea of delegating actual fiscal decisions to independent experts, however, never caught on. The probable reason was the view that fiscal decisions are intrinsically much more redistributive and hence more political than monetary-policy decisions, since a stand must be taken on exactly which taxes or government expenditures to change; therefore, fiscal decisions cannot be outsourced by a democratically elected government to an unelected independent authority.

1.3.2. The Commission's definition

The Commission defines independent fiscal institutions as...

1.3.3. The element of independence

An independent fiscal institution therefore includes a group of non-elected persons who are given strong independence similar to central bank monetary policy committees and national audit institutions. However, independent fiscal institutions are different from the former, because they deal with fiscal and not monetary policy, and can be different from the latter, because their mission is to analyse and assess the technical soundness of legislative proposals in the fiscal area, whereas national audit institutions inspect the financial and legal integrity of the public sector.

17 In simple words, the notion of inflation bias implies that, where monetary policy is set by a government, this government’s determination to maintain price stability may be compromised by short-term electoral pressures, such as a desire to reduce unemployment. This should not happen if price stability is entrusted to an independent institution – a central bank – with a clear mandate.


20 See the European Commission webpage dedicated to independent fiscal institutions.


22 Independence and non-partisanship refer to the ability of an independent fiscal institution to undertake its duties free from political pressure or influence. A fiscal institution that is not independent may struggle to present a critical view of government plans and policy choices when it is most needed. Similarly, an independent fiscal institution that attempts to take on board bi-partisan or multi-partisan views, rather than being strictly non-partisan, risks coming under political influence or moderating legitimate evidence-based expert criticisms in favour of cross-party consensus.

23 In its relevant webpage, the Commission notes that courts of auditors can be considered independent financial institutions if their activities go beyond accounting control and cover any of the relevant tasks.

24 George Kopits, 'Independent Fiscal Institutions: Developing Good Practices', draft prepared for the third annual meeting of OECD Parliamentary budget officials, Stockholm, April 29, 2011. In another paper, entitled 'Some myths...
Nevertheless, while the majority of the OECD countries’ independent fiscal institutions have been
designed to be highly autonomous and most score particularly well on variables related to
leadership independence and transparency, they may in practice face obstacles related to access
to information, financial independence and operational independence.

The fiscal institution must be given an explicit and realistic objective (e.g. the evolution of the
public debt) by elected officials. The fiscal institution must also be held accountable. This can be
achieved by means of the publication of annual reports or periodical auditions. Failure to achieve
the objective must give rise to sanctions.

2. What do independent fiscal institutions do?

There are currently about 40 independent fiscal institutions in the world, the majority of which are
in the EU. Some of them have existed for some time: the Dutch Central Planning Bureau was created
in 1945, the Danish Economic Council in 1962, the German Council of Economic Experts in 1963 and
the US Congressional Budget Office in 1974. Belgium and Austria’s such institutions were
established in 1989 and 2002, respectively. However, the major push – at least in the EU – followed
the EU sovereign debt crisis, in part ensuing from the regulatory obligation for most EU Member
States to assign to ‘independent bodies’ the task to monitor compliance with fiscal rules at the
national level and to either produce or at least assess macroeconomic and fiscal forecasts underlying
their national budgets.

As mentioned earlier, independent fiscal institutions do not decide on fiscal matters, because a
budget is the financial translation of a political platform that elected policymakers are legitimately
expected to implement. In liberal democracies, this is best summarised by the core principle of ‘no
taxation without representation’. Instead, they provide one or more of the below-listed services:

- production (or at least endorsement) of macroeconomic forecasts;

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25 For example, selection on the basis of merit and technical competence; a defined term length different from political
cycle; and defined criteria for dismissal.
26 The independent fiscal institution faces hurdles in i) setting its own work programme within the bounds of its
mandate; ii) undertaking research and analysis at its own initiative; iii) making policy recommendations; and iv) having
its own staff or website.
27 The independent fiscal institution may not have a separate budget line and does not have a multiannual funding
commitment.
28 Lisa von Trapp and Scherie Nicol, ‘Measuring IFI independence: A first pass using the OECD IFI database’ in Roel M.W.J.
Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?.
29 Otherwise it might be tempting for an incoming government to set an overly ambitious debt-reduction target and then blame the fiscal institution for failing to deliver.
30 Signe Krogstrup and Charles Wyplosz, ‘Dealing with the Deficit Bias: Principles and Policies’, in Joaquim Ayuso-i-Casals,
Servaas Deroose, Elena Flores and Laurent Moulin (eds.), Policy Instruments for Sound Fiscal Policies – Fiscal Rules and
Institutions.
31 Lars Calmfors, The Roles of Fiscal Rules, Independent fiscal institutions and Fiscal Union in EU Integration, Swedish
32 See Section 4 on the EU legal framework below.
33 Roel W.M.J. Beetsma and Xavier Debrun, ‘Independent fiscal institutions: Rationale and Effectiveness’, IMF Working
Paper, April 2016.
35 They are obliged under the two-pack regulations to at least endorse them.
production of budgetary forecasts that are used as a numerical benchmark to assess the compliance of the government’s plans with fiscal rules. Alternatively, independent fiscal institutions endorse the government’s budgetary forecast;

- independent assessment of compliance with the EU fiscal governance framework;\(^{36}\)

- independent estimation – at various stages of the budgetary cycle – of the budgetary impact of measures envisaged by fiscal authorities (policy costing);

- analysis of long-run sustainability of public finances. It is noted that, while that analytical task could be carried out by research or academic institutions as well, the added-value of conferring it to a fiscal institution lies in its capacity to properly integrate computations in a broader narrative supporting the general objective of promoting sound public finances;

- promotion of fiscal transparency (although this is explicitly mentioned in just a few countries);

- recommendations on fiscal policy (the fiscal stance, the nature and/or composition of fiscal measures or the consequences of alternative policies).\(^{37}\)

Independent fiscal institutions provide better information to both voters and politicians. Moreover, they reduce informational asymmetries between them by providing accurate information on actual deficits and their long-run consequences. Independent fiscal institutions also mitigate common-pool problems through accurate costing of various spending and tax cut proposals. Furthermore, they can help identify and warn against unsustainable trends that can potentially cause fiscal crises.\(^{38}\) Lastly, by institutionalising and codifying the state’s intent towards improving the informational basis of fiscal policy, independent fiscal institutions contribute towards approaching the public with greater openness on aspects such as government structure and functions, fiscal policy intentions, public sector accounts, and projections.\(^{39}\)

3. A typology of independent fiscal institutions

Based on the above, the Commission identifies three groups of independent fiscal institutions.\(^{40}\)

- The first group gathers a number of entities tasked with the production of macro-economic and budgetary forecasts, which can help reduce bias in fiscal policy by eliminating politically motivated optimism. In some instances, the government is legally required to either incorporate the fiscal institution’s macroeconomic projections or to justify not doing so, while in other countries the independent forecasts serve as a guideline.\(^{41}\)

\(^{36}\) Assessments typically include judgment on whether the rules have been followed in the past or whether the projected budgetary developments are in line with requirements.


\(^{39}\) James E. Alt, David Dreyer Lassen, ‘Independent fiscal institutions and fiscal transparency’ in Roel M.W.J. Beetsma and Xavier Debrun (editors), *Independent fiscal institutions: Watchdogs or lapdogs?*.

\(^{40}\) Chapter on *Independent fiscal institutions across the EU* from the Report on Public Finances in EMU 2014, European Economy institutional papers, European Commission, 2014, pp. 54-68.

The adoption of the two-pack set of legislation (see below) has been instrumental in making these entities’ contribution to the annual budget cycle more visible. These institutions are already well established and with ample staffing, and usually enjoy autonomy in practical terms within the public sector on account of their technical expertise. Examples of such institutions include the Dutch Bureau for Economic Policy Analysis (CPB), the Belgian Federal Planning Bureau and the Austrian Institute for Economic Research (WIFO).

The second group concerns entities mostly tasked with the assessment of fiscal rules as per the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and Regulation (EC) No 473/2013. They are already established institutions, such as the National Audit Office of Finland or the Dutch Raad van State (Council of State).

The third group is composed of recently established, lightly staffed, standalone bodies. Their mandate is often solely focused on fiscal issues, including periodic fiscal policy and rule assessments. An example of such an independent fiscal institution is the Slovak Council for Budget Responsibility.

The above grouping is not set in stone, as independent fiscal institutions from the same group may perform significantly different actions. For example, the involvement of independent fiscal institutions in budgetary forecasts can range from a 'simple' review of the government’s economic and budgetary forecasts (including the underlying assumptions and models used), to preparing a set of macroeconomic and revenue projections that the government is obliged to use.

Generally, the structure and mandate of independent fiscal institutions are specified in various legislative statutes that do not necessarily confer them independence. In a number of countries, fiscal institutions enjoy proven autonomy and operate within the executive (Netherlands), the legislative (United States) or the judicial branch (France).

In practice, most independent fiscal institutions gain effective independence over time through actual practice with support from the media and the general public, by setting precedents that can be costly for the government to reverse in terms of reputational damage in the financial and political arena. But virtually all independent fiscal institutions are fragile and open to challenges almost continuously posed by the government, in the form of attempts to publicly discredit the institution or threats to reduce its funding. Typically, it takes a full electoral cycle (that is, two consecutive

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43 CPB Netherlands Bureau for Economic Policy Analysis. Hageman notes that the CPB, among other tasks, prepares the macroeconomic forecasts that are in practice almost always adopted by the government in the preparation of the budget. The CPB also provides projections for the main budgetary aggregates based on its macro forecast.

44 In Belgium, the Federal Planning Bureau (FPB), on behalf of the National Accounts Institute (NAI), prepares the macroeconomic forecasts that the government is legally required to use in the preparation of the budget. There is empirical evidence (see below) suggesting that the delegation of macro forecasting in Belgium has had a measurable impact in reducing this source of bias in fiscal policy.

45 WIFO Austrian Institute of Economic Research. Hageman notes that the institute supplies short- and long-run macroeconomic projections, which, even though not legally mandated, normally underpin the government’s budget.

46 National Audit Office of Finland.

47 Council of State.

48 Slovak Council for Budget Responsibility.


50 Regrettably, there have been two episodes (Hungary and Venezuela) of independent fiscal institutions that, despite a track record of competence and non-partisanship, could not survive the transition to a new government that did not tolerate independent institutions.
institutions of different political parties), and possibly a full economic cycle, to declare that a fiscal institution has a reasonable chance of success.

In most countries, at its inception, the fiscal institution is usually greeted by the media and public opinion with unrestrained scepticism, or, at best, with indifference. If the fiscal institution is further seen as hesitant or simply reluctant to venture beyond issuing pronouncements (in the genre of ‘on the one hand and on the other’) about a budget bill or a policy proposal, the public will eventually regard it with apathy and ignore its views. To avoid such a prospect, the fiscal institution must prepare and disclose real-time quantitative estimates and projections of the likely impact of proposed legislation. Such estimates, along with all the necessary caveats, can then be used as the basis of an informed dialogue, both in the legislative and the public domain, as an essential input to actual policymaking.

4. The EU legal framework for independent fiscal institutions

Several EU legislative acts require that fiscal rules be monitored by ‘independent bodies’ including independent fiscal institutions. Today, 26 out of 27 Member States (except Poland) have fiscal institutions, the vast majority of which were established after 2010.

4.1. The Council Directive on Requirements for Budgetary Frameworks of the Member States

The Directive on requirements for national budgetary frameworks, adopted in November 2011 as part of the ‘six-pack’ legislation on economic governance, already contained a reference to the need for independent bodies.

According to recital 16 of the directive, numerical fiscal rules should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States.

Article 4 (1) further stipulates that the macroeconomic and budgetary forecasts on which Member States must base their fiscal planning are compared with the most updated forecasts of the Commission and, if appropriate, those of ‘other independent bodies’.

Finally, Article 6 (1) states that national numerical fiscal rules must – among other things – contain specifications as to the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the national fiscal authorities.

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51 In the sense that there is no independent institution endorsed with the specific tasks mentioned above. Indeed, in the Commission’s 2019 country report on Poland, it is noted that ‘Currently in Poland, some but not all of the functions usually assigned to fiscal institutions are executed by several bodies, differing in terms of impact they can make. This scattered approach limits their potential influence on policymakers’.


53 See here also recital 11, according to which ‘Forecasts by the Commission and information regarding the models on which they are based can provide Member States with a useful benchmark for their most likely macrofiscal scenario, enhancing the validity of the forecasts used for budgetary planning. […] Forecasts from other independent bodies can also provide useful benchmarks’. 
4.2. The intergovernmental fiscal compact and the Commission’s common principles

The Treaty on Stability, Coordination and Governance\(^{54}\) was signed by 25 EU Member States (at that time, all Member States except for Czechia and the United Kingdom) on 2 March 2012, and came into force on 1 January 2013. For euro area members, the full text of the treaty is binding, whilst non-euro area members can choose which part of the treaty they would be bound by.

Its main aim was to increase the local ownership and enforcement of the provisions of the Stability and Growth Pact by embedding them into legislation at the national level. This included the requirement to have independent bodies in place that monitor compliance with fiscal rules and produce or endorse forecasts that underpin national budgets.\(^{55}\)

As part of the fiscal compact, the contracting parties undertook the obligation to introduce into national law rules on a correction mechanism to be triggered automatically in the event of significant observed deviations from the medium-term objective or the adjustment path towards it (Article 3 (1)(e)) and (2)).\(^{56}\)

As part of the implementation of the TSCG, the Commission, in its June 2012 communication on national fiscal correction mechanisms\(^{57}\) (COM(2012) 342), put forward common principles underlying the national correction mechanisms.

According to the seventh (and last) common principle, the credibility and transparency of the correction mechanism is supported ‘by independent bodies or bodies with functional autonomy acting as monitoring institutions’.

The design of these bodies takes into account the already existing institutional setting and the country-specific administrative structure. The necessary (high) degree of functional autonomy that these bodies need is guaranteed by national legal provisions i) establishing a statutory regime grounded in law; ii) guaranteeing freedom from interference, including the capacity of those bodies to communicate publicly in a timely manner; iii) laying down nomination procedures based on experience and competence; and iv) ensuring adequacy of resources and appropriate access to information to carry out the given mandate.

The public assessments provided by these institutions cover the following situations: i) circumstances warranting the activation of the correction mechanism; ii) circumstances requiring the triggering, extending or exiting of escape clauses; and iii) circumstances requiring to verify whether the correction is proceeding in accordance with national rules and plans. To reinforce this monitoring, it is stipulated that a Member State is obliged to comply with the assessment of these bodies; alternatively, it must publicly explain why it is not doing so.

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54 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. It is more widely known, by one of its chapters, called the ‘Fiscal Compact’.


56 For more information on the fiscal framework of the EU, see Angelos Delivorias, ‘Introduction to the fiscal framework of the EU’, EPRS study, December 2020.

4.3. The two-pack Regulation (EU) No 473/2013 on enhanced budgetary monitoring

Regulation (EU) No 473/2013\textsuperscript{58} adopted in May 2013 as part of the 'two-pack' legislation introducing enhanced fiscal governance arrangements for euro area Member States replicated the common requirements of the TSCG with regard to the essential structural features inherent to independent bodies. It established a link to the legislation mentioned in points 4.1 and 4.2 hereinabove, by requesting that independent bodies assess compliance with the national numerical fiscal rules identified in Directive 2011/85/EU and the two-pack balanced-budget rule (the latter being strongly inspired by the rule laid down in the TSCG).\textsuperscript{59}

Recital 10 to the regulation provides that 'Unbiased and realistic macroeconomic forecasts\textsuperscript{60} provided by independent bodies (or bodies functionally autonomous from a Member State’s budgetary authorities) should be used throughout the budgetary procedure. In order for those monitoring bodies to fulfil their mandate effectively, they must be based on national legal provisions ensuring a high degree of functional autonomy and accountability.\textsuperscript{61} Article 4 provides that national medium-term fiscal plans and draft budgets are based on independent macroeconomic forecasts and must indicate whether the budgetary forecasts have been produced or endorsed by an independent body.

Article 5 repeats the TSCG provision mentioned above, that Member States must have in place independent bodies for monitoring compliance with numerical fiscal rules. Those bodies should provide public assessment, among other things, a) on the occurrence of circumstances leading to the activation of the correction mechanism; b) on the occurrence of circumstances possibly allowing a temporary deviation from the medium-term objective or the adjustment path towards it\textsuperscript{62} and; c) on whether the budgetary correction is proceeding in accordance with national rules and plans. Recital 10 further specifies that, given the diversity of possible and existing arrangements, it is possible for more than one independent body to be in charge of monitoring compliance with fiscal rules, as long as there is a clear allocation of responsibility and as long as there is no overlap of competency over specific aspects of the monitoring.

It must be noted however, that the regulation does not explicitly envisage sanctions against Member States that have not set up such independent bodies. On the other hand, the non-application of the provisions of the regulation entitle the Commission to launch an infringement procedure\textsuperscript{63} against such Member States.

\textsuperscript{58} Regulation (EU) No 473/2013.


\textsuperscript{60} Article 2 of the regulation defines such forecasts as ‘macroeconomic forecasts produced or endorsed by independent bodies’, and also defines these bodies (see next footnote).

\textsuperscript{61} Similar to the provisions of the TSGC, Article 2 of the regulation provides that those national legal provisions should stipulate that the independent fiscal bodies: i) should have a statutory regime grounded in national laws, regulations or binding administrative provisions; ii) cannot take instructions from the budgetary authorities of the Member State concerned or from any other public or private body; iii) should have the capacity to communicate publicly in a timely manner; iv) should adopt procedures for nominating members on the basis of their experience and competence; (v) should have adequate resources and appropriate access to information to carry out their mandate.

\textsuperscript{62} Points (a) and (b) refer respectively to Articles 6(2) and 5(1) of the Stability and Growth Pact’s preventive arm, i.e. Regulation (EC) No 1466/97.

\textsuperscript{63} For more details, see the relevant webpage of the European Commission.
4.4. Attempts to integrate the fiscal compact into EU law

The intergovernmental approach used to adopt the TSCG was understood as a way to take the necessary steps immediately when, at the height of the economic and financial crisis, progress was blocked within the European Council. Hence, the contracting parties agreed to seek the integration of the fiscal compact into EU law at most within five years of the date of its entry into force, i.e. by 1 January 2018.64

The European Parliament has also called in various resolutions for the substance of the TSCG to be brought under the Treaties, arguing that, to be effectively legitimate and democratic, the governance of a genuine economic and monetary union (EMU) must be placed within the institutional framework of the EU.65

Finally, the Commission’s May 2017 Reflection Paper on the Deepening of the Economic and Monetary Union66 recalled that agreement and referred to the possible integration of the fiscal compact into the EU legal framework during the 2017-2019 period.

Incorporating the fiscal compact into EU law would: simplify the legal framework and ensure more effective and systematic monitoring of the implementation and enforcement of fiscal rules; diminish the possible risks of duplications and conflicting actions inherent in the co-existence of intergovernmental arrangements alongside the mechanisms foreseen by EU law; and bring greater democratic accountability and legitimacy to the process.

In that context, in 2017 the Commission proposed a directive laying down provisions for strengthening fiscal responsibility,67 which in effect would transpose the rules of the TSCG and the common principles into EU law. According to the directive, Member States would designate independent bodies for monitoring compliance with the provisions in paragraphs 1 and 2 of the Directive. They would further have to ensure that, in the event of a significant observed deviation, these independent bodies would call upon the budgetary authorities to activate the correction mechanism and, after its activation, would provide public assessments to ascertain consistency of the planned measures with the established correction mechanism, the progress of the correction over the defined time-frame and the occurrence or cessation of any exceptional circumstances that may allow a temporary deviation from the correction path. Lastly, Member States would ensure that the budgetary authorities of the Member State concerned comply with the recommendations of the independent bodies made in the above assessments.

64 This political agreement was enshrined in Article 16 of the TSCG, according to which ‘Within five years, at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the Treaty on the European Union and the Treaty on the Functioning of the European Union, with the aim of incorporating the substance of this Treaty into the legal framework of the European Union’.  
65 For example, in its resolution of 12 December 2013 on constitutional problems of a multitier governance in the EU, the EP said that it ‘[b]elieves that the Community method should be used for all measures aimed at strengthening the EMU; recalls Article 16 of the TSCG’. Also, in its resolution of 24 June 2015 on the review of the economic governance framework, the EP recalled its ‘resolutions specifying that the creation of the European Stability Mechanism (ESM) and of the Treaty on Stability, Coordination and Governance (Fiscal Compact) outside of the structure of the institutions of the Union represents a setback to the political integration of the Union and, therefore, demands that the ESM and the Fiscal Compact be fully integrated into the community framework on the basis of an assessment of the experience with its implementation according to Article 16 of the TSCG and consequently made formally accountable to Parliament’.  
However, the directive does not seem to have gained traction in the Council. While there is no published explanation of this, possible explanations can be found in an opinion of the ECB on the subject. In this opinion, the ECB notes that the provisions of the proposed directive would weaken the fiscal compact, as i) they deviate substantially from the provisions of the TSCG; 68 ii) the TSCG contains provisions that exceed the scope of the directive. In addition, the ECB noted, most Member States that were contracting parties to the TSCG had already implemented the provisions of the fiscal compact into their national laws. Given the existence of points i) and ii), the implementation of the directive would result in "unequal and disparate fiscal rules throughout the Union". Lastly, with regard to independent fiscal institutions, the directive contained provisions similar (or related) to provisions in the "two-pack" regulation above.

4.5. State of play

Overall, there is considerable progress in the implementation of the EU legal framework relating to independent fiscal bodies throughout the EU. All Member States signatories to the TSCG, with the exception of Poland, 69 have one or several operational independent fiscal bodies in place.

Recent research indicates that, of the 19 euro-area Member States, five 70 rely on macroeconomic forecasts produced by independent forecasters ("independent production model"), while for the rest of them, ministries of finance have retained the remit for producing the official macroeconomic forecasts which are then assessed by independent fiscal institutions in all but one of these countries ("independent endorsement model"). 71 With regard to the second model, while this endorsement process is set out in a dedicated memorandum of understanding between independent fiscal institutions and ministries of finance in some Member States (e.g. in Ireland and Latvia), in others it is less well defined. 72

Many euro-area independent fiscal institutions base their endorsement of the government's macroeconomic forecasts on comparisons with forecasts of other institutions. 73 Others (e.g. in Italy) go further and employ their own models in the process of endorsement. Moreover, in about half of the Member States using the endorsement model (Cyprus, Ireland, Italy, Lithuania, Latvia and Spain), the endorsement of the government's macroeconomic forecasts is clearly worded, while in the other half it can only be derived implicitly. 74

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68 This is due, in particular, to the fact that the proposed directive did not contain any reference to the Member States' obligation under the TSCG to have their budgetary position in balance or in surplus, to keep the structural deficit to an upper limit of 0.5% of GDP, or to ensure rapid convergence towards the medium-term objective.

69 For a useful overview of the advisory role played by independent national fiscal bodies in the preparation of the budgets of the EU Member States, see Joost Angerer and M. Sabol's in-depth analysis on "The role of national fiscal bodies", Economic Governance Support Unit of the European Parliament. The publication is regularly updated.

70 Austria, Belgium, Luxemburg, the Netherlands and Slovenia

71 The exception from this rule is Finland, where a special mechanism has been put in place, ensuring that the macroeconomic forecast underpinning budgetary planning is produced independently within the Ministry of Finance.


73 European Commission, International Monetary Fund, OECD, central banks, think tanks, economic research institutes, universities, commercial banks, statistics offices, as well as consumer and business surveys.

5. The European Fiscal Board

The European Fiscal Board (EFB) is an independent advisory body of the European Commission. Its establishment was proposed in the 'Five Presidents' Report' as a way to strengthen the current economic governance framework. It was established with Commission Decision (EU) 2015/1937.

The European Fiscal Board is unique in that it is set up at the supranational level. This contrasts with the numerous independent fiscal institutions that have been established in both unitary and federal countries around the world, and particularly in individual EU countries over recent years, in accordance with the TSCG. Asatryan and Heinemann note that the European Fiscal Board has three separate mandates:

- to provide the Commission with an evaluation of the implementation of the EU fiscal framework. It is important therefore to stress that the European Fiscal Board does not have an executive role with respect to the application of enforcement rules and sanctions under the Stability and Growth Pact. Similarly, it does not have a direct say on budgetary decisions at the national or EU level;
- to cooperate with the Member States' independent fiscal institutions in order to exchange best practices and facilitate a common understanding on matters related to the EU fiscal framework. The authors note that this cooperation allows the European Fiscal Board to benefit from using data and other information provided by the national independent fiscal institutions, while national institutions can use the European Fiscal Board to amplify their messages and strengthen their position;
- to advise the Commission on the actual and prospective fiscal stance appropriate on both the national level and the aggregate euro-area level. The fiscal stance can be understood as the orientation given to fiscal policy by governments' non-compulsory decisions on tax and expenditures, with the intention to contribute to the economy.

The mandate of the EFB in this area is justified by the fact that the euro area dimension of the fiscal stance can contribute to improving the coordination of fiscal policies in the euro area and, as a result, to the smooth functioning of the EMU. Keeping with the

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75 ‘Completing Europe's Economic and Monetary Union’, report by Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz. The aforementioned were presidents of the Commission, the Council, the Eurogroup, the ECB and the European Parliament, respectively. The report noted, among other things, that 'In the short run (Stage 1), the current governance framework should be strengthened through the creation of an advisory European Fiscal Board. This new advisory entity would coordinate and complement the national independent fiscal institutions that have been set up in the context of the EU Directive on budgetary frameworks. It would provide a public and independent assessment, at European level, of how budgets – and their execution – perform against the economic objectives and recommendations set out in the EU fiscal governance framework. The composition of the Board should be pluralistic and draw from a wide range of expertise. The mandate of this new European Fiscal Board should rest on a number of guiding principles as set out in Annex 3'.


77 Zareh Asatryan and Friedrich Heinemann, 'The European Fiscal Board: An experiment at the supranational level' in Roel M.W.J. Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?.

78 See Marco Buti, Lucía Rodríguez Muñoz, 'Why we need a positive fiscal stance for the Eurozone and what it means', VoxEU article, 28 November 2016. For a brief discussion on how the IMF assesses the fiscal stance, see IMF, 'Guidelines for fiscal adjustment'. In its reports, the EFB defines the annual change in the structural primary budget balance. For more information on the structural primary budget balance, see Ángelos Delvoria, 'Introduction to the fiscal framework of the EU' EPRS study, December 2020. When the change in the structural primary budget balance is positive, the fiscal stance is said to be restrictive; when the change is negative, it is said to be expansionary.

79 For a wider discussion on why the fiscal stance for the euro area was only calculated as such after the EU sovereign debt crisis broke, see the foreword by the EFB Chair, Prof. Niels Thygesen, in the first ‘assessment of the prospective fiscal stance appropriate for the euro area’ report, published on 20 June 2017.
cycle established with the European Semester, the appropriate fiscal stance is published by the EFB before its evaluation of the implementation of the fiscal framework of the EU.

The European Fiscal Board consists of a chair and four members and is supported by a secretariat. The chair and members are experts on fiscal policy, public finances and macroeconomics, with experience in European economic governance and the EU’s fiscal rules.

The EFB members are required to act independently and neither seek nor take instructions from any EU or national institution, bodies or governments, including the European Commission (as they are not employees of the Commission, despite the fact that the EFB secretariat is attached to the Commission).

The European Fiscal Board publishes an annual report of its activities. Its most recent (fourth) annual report was published on 20 October 2020. The report starts with an overview of the main macroeconomic and fiscal developments in the previous year, and then proceeds with evaluating how the EU fiscal framework (mainly the Stability and Growth Pact) was implemented in 2019. Another chapter focuses on the role of independent fiscal institutions in medium-term planning and in the production or endorsement of macroeconomic forecasts underpinning governments’ budgets. Next, it provides an assessment of the fiscal stance in 2019. The report concludes with a discussion, already launched in the 2018 and 2019 reports, on the evolution of the EU fiscal framework set in the context of the governance review launched by the Commission and taking into consideration the impact of the coronavirus pandemic on the EU Member States’ public finances.

For a useful summary of all reports published by the European Fiscal Board, see the regularly updated briefings of the European Parliament’s Economic Governance Support (EGOV) Unit.

6. Recent research on independent fiscal institutions

6.1. The question of democratic legitimacy

Mark C. Suchman defines democratic legitimacy as ‘the assumption that the actions of an entity are desirable and fit within a structured system of social norms, values, beliefs and thoughts.’ Analysing the concept further, F. Scharpf differentiates between input legitimacy – which refers to citizens’ participation in the decision process – (‘government by the people’) and output legitimacy, which is the ability of institutions and executive bodies to deliver the expected results (‘government for the people’).

Two opposing arguments have been expressed regarding the democratic legitimacy of independent fiscal institutions. The proponents of the first are of the view that independent fiscal
institutions may have contributed to the improvement of democracy in that they have ensured ‘more independent expertise, transparent and public information, and knowledge that Parliaments can use to control and scrutinise their Government’s actions’. Others argue that they may contribute to increasing technocratic tendencies, where experts no longer inform decision-making but become the decision-makers, depriving democratically elected representatives of their policy tools. A review of those arguments sees them as being aimed at two distinct models of a fiscal institution:

- proponents of the first view see fiscal institutions through the prism of the *orchestrating* model, according to which governments establish independent fiscal institutions as orchestrators that rely on intermediaries (i.e. parliaments, media or rating agencies) to influence fiscal policy *indirectly*. A well-designed orchestration model improves instead the throughput legitimacy of fiscal policymaking, by functioning as an ‘accountability multiplier’ and enhancing the role of national parliaments.

- those who support the opposite view tend to see fiscal institutions in the light of the *trustee model*, where the government (trustor) entrusts a politically independent fiscal institution (trustee) with *direct* fiscal policy instruments (such as setting a debt or an expenditure ceiling). This vision of a fiscal institution is based on the success of the independent central bank model and extends, as a principal choice, its application to fiscal policy. Advocates of this model point to the *output* legitimacy of such an independent fiscal institution, as it brings increased fiscal discipline.

Based on the above it is possible to conclude that independent fiscal institutions can generate ‘technocratic input legitimacy’, as they improve the quality of fiscal policy deliberations by providing unbiased information and thereby contributing to the democratic process.

### 6.2. The question of (in)sufficient harmonisation

Xavier Debrun raises concerns regarding the lack of harmonisation among the independent fiscal institutions in the Member States, on the one hand, and among the independent fiscal institutions and the Commission, on the other.

With regard to the first, he notes that despite the convergence in remits sought through EU law, the capacity of an independent fiscal institution to deliver can vary significantly across Member States. Specifically, the median staff size of an independent fiscal institution in the EU does not exceed 12 full-time equivalents. *De jure* guarantees on access to relevant information – built into a memorandum of understanding backed by specific legal provisions – are also lacking in many

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88 For instance, through the dissemination of non-partisan analyses of fiscal policy choices.

89 ‘Throughput’ legitimacy is located between input and output and relates to the quality of the decision-making process.

90 Tesche, Legitimacy of independent fiscal institutions, 2019, pp. 21-35, op.cit.


92 Ways of measuring the impact on the conduct of fiscal policymaking include checking i) the compliance of the government with fiscal rules; ii) the decrease in budget forecasting errors; and iii) the fiscal literacy of the public of a country. Such an impact could also be reflected in lower sovereign bond spreads.

countries. Finally, a third of EU independent fiscal institutions cannot count on any structured channel of engagement with policymakers, such as an effective comply-or-explain provision, or regular hearings.

The author argues that this lack of harmonisation is due to the (absence of) specific regulation at EU level: Directive 2011/85/EU, the TSCG and Regulation (EU) No 473/2013 only mandated some elements of independent bodies' remits but failed to set 'best practices' in the design and operation of independent fiscal institutions, including guarantees of non-partisanship and independence, access to information, ring-fenced funding, and staffing commensurate to tasks. Tobias Tesche identifies further factors that contribute to the heterogeneity of independent fiscal institutions, among which the timing of their creation, historical path dependencies, party preferences (although he notes that their advocates do not stem from a particular corner of the political spectrum), or the political system.

Debrun notes that achieving some convergence among national independent fiscal institutions towards best international practice would be desirable for all: the Commission would appreciate stronger national commitments to EU-compatible fiscal frameworks, and independent fiscal institutions would gain broad acceptance and credibility more quickly, which is particularly valuable for new such institutions.

But how can such a convergence be accomplished? Michal Horvath argues in favour of a stronger enforcement of the relevant laws to ensure even levels of compliance across Member States. To achieve this, he suggests making a comprehensive assessment of both the legal transposition of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (and the relevant provisions in the EU legislation) and the practical day-to-day implementation of the provisions. Any shortcomings in legislative implementation should then be addressed through legal action involving the European Court of Justice. Furthermore, he suggests exploring further the possibility of enforcing minimum standards as regards operational matters (e.g. resources, access to information) or interaction with government through quasi-legal instruments (e.g. Codes of Conduct or Memoranda of Understanding).

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94 Specifically, five countries have no guarantees at all, four rely on a memorandum only, and five benefit from legal safeguards but have no specific memorandum in place to flesh out the legal provision.
96 ibid.
97 Tobias Tesche, “'The Troika is Dead, Long Live the Domestic Troikas?': The Diffusion of National Independent fiscal institutions in the European Union”, Journal of Common Market Studies, 2019, pp. 1211–1227. The author observes that independent fiscal institutions created after 2004 are more likely to harness their full orchestration potential through regular hearings in parliament.
98 The author gives the example of France and Finland, where the independent fiscal institutions are located within their country’s court of auditors. In other countries, however, a clean slate made it necessary to build new fiscal institutions from scratch.
99 Tesche argues that in presidential systems with a powerful executive (e.g. US), independent fiscal institutions are often attached to the parliament. On the other hand, in parliamentary systems with strict party discipline, a fiscal institution should ideally be a stand-alone body separated from both branches of government.
6.3. Potential issues resulting from divergent views

Debrun argues that another issue may stem from the fact that the Commission and the Member States’ independent fiscal institutions work with different information sets and fulfil specific mandates, thus giving importance to different elements. In addition, national independent fiscal institutions have to tread a fine line to avoid being branded as ‘agents’ of EU institutions or being at the service of their Member States’ governments. This can sometimes result in diverging views between a fiscal institution and the Commission on issues such as the adequacy of fiscal policy; the quality of macroeconomic and budgetary forecasts; the need for and magnitude of correction mechanisms or escape clauses as well as the most appropriate time for activating them; the need for invoking ‘other relevant factors’ in case of significant deviation from agreed objectives; or policy recommendations in the context of the European Semester annual policy coordination exercise. This, in turn, could create undesirable cacophony in national public debates, possibly undermining the credibility of both the independent fiscal institutions and the Commission and working against the initial intent to increase EU rules ownership through EU-friendly national frameworks.

To remedy these challenges, Debrun argues in favour of soft forms of coordination, such as regular and structured information-sharing, benchmarking and peer pressure. With regard to information-sharing, he specifies information should flow vertically between each independent fiscal institution and the Commission, as well as horizontally among the independent fiscal institutions themselves. To facilitate the necessary inter-institutional coordination, Debrun proposes to entrust the European Fiscal Board with organising regular exchange between them and the Commission. Lastly, with regard to forms of ‘harder’ coordination – that is, the formal recommendations to national governments issued by the independent fiscal institutions and the country-specific recommendations formulated by the Commission – he proposes ex-ante coordination on those recommendations between the independent fiscal institutions and the Commission. This may require the independent fiscal institutions and the Commission to agree ex ante on a division of labour in the formulation of such recommendations or on a rule specifying the circumstances in which one institution must align its fiscal recommendations to those of the other.

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101 For example, the fact that the Commission is a central player in the Member States’ annual policy coordination (e.g. European Semester) and in enforcing the EU’s fiscal rules means that it might pay greater attention to EU-wide considerations (such as the euro-area fiscal stance and its impact on the area’s balance of payments) than a national independent fiscal institution.

102 Debrun, 2019, op.cit.

103 The author notes that on the one hand, the Commission could clarify how it implements surveillance of the country in the context of the fiscal governance framework; on the other, the Commission’s own oversight work could benefit from the institution’s deeper knowledge of local constraints, customised statistical methodologies are a and institutional specificities.

104 Debrun, 2019, op.cit.
6.4. The independence of the European Fiscal Board

Asatryan and Heinemann\(^\text{105}\) note that the setup of the European Fiscal Board\(^\text{106}\) and the fact that it is accountable only to the Commission may create doubts relative to its perceived independence. The authors argue that one way to avoid such a situation would be to establish firm links with the Council and the European Parliament. A more direct approach, initially proposed by the Five Presidents' Report, would be to introduce a clause implementing the 'comply or explain' principle.\(^\text{107}\) Even in the absence of this clause, however, the authors are of the view that the European Fiscal Board should insist on well-reasoned answers from the Commission in cases of major disagreements. Developing a high level of public awareness over time, such as through a comprehensive and proactive communication strategy, will be another indirect instrument in the hands of the European Fiscal Board to establish authority over the decision-makers.

6.5. The aggregate fiscal stance of the European Fiscal Board

The authors also voice concerns with respect to the European Fiscal Board's second mandate, i.e. advising the European Commission on the appropriate fiscal stance on national and aggregate euro-area level.

They note that the fiscal stance has a broader objective than the fiscal rules, which includes macroeconomic stabilisation. They point out, however, that such a calculation can be challenging analytically and can potentially raise questions for which no academic consensus exists. Moreover, while the rules of the Stability and Growth Pact aim at long-run sustainability of public finances, the fiscal stance has a shorter time horizon and can be viewed as a 'discretionary demand management approach'. The authors express therefore the concern that, with no clear hierarchy between those objectives, the EFB's fiscal stance assessment may, at times, trade off long-run sustainability objectives against short-run stabilisation needs.

7. Independent fiscal institutions and (the future of) EMU

The past few years have seen several publications from institutions and academia reflecting on the adequacy of the EMU fiscal framework. Among the various criticisms raised, a recurrent one is that it is overly complex, which reduces its transparency and, by extension, the accountability of the main players involved in it. In this context, in the beginning of 2020 the Commission launched a review of the EU's economic governance framework and called on the stakeholders to reply to a consultation that would feed into possible future amendments.

\(^{105}\) Zareh Asatryan and Friedrich Heinemann, 'The European Fiscal Board: An experiment at the supranational level' in Roel M.W.J. Beetsma and Xavier Debrun (editors), *Independent fiscal institutions: Watchdogs or lapdogs?*.

\(^{106}\) The authors note that the term length of EFB members (three years) is shorter than the Commission's. In addition, the European Fiscal Board faces significant resource constraints: the chair and members are hired for 20 and 10 days a year respectively; the secretariat has a staff of six (half of the median independent fiscal institutions) and is attached to the Commission. This creates an unusual closeness with an institution, which is the subject of surveillance and creates concerns that the European Fiscal Board lacks the capacity to reassess the Commission's analyses and to experiment with new ones.

\(^{107}\) The 'comply or explain' principle combines voluntary compliance with corporate governance codes and a legal obligation to declare compliance with or explain deviations from a code. See Björn Fasterling and Jean-Christophe Duhamel, *The "Comply or Explain" Approach: Company Law's Conformist Transparency*, *Revue internationale de droit économique*, 2009, pp. 129-157.
It has been argued that the simplification of the complex set of fiscal rules would create additional space for stronger national independent fiscal institutions, whose expert judgement would contribute to achieving compliance with (simpler) rules. While independent fiscal institutions will (and possibly should) not evolve into fully independent entities dictating fiscal policy (as has been noted in the beginning of this paper), giving them more powers and with that achieving a more objective and transparent fiscal policy, could bring substantial benefits to sound and prudent governance of public resources.

First of all, delegating the monitoring of fiscal rules to national independent fiscal institutions, themselves being monitored by the European Fiscal Board, could strengthen EU-level fiscal coordination. Better coordination between the national and the EU levels and safeguarding against conflicts between them through fiscal institutions could also take place in relation to the centralised macroeconomic stabilisation instrument set out in the Five Presidents’ Report.

Independent fiscal institutions could also play a positive role in strengthening the financial market discipline. In theory, financial markets should penalise Member States that keep running deficits and thereby increase their debt load. The rationale behind this is that a higher debt load implies a bigger yearly contribution from the budget to pay it off, thereby reducing the possibility for the government to implement the necessary policies (without resorting to an additional debt increase). Moreover, past a certain point, the level of debt can be deemed not to be sustainable, leading the Member State to a default. This ‘point of no return’ blocks it from accessing the financial markets and in the worst case scenario creates wider repercussions for the economies of other Member States. Both the global financial crisis and the EU sovereign debt crisis have shown, however, that financial markets in general and in particular certain players on them (e.g., credit rating agencies) react with a lag and have a tendency to over-react, expressing opinions that may not have corresponded to essentially sound economic fundamentals. Therefore, ‘market discipline’ fails to exert sufficient ex-ante pressure in the direction of fiscal discipline during non-crisis periods.

It has also been claimed that the opacity of Member States’ governments with regard to their fiscal accounts has contributed to the discrepancy between the genuine state of many economies and their market evaluation. By rebalancing those informational asymmetries independent fiscal institutions could improve the accuracy and timing of credit rating downgrades, and symmetrically

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109 Namely, the fact that fiscal policy is redistributive and the redistribution of resources through governments cannot and should not be delegated; and the fact that there is no commonly agreed operational definition of what makes fiscal policy sustainable in the long run.

110 See, for example, the proposal formulated by Agnès Bénassy-Quéré, Markus Brunnermeier, Henrik Enderlein, Emmanuel Farhi, Marcel Fratzscher, Clemens Fuest, Pierre-Olivier Gourinchas, Philippe Martin, Jean Pisani-Ferry, Hélène Rey, Isabel Schnabel, Nicolas Véron, Beatrice Weder di Mauro and Jeromin Zettelmeyer, ‘Reconciling risk sharing with market discipline: A constructive approach to euro area reform’, CEPR policy insight, January 2018.

111 Martin Larch and Thomas Braendle, ‘Independent fiscal institutions: Neglected Siblings of Independent Central Banks? An EU Perspective’, Journal of Common Market Studies, 2018, pp. 267–283. The Five Presidents’ Report identified the need for a macroeconomic stabilisation capacity and established that such a capacity should first be developed within the EU budget and should not i) lead to permanent transfers between countries; ii) undermine the incentives for sound national fiscal policymaking; and iii) be an instrument for crisis management. In the debate that followed since the publication of the report, such a scheme has taken on various forms, with the latest one being an EU unemployment benefit reinsurance scheme (see, e.g., the opening statement by the Commission President, Ursula von der Leyen, in the European Parliament’s plenary session of July 2019). For a broader discussion around such schemes, see Gilles Thirion, ‘European Fiscal Union: Economic rationale and design challenges’, CEPS working paper, January 2017.

112 Again, however, it must be noted that the sustainability of a Member State’s debt is not an exact science, as the debate around the sustainability of the Greek debt has shown over the last decade.
contribute to the timely delivery of positive ratings after the economy recovers. Furthermore, by bringing sovereign bond ratings in line with economic fundamentals, independent fiscal institutions may contribute to reinforcing the stability of the euro area as a whole.

Furthermore, independent fiscal institutions could play an important role during the electoral cycle. If all parties to an election submit their economic programmes to the Member State’s fiscal institution for an assessment, this may help voters understand the fiscal consequences of the various electoral programmes (such as, for example, which societal groups will bear the burden of a possible fiscal adjustment). This would allow them to cast a more informed vote, in line with their fiscal preferences. Furthermore, such an assessment would create a practical and quantitative ‘reality check’ to the promises made by parties during the election campaigns.

113 In his paper ‘On the Legitimacy of Independent fiscal institutions in the European Union: Trustees or Orchestrators of Fiscal Discipline’, Tobias Tesche notes that in 2014, Moody’s referred extensively to the Portuguese fiscal council’s assessments in its decision to upgrade Portugal’s government bond rating.

114 The author notes that such a thing is already happening in the Netherlands, where, to facilitate a better understanding of the fiscal consequences of different electoral platforms, all of the parties running in the election submit their economic proposals to the Dutch fiscal council for an independent assessment. While the parties are not legally obliged to participate in this exercise, they do it voluntarily.

115 Tesche, Legitimacy of independent fiscal institutions, 2019, op.cit.
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Kopits, George, 'Some myths about independent fiscal institutions', contribution in Roel M.W.J. Beetsma and Xavier Debrun (editors), Independent fiscal institutions: Watchdogs or lapdogs?, CEPR Press, 2018.


'Independent fiscal institutions', or in some cases 'fiscal institutions', are an integral part of the EU's economic governance framework. This paper provides an introduction to these bodies and their role, the EU legal framework that underpins them, and a summary of the recent discussion around them in the context of the review of the wider economic governance framework in the European Union.