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European Commission
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Abstract

Following the introduction of EU legislation in the wake of the financial crisis, including the 2011 Directive on national budgetary frameworks and the 2013 "Two-pack" Regulation, EU Independent Fiscal Institutions (IFIs) have grown rapidly in number and have taken on a variety of tasks. At the same time, they have also come to exhibit substantial heterogeneity. In this paper, we review the existing regulatory and legal framework underpinning the activities of IFIs in order to identify possible avenues to strengthen the role of IFIs. In particular, the identified options relate to tasks, resources and independence safeguards of IFIs, taking international standards and best practice as a starting point and keeping in mind the need to preserve national ownership. This analysis provides useful insights and background to the Commission proposal for a reform of EU economic governance framework.

JEL classification: H60, H11, E62.

Keywords: independent fiscal institutions, fiscal councils, legislative reforms, fiscal governance, tasks and legal mandates, national budgetary frameworks.

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ABBREVIATIONS

ECFIN	Directorate-General of Economic and Financial Affairs
ECA	European Court of Auditors
EMU	European Monetary Union
EU	European Union
FGD	Fiscal Governance Database
IFI	Independent Fiscal Institution
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
SGP	Stability and Growth Pact
SIFI	Scope Index of Fiscal Institutions
SR	Suitability Review / Report on the suitability of the 2011 Directive
SWD	Staff Working Document
TSCG	Treaty on Stability, Coordination and Governance

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1. INTRODUCTION

The main objective of this paper is to review the requirements for independent fiscal institutions (IFIs) with a view to strengthening their role in the fiscal framework, also taking into account international standards and best practice.

If matched by adequate resources and a supportive fiscal framework, a strengthened IFI role can, in principle, help countries mitigate the numerous sources of fiscal deficit bias. According to the International Monetary Fund (IMF 2013), IFI analysis of short- and long-term implications of current policies may address fiscal myopia and partisanship on behalf of policymakers as well as imperfect information and misperception of the government's budget constraint on behalf of both policymakers and voters. According to the Network of EU Independent Fiscal Institutions (2021), IFIs could provide assessments of the fiscal and economic impact of public investments and are considered well-placed to carry out assessments of fiscal developments and long-term sustainability at the national level. It is acknowledged, however, that in order to effectively undertake these tasks, IFIs need a supportive fiscal framework in place. Key aspects of such a framework are an appropriate medium-term orientation of fiscal rules, a solid public financial management system and good statistical governance.

In recent years, various steps were taken to assess the legal framework governing IFIs. This paper draws inter alia on the conclusions of the so-called suitability review (SR) ([1]) undertaken by the European Commission, which is an analysis of how well the Council Directive 2011/85/EU (and other subsequent legislation) met its objective of fostering sound national budgetary frameworks in the EU Member States. The paper also addresses the issues raised in a report from the European Court of Auditors (ECA) ([2]). The discussion on possible ways to strengthen the impact of IFIs is part of the broader Economic Governance Review, which offers an opportunity to update the current legislation on national budgetary frameworks, including those governing IFIs. In this context, the paper also draws on the conclusions of the Conference on the role of IFIs that was organised by DG ECFIN on 9 December 2021 as well as on the Commission Communication on orientations for a reform of the EU economic governance framework, published on 9 November 2022 ([3]) and on the associated Commission legislative proposals published on 26 April 2023 ([4]).

The paper is organised as follows. Section 2 gives a brief summary of the current EU legislation related to IFIs, while Section 3 provides a concise overview of the current state-of-play with regard to IFIs in the EU. Section 4 looks at EU IFIs in relation to current best practice and at the suitability of the current EU regulatory framework. Against this background, Section 5 discusses possible reform avenues and Section 6 concludes.

[1] SWD (2020) 211 final. "Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States".

[2] For a link to the ECA report, see footnote 1.

[3] Commission communication from 9 November 2022. "Building an economic governance framework fit for the challenges ahead".

[4] Commission legislative proposals from 26 April 2023. "New economic governance rules fit for the future".

2. THE EVOLUTION OF EU IFI LEGISLATION

Following the Financial Crisis, there was a drive to strengthen the budgetary processes of the Member States in order to ensure better compliance with EU fiscal rules. To this end, in November 2011, the Council adopted Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (hereafter "the 2011 Directive") ([5]), as part of the so-called Six Pack. Although no specific provisions regarding the creation, design and tasks of IFIs were laid down in this legal act, the chapters concerning forecasts (Chapter III) and numerical fiscal rules (Chapter IV) nevertheless contain provisions with a bearing on such bodies.

As regards IFIs, the Directive stipulates that budgetary planning should be based on realistic macroeconomic and budgetary forecasts, with a requirement to provide a comparison with the most updated forecast of the Commission and, if appropriate, those of other independent bodies (Art. 4, par. 1). Furthermore, Member States should specify which institution is responsible for producing macroeconomic and budgetary forecasts (Art. 4, par. 5), where, in addition, the latter should be subject to regular, unbiased and comprehensive evaluation, including ex post evaluations (Art. 4, par. 6). In addition, the Directive requires that country-specific numerical fiscal rules contain provisions that ensure effective and timely monitoring of compliance with these rules by independent bodies or bodies endowed with functional autonomy (Art. 6, par. 1b). While not explicitly requiring these tasks to be fulfilled by IFIs, these provisions certainly allow for such a solution.

The Directive was followed by the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) ([6]), an inter-governmental agreement signed in March 2012 by all Member States (except Czechia and the United Kingdom). The cornerstone of the TSCG is its Title III, which sets out the so-called 'Fiscal Compact', binding the Contracting Parties (all euro area Member States and, on a voluntary basis, Bulgaria, Denmark and Romania) ([7]). Apart from including a requirement to enshrine a structural balance rule in national legislation (Art. 3, par. 1b), preferably in the constitution, and to set up a mechanism for automatic correction of significant deviations from it, the Treaty also includes a reference to independent institutions responsible at national level for monitoring compliance with the national rules (Art. 3, par. 2). The Contracting Parties also agreed to follow seven common principles for the national correction mechanisms put forward by the European Commission, one of which concerns the role and independence of these independent institutions ([8]).

To ensure ownership, the IFI-related principle stipulates that the design of the monitoring institutions should be consistent with the already existing institutional setting and the country-specific administrative structure. In addition, several criteria are put forward to guarantee a high degree of functional autonomy. Legal provisions should ground the statutory regime, mandate and accountability of these bodies. Strong safeguards should also be put in place regarding appointments and the adequacy of resources and access to information in relation to the mandate. Particular emphasis should be placed on allowing unhindered communication with the public. These criteria are spelled out in connection with the 'narrow mandate' of IFIs derived from the Fiscal Compact (i.e., assessing if and when the correction mechanism should be activated and, following its activation, verifying that the correction is proceeding according to national rules and plans, and assessing whether the conditions to trigger, extend or exit escape clauses are fulfilled). However, their formulation suggests that they should apply more generally to the whole range of activities of IFIs. The principle also sets out the 'comply-or-explain' principle, stating that national authorities shall either follow the advice from their national independent monitoring institution or explain why they deviate from it.

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[5] Council Directive 20211/85/EU on requirements for budgetary frameworks of the Member States.
[6] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union
[7] Agreement - Consilium (europa.eu)
[8] COM (2012) 342 final, "*Communication from the Commission – Common principles on national fiscal correction mechanisms*".

Many of the IFI-related elements of the Fiscal Compact have been mirrored in Regulation 473/2013 ([9]), which was adopted as part of the so-called Two Pack, in May 2013. This Regulation applies to all euro area Member States. Apart from requiring the latter to establish independent bodies to monitor compliance with national fiscal rules (Art. 5, par. 1) and to undertake the assessments mentioned above (Art. 5, par. 2), the Regulation also requires euro area Member States to base their national medium-term fiscal plans and draft budgets on macroeconomic forecasts either produced or endorsed by independent bodies and to indicate whether the budgetary forecasts themselves likewise have been produced or endorsed by such bodies (Art. 4, par. 4). The criteria regarding functional autonomy included in the TSCG are also taken up in the same Regulation (Art. 2, par. 1a). In April 2023, the Commission adopted three legislative proposals. The first to replace Regulation (EC) 1466/97 on the strenghtening of the surveillance of budgetary positions, the second to amend Regulation (EC) 1467/97 on the implementation of the excessive deficit procedure and the third to amend the Directive, aiming at a reform of the EU economic governance framework. In these proposals, the Commission proposed to strenghten IFI involvement in the budgetary process, while increasing the coverage of some existing requirements to all Member States.

3. IFIS IN THE EU – GROWING IN NUMBER AMID SUBSTANTIAL HETEROGENEITY

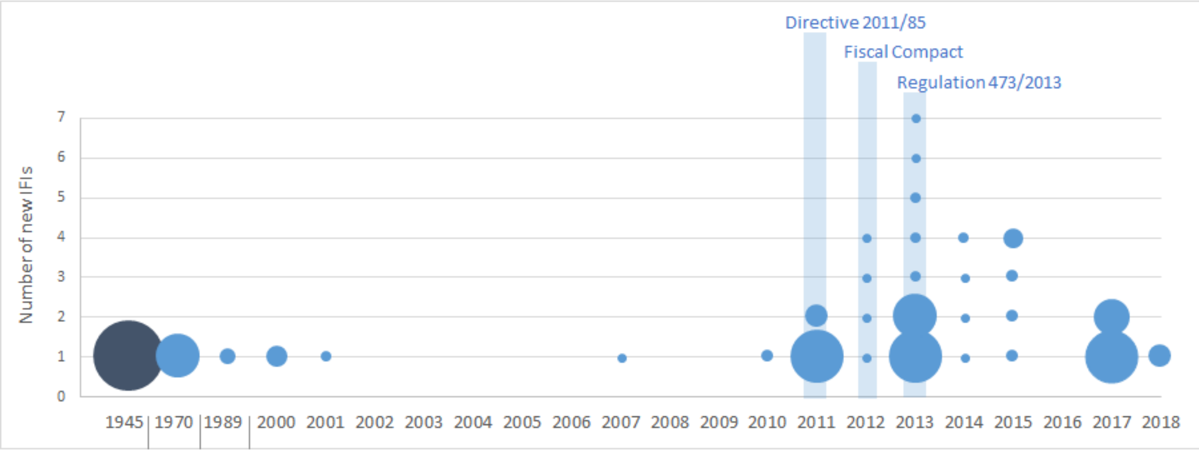
The evolution of the EU legal framework governing IFIs outlined in the previous section has no doubt been one of the driving factors behind the sharp increase in the number of IFIs observed in the EU over the last decade. Indeed, Figure 1 shows a concentration of new IFIs in the years following the new EU legislation ([10]). However, the relatively limited coverage of EU legislation in this field as well as the flexibility and room for interpretation that some rules and principles allow for when it comes to the exact design and characteristics of each IFI has led to large heterogeneity among these institutions. For example, a broad variety emerges with respect to the size of IFIs, as captured by the number of staff, ranging from 2 to 636. (Figure 1) ([11])

[9] Regulation 473/2013 of the European Parliament and the Council of 21 May 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.

[10] For more information on the early years of the establishment of IFIs, see Jankovics et al (2017).

[11] In four cases (LU-STATEC, NL-CoS, NL-CPB and AT-WIFO), the IFI function makes up only a part of the institution's mandate, but the institution reports the total number of staff of the whole institution.

Figure 1. **Establishment year of IFIs and their current relative size**



Source: Commission Services. Fiscal Governance Database (FGD), 2021 vintage.

Note: The graph shows the year of establishment of IFIs across EU Member States since 1945 and their relative current size. The size of the circles reflects the number of staff reported by IFIs in the 2021 FGD Survey (with the exception of the dark blue circle, which has been reduced in order to enhance visibility).

Size heterogeneity across IFIs seems to reflect heterogeneity in tasks, both with regard to the scope of actually performed tasks and with regard to the strength of the legal remit for the task in question ([12]). This variety reflects national specificities in the implementation and transposition of EU legislation into national law as well as inherent historical differences in national fiscal frameworks and administrative traditions. It may also reflect the explicitly narrow legal mandate for IFIs to be found in EU legislation (which, moreover, essentially applies only to euro area Member States) as explained in the previous section. As a result, some Member States have considered it sufficient to fulfil the narrow EU mandate, while others have expanded on it or, at least, have given IFIs the freedom and the means to do so.

[12] The term 'legal remit' is consistent with the terminology used in the FGD, which refers to tasks 'stipulated in legal remit'. The term 'legal mandate' is used interchangeably throughout the text.

Figure 2. **Tasks of IFIs**

Source: Commission Services. FGD, 2021 vintage.

Note: Data for all EU Member States. The Polish Supreme Audit Office is not included, which gives a total of 26 Member States. The presented tasks correspond to the classification of IFI activities and the relevant methodology introduced by the European Commission to calculate the Scope Index of Fiscal Institutions (SIFI index), which measures the breadth of tasks performed by IFIs (more information available at: https://ec.europa.eu/info/). For the possible scoring in the different dimensions, please see annex 1. For tasks 1-3, the 'middle' score described above is one, whereas the 'high score' is two (or three in case of task 3).

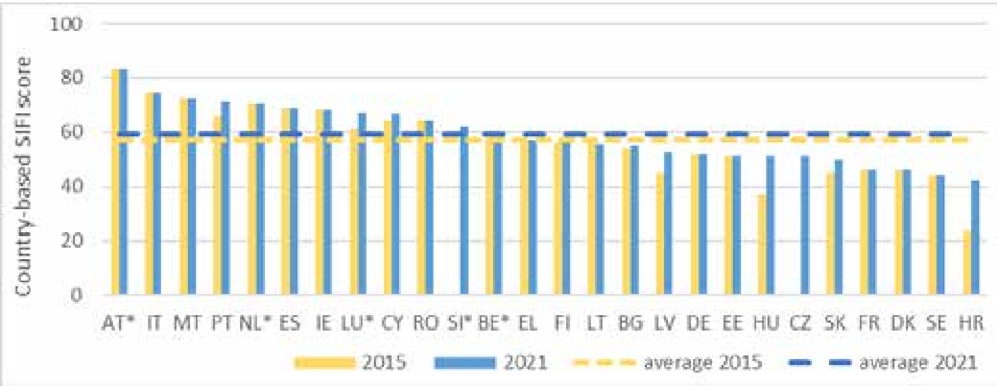
In virtually all Member States, IFIs undertake the task of monitoring compliance with fiscal rules and most IFIs are active in macroeconomic and budgetary forecasting, albeit with some heterogeneity in their scoring [13]. In contrast, only about two thirds of Member States have IFIs that undertake

[13] According to the FGD methodology, performance scores for these tasks take account of specific considerations, such as sector coverage, relation with state budget forecast and its preparation as well as provision of ex post evaluation and long-term projections. The scores for each dimension are combined into an overall index score for each institution. Performing more tasks and/or performing these more regularly, leads to a higher overall index score. The index places more weight on 'EU-oriented activities' (i.e. monitoring compliance of fiscal rules, macroeconomic and fiscal forecasting) than an equally weighted index. The weighting scheme for the EU-oriented index is as follows, with relative weights in square brackets: (i) monitoring of compliance with

sustainability analyses, promote fiscal transparency and issue normative recommendations, some without having it in their legal mandate. Having a certain task in its legal mandate seems to all but guarantee that the IFI performs it, at least to some extent ([14]). In contrast, if a task is not part of the legal remit, it is less likely to be performed, although some IFIs perform tasks on their own initiative, in particular in the areas of fiscal transparency and of normative assessments.

Over time, the scope of the tasks performed and the legal remit of most IFIs have changed relatively little. This is reflected in the relative stability of the Scope Index of Fiscal Institutions (SIFI index), which is depicted in Figure 3 for the years 2015 and 2021. The index places more weight on 'EU-oriented activities' (i.e. monitoring compliance of fiscal rules, macroeconomic and fiscal forecasting) relative to an equally weighted index. For 2021, the index ranges from just above 40 to just above 80 units across Member States, indicating a fair amount of heterogeneity in the scope of IFI activities, which has, however, diminished slightly since 2015 ([15]). Recent evidence from the FGD has further shown that during the COVID-19 pandemic, IFIs continued to perform most of their tasks according to their mandate (Weise, 2023). Several IFIs even picked up new tasks, in order to address the immediate research needs during the initial period of the pandemic. However, since many national fiscal rules were suspended, the IFIs role in monitoring fiscal rules was temporarily reduced.

Figure 3. **Scope index of fiscal institutions (SIFI index): 2015-2021**



Source: Commission services. FGD, 2015 and 2021 vintages.

Note: The graph shows the values of the SIFI index for 2015 and 2021. The blue dotted line depicts the 2021 average value across countries. The SIFI index measures the breadth of tasks performed by IFIs in the respective Member States. Member States with more than one IFI are marked with an * here (AT, BE, LU, NL, SI). For each of these five countries, the scores of the two individual IFIs are combined to calculate a single Member State score, taking into account potential overlaps. Slovenia and Czechia do not have scores from 2015, since their IFIs were at the time not (all) part of the Fiscal Governance Database. The Polish Supreme Audit Office is not included.

fiscal rules [30%]; (ii) macroeconomic forecasting [25%]; (iii) budgetary forecasting and policy costing [20%]; (iv) sustainability assessment [10%]; (v) promotion of fiscal transparency [5%]; and (vi) normative recommendations [10%] on fiscal policy. More information available at: https://ec.europa.eu/info/

[14] Regarding certain sub-tasks within broader activity categories (such as reconciliation of divergence within macroeconomic forecasting and quantitative policy costing within budgetary forecasting), IFIs tend not to be very active, reflected in the high prevalence of a zero score.

[15] In fact, the range of the 'Euro-oriented' index is smaller than that of an equally weighted index, implying lower heterogeneity of IFIs regarding 'Euro-oriented' activities.

4. EU IFIS IN RELATION TO CURRENT BEST PRACTICE AND SUITABILITY OF CURRENT EU REGULATORY FRAMEWORK

This section reviews how well EU IFIs adhere to international standards and best practices and summarises the Commission's current assessment of the suitability of EU legislation in this field. ([16])

4.1 EU IFIS IN RELATION TO INTERNATIONAL STANDARDS AND BEST PRACTICE

Table 1 summarises the existing international standards and best practices as published by OECD (2014, 2021), the IMF (2013, 2018) and by the Network of EU IFIs (2019, 2021) and compares them with the respective features underlying the current EU framework, identifying gaps. These standards and practices are meant to provide grounds for reforms, and have inspired the legislative proposals for the reform of the EU's economic governance rules([17]).

In a nutshell, existing international standards and best practice suggest that IFIs should have clear mandates, well-defined tasks and instruments, adequate resources commensurate to their mandates, be as transparent and accountable as possible and be functionally and operationally independent. Clarifying the relevant national legislation regarding the process of appointing the IFIs' board members, establishing multiannual budgets and legally safeguarding them from political pressures constitute some ways to accomplish the above. Sharpening the ability of IFIs to communicate with the public and to be involved in the budgetary process is attainable by establishing stronger legal provisions regarding access to information as well as regarding the timing of IFIs' contribution to the budgetary process. An additional relevant practice consists of legally enforcing some form of 'comply-or-explain' clause in IFIs' official relations with the government at all levels.

According to the European Court of Auditors, existing EU legislation for IFIs falls short on four specific issues, namely (a) the number and length of the terms of the IFI board members; (b) IFIs' human resources policies; (c) the establishment of the IFI budgets and (d) the need for external review. These issues obviously refer to key IFI features, such as their degree of transparency, accountability and independence. They are highlighted in the relevant entries in Table 1 together with some key principles and practices. More specifically,

¾ regarding the legal safeguards on IFI independence related to the IFI leadership, OECD (2014) advocates (a) merit-based selection of the IFI's senior management; (b) legal provisions to minimise the risk of a politically motivated appointment, such as a short list proposed by an independent panel; (c) long (longer than the legislative term) and non-renewable terms of office for senior management; and (d) clear dismissal procedures for the IFI's management;

¾ regarding the legal safeguards on IFI independence related to human resource policies, OECD (2014) advocates an employment policy that should help IFIs to attract and retain the best professionals ([18]). Moving a step further, IMF (2013) stresses the importance of functional and

[17] This is also in line with the ECA recommendations addressed to the Commission. See footnote 1.

[18] More specifically, according to OECD (2014) "staff should be selected through open competition based on merit and technical competence and without reference to political affiliation. Conditions of employment should be along the lines of that of the civil (or parliamentary) service. Given the small size of the majority of IFIs, staff may be provided with career mobility within the broader civil service. However, care should be taken to avoid conflict of interest." (page 3). A related point (4.1) mentions that "The resources allocated to IFIs must be

legal independence of stand-alone institutions, which would call for especially assigned staff and an autonomous personnel policy, possibly including recruitment and remuneration outside the constraints of the civil service. Staff size could be set in legislation subject to periodic independent reviews;

¾ regarding the establishment of IFI budgets, IMF (2013) underlines the importance of transparency as well as secured resources to guarantee the functional independence of IFIs. Particularly, IFI funding should not be subject to discretionary executive decisions and should ideally make up a separate line item in the budget and cover a period of several years. Another option is to take IFI financing entirely off the state budget, for instance by mandating the central bank to provide funding ([19]);

¾ regarding the need for external review, the OECD (2014) principles call for IFIs to develop a mechanism for external evaluation of their work, to be conducted by local or international experts. As part of normal accountability requirements, IMF (2013) mentions the possibility of ex-post assessments of the fulfilment of the IFI mandate and the efficient use of resources, possibly by audit institutions or via peer reviews, the publication of a comprehensive annual report submitted to the IFI's political principal, and regular hearings before parliamentary committees ([20]).

In addition, the ECA Report observes that despite past proposals by the European Commission to include the production or assessment of both macroeconomic and budgetary projections in IFIs' legal mandate, only the macroeconomic part has been put into legislation. Strengthening IFIs' legal remit in producing or endorsing budgetary forecasts can be considered as reinforcing the role of IFIs in conducting 'meaningful surveillance of fiscal policy making' (Kopits, 2011). This comes, however, with additional requirements to increase the capacity and resources of IFIs to meet such an extended mandate, secure good and timely access to information, strengthen the legal provisions on IFIs' involvement in the budgetary process and safeguard IFIs' independence from political pressures ([21]).

The Network of EU IFIs proposed a specific and recurrent monitoring process at the EU level, in order to verify periodically that Member States are effectively complying with minimum standards ([22]). The issue falls partly within the practice of establishing a mechanism for IFIs' external evaluation described above. According to the Network's proposal, the Commission could be tasked with this regular monitoring role, which could be supplemented by an appropriate peer review mechanism. This could improve the accountability, transparency and credibility of IFIs, promote best practices among EU IFIs and reduce their heterogeneity without reducing national ownership. Other considerations

commensurate with their mandate in order for them to fulfil it in a credible manner. This includes the resources for remuneration of all staff and, where applicable, council members."

[19] OECD (2013) observes that the appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies, such as audit offices.

[20] IMF (2013) notes two caveats; first, evaluating IFIs' effectiveness is challenging given the multiplicity of tasks and indicators, and the largely qualitative nature of the evaluation. Second, regarding the reviewing frequency, there should be the right balance between medium and low frequency checks, since high-frequency evaluations (annual) could become a source of distraction in the fiscal policy debate and should be avoided.

[21] A broad IFI mandate, including fiscal forecasting, policy costing, medium and long term sustainability assessment, issuing recommendations and undertaking impact analysis, would be useful in order to address the various and possibly changing sources and manifestations of the deficit bias, such as fiscal myopia, re-election concerns, partisanship, overoptimistic revenue forecast, unrealistic spending estimates, creative accounting, time inconsistency, neglect of future generations, impatience, asymmetric and imperfect information as well as 'common pool' problems (IMF, 2013).

[22] According to the Proposal by the Network of EU IFIs (2019), the minimum standards for EU IFIs include (a) an adequate level of resources and management flexibility, (b) good and timely access to information, (c) effective implementation of the 'Comply-or-Explain' principle and (d) safeguards against political pressures.

with regard to best practices concern the interplay between IFIs and other parts of the national budgetary framework, such as the optimal design and implementation of national fiscal rules and correction mechanisms, fiscal statistics and accounting as well as medium-term budgetary frameworks.

4.2 ASSESSMENT OF THE SUITABILITY OF CURRENT EU LEGISLATION CONCERNING IFIs

When considering improvements in the EU legislative framework regarding IFIs, it is helpful to assess the experience so far with the implementation of the two most relevant pieces of EU legislation for IFIs (Directive 2011/85 and Regulation 473/2013) and, given their interplay, for national fiscal frameworks ([23]).

The Report on the suitability of the 2011 Directive (Suitability Review or, hereafter, SR ([24]) considers independent fiscal bodies among the elements introduced by the Directive that aimed to improve the effectiveness of national fiscal frameworks, following successful country experiences. It was concluded that the arrangements for independent monitoring and analysis enhanced the transparency of the budget process and that the increased reliability of the macro-fiscal forecasts (and the requirement to publish the methods used) allowed for better scrutiny of their quality. However, the SR mentions that the Directive's provision on unbiased budgetary forecast evaluation warrants conceptual clarifications, as it often led to misinterpretations across EU Member States.

According to the Directive, reliable independent fiscal bodies should be involved in effective and timely monitoring of compliance with fiscal rules. The SR reports that this is especially warranted where fiscal rules are numerous, as is now the case in several Member States. In addition, while national fiscal rules must be accompanied by independent monitoring and lead to consequences in the event of non-compliance, the SR underlines that Directive 2011/85 does not provide for such compliance-enhancing arrangements for the medium-term budgetary frameworks. Lastly, the SR mentions the opinion of some Member States' practitioners that the provisions of the Directive should be more binding and provide more details on the role of IFIs in assessing the compliance with fiscal rules, in particular ex ante.

Regulation 473/2013, which, as noted, only concerns euro area Member States, introduced a requirement for Member States to have independent bodies in place to monitor the compliance with fiscal rules and to produce or endorse the macroeconomic forecast underlying national medium-term fiscal plans and draft budgets. The Staff Working Document accompanying the Commission 2020 review of economic governance (SWD hereafter ([25])) mentions that, since the adoption of the Regulation, the transparency and independent monitoring of fiscal policy have improved significantly, while the preparation (or endorsement) of macroeconomic forecasts by independent fiscal institutions has led to more prudent forecasting.

However, as the SWD observes, while the strengthening of national fiscal frameworks has improved ownership of fiscal discipline, discrepancies have emerged between EU and national fiscal rules, potentially undermining the credibility of both and adding complexity. Although the requirement to present Draft Budgetary Plans introduced in the Regulation has proved useful for ex ante coordination and dialogue, Member States retain decisive influence over fiscal policy decisions at national level. The SWD suggests that a simpler framework and implementation could help to increase ownership,

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[23] As was the case for comparing with best practice, this is also in line with the ECA recommendations addressed to the Commission. See footnote 1.

[24] SWD (2020) 211 final "*Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States*".

[25] SWD (2020) 210 final, "*Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and Council Directive 2011/85/EU*", accompanying the Commission communication of the same title (COM (2020/55)).

improve communication and reduce the political costs of enforcement and compliance. Regarding the relation between national and EU fiscal rules, the SWD suggests that a stronger role for national fiscal frameworks, in particular independent fiscal institutions, could contribute to better compliance with EU fiscal rules and improve ownership of the framework at the same time.

4.3 AREAS NOT COVERED BY THE CURRENT EU FRAMEWORK

Table 1 summarises the basic differences between the EU framework and each of the main areas covered by international standards and best practices. The table considers not only areas where EU legislation is lacking, but also inefficiencies in its function and implementation as identified by the Commission's assessments and international literature. For most areas, international standards have served as building blocks for the EU legislation. In turn, the EU legislation is a driving factor of those international standards and best practices, as many of the IFIs that exist in the world belong to an EU country ([26]).

Regarding the tasks and their legal remits, the Directive's requirements in their current form remain quite general, leading to implementation differences across EU countries, as in the case of the requirement to perform independent ex post forecast assessments (SR 2020). Furthermore, cross-country heterogeneity of IFIs is exacerbated by the increasing complexity of fiscal rules observed at both national and EU level.

In addition, as pointed out by the Network of EU IFIs (2019), Regulation 473/2013 is vague and general on the mandate, a remark raised also in the ECA Report, which suggests it could be clarified, for example by explicitly adding the production or endorsement of budgetary forecasts to IFI tasks. The Network of EU IFIs (2021) also proposes to include in the IFI mandate an explicit obligation for IFIs to address government and parliament and to publicly disclose reports and recommendations, so as to foster transparency and accountability.

Directive 2011/85 refers only generally to the role of independent bodies in forecasting and in the monitoring of compliance with fiscal rules. However, Regulation 473/2013 (Article 5) specifically mentions the tasks of monitoring compliance with numerical fiscal rules and of providing assessments with regard to correction mechanisms at the national level, progress with budgetary corrections and any occurrence or cessation of circumstances that may allow temporary deviations from the medium-term objective or the path towards it. Specific provisions for the involvement of IFIs in the national correction mechanism exist in the TSCG and the role and independence of monitoring institutions is specified in the accompanying Commission Communication document on 'the common principles on national fiscal correction mechanisms'. The document also contains the application of the 'comply and explain' principle, which was not included in Regulation 473/2013.

For all remaining areas indicated in Table 1 (such as production or endorsement of budgetary forecasts or policy costing) there is a lack of strong EU provisions. In many cases, the Network of EU IFIs provides a relevant reflection on how to address these gaps. This gap analysis informed the preparation of the Commission proposal of 26 April 2023 to amend Directive 2011/85 ([27]), which aims at applying international standards and best practices to all EU Member States, thereby also ensuring enforceability by the European Institutions ([28]).

[26] This is evidenced by the IMF Fiscal Council dataset, which shows that there are 52 fiscal councils in the world, of which 28 are in EU Member States. That dataset is available through: https://www.imf.org/en/Data/Fiscal/fiscal-council-dataset.

[27] See COM(2023) 242 final, 'Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States'.

[28] As noted, Regulation 473/2013 applies only to euro area countries, while the TSCG (and Fiscal Compact) only binds the signatory parties, as it is an intergovernmental or international treaty. As the ECA Report points out, "the

Table 1. **International standards & best practices and the existing EU framework**

Areas	Principles	Not fully covered in current EU Framework
Remit or Mandate	· Should be clearly defined in higher order legislation · Clear links to the budget process should be established within mandate · The remit should be broad, clearly defined, and implementable. · Specified remit so as to maximise compliance with fiscal rules (e.g. correction mechanism)	• Vague and narrow mandates in Directive 2011/85 for monitoring compliance (Art. 6.1b), enhancing transparency (Art. 2f) and improving credibility of macro/fiscal forecasts (Art. 4(1)) • Unsatisfactory ex post forecast assessment (SR 2020) • Heterogeneous and complex national fiscal rules (SR 2020) • Narrow mandate of Regulation 473/2013 on monitoring compliance (Art. 5(1)), correction mechanism (Art. 5(2)), forecasting (Art. 2b), applied only to euro area members • TSCG provisions (principles of national correction mechanisms) not integrated into EU Law • Not-too-broad mandate (e.g. does not include policy costing) does not address all sources of deficit bias • ECA on strengthening IFIs' legal remit in producing or endorsing budgetary forecasts. • ECA on IFIs role and interplay with the national fiscal framework
Tasks and Instruments	· IFIs should have the information and legal remit to influence the budget process (e.g. 'comply or explain'.) · Tasks specified so as to maximise compliance with fiscal rules · Tasks could include charting a financially sustainable and inter-generationally equitable expenditure path.	• Vague or too general provisions of Regulation 473/2013 applied only to euro area members • Lack of 'comply-or-explain' provisions at EU level • TSCG provisions (principles of national correction mechanisms /comply or explain principle) not integrated to EU Law • Lack of common EU public accounting system (SR 2020) • Heterogeneous and complex EU fiscal framework (SWD 2020) • ECA on strengthening IFIs' legal remit in producing or endorsing budgetary forecasts • ECA on IFIs' role and interplay with the national fiscal framework
Access to information	· Terms of IFI access should be clearly stated in legislation · Enabling factor: Good Statistical Governance	• TSCG provisions (principles of national correction mechanisms/comply or explain principle, Art.3(2)) not integrated into EU Law • Regulation 473/2013 (Art. 2(1a)) applied only to euro area members
Local Ownership	· External IFI model should not be artificially copied · IFI functions should be determined by national fiscal framework	• Need for simpler fiscal framework to improve ownership (SWD 2020) • ECA on recurrent external assessment of IFI standards at EU level • ECA on IFIs' role and interplay with the national fiscal framework
Independence Non-Partisanship	· IFIs should be precluded from normative policy-making · Merit-based selection criteria of IFI leadership · Leadership term length should be clearly specified in legislation · Allow non-nationals to serve in IFI leadership · IFIs should have safeguarded financial resources	• Regulation 473/2013 (Art. 2(1a)) applied only to euro area members • ECA on establishment of IFI budget • ECA on human resources policies • ECA on the number of Board members and length of leadership
Transparency, Accountability	· IFIs as 'raw' models of transparency · IFIs should promote best practices · IFIs should be independently and externally reviewed	• TSCG provisions (principles of national correction mechanisms/comply or explain principle, Art.3(2)) not integrated to EU Law • Regulation 473/2013 (Art. 2(1a)) applied only to euro area members • ECA on human resources policies • ECA on external review
Communication	· IFIs should have ability to effectively communicate their opinion to the public (i.e. timely publications) · Effective communication strategy. (publications/website/diversity of communication channels) · On the basis of persuasive rather than coercive influence	• TSCG provisions (principles of national correction mechanisms/comply or explain principle, Art.3(2)) not integrated to EU Law • Regulation 473/2013 (Art. 2(1a)) applied only to euro area members • Need for simpler fiscal framework to improve communication (SWD 2020)
Relation to legislature	· Legislatures should give IFIs sufficient time and resources to carry out analysis · Mechanism should be in place to ensure IFI accountability · Regular dialogue	• TSCG provisions (principles of national correction mechanisms / comply or explain principle, Art.3(2)) not integrated to EU Law • Regulation 473/2013 (Art. 2(1a)) applied only to euro area members
External Evaluation	· Mechanism should be developed for IFI evaluation by local or international experts, other IFIs, etc.	• ECA on external review • ECA on recurrent external assessment of IFI standards at EU level
Resources	· Should be commensurate to the mandate · Multi-annual funding to protect from political pressures	• Heterogeneity across IFIs • ECA on human resource policies • ECA on establishment of IFI budget

Note: The first column shows areas of international standards and best practices for IFIs published by OECD, IMF as well as the Network of European IFIs (EU IFIS). For each area, general principles are indicatively reported in the second column. The third column collects observations from (a) the European Commission's assessment of the suitability of Directive 2011/85 (SR 2020) and the Report accompanying the 2020 Economic Governance Review (SWD 2020); (b) international and academic literature; and (c) the ECA Report's considerations.

Court of Justice of the EU can only rule on the transposition of the TSCG; in relation to the application of the TSCG, the EU institutions do not have any power to ensure that the national legislation transposing it is enforced".

5. POSSIBLE AVENUES FOR STRENGTHENING IFIS

When considering improvements to the EU framework, care needs to be taken to respect the fine balance between national ownership – in itself one of the prime international principles in the area – and promoting activities and characteristics of IFIs that are likely to lead to improvements in the fiscal management of Member States and the EU. It is equally important that any expansion of tasks goes hand in hand with corresponding reinforcements of resources and other independence safeguards. Therefore, options for future changes should not be seen in isolation, nor do they necessarily lend themselves to a selective approach.

Following the structure of Table 1 and the differences in coverage between the EU framework and best practices identified in the previous section, options for possible future improvements in the framework governing IFIs are described below and summarised in Table 2. These options are identified based on previous work of the Commission services (i.e. the Suitability Review), academic literature, analyses of international organisations and institutions (IMF, OECD, ECA) as well as on stakeholder outreach activities in the framework of the Economic Governance Review and the Commission Communication of 9 November 2022. They have also inspired the Commission's legislative proposals for the reform of the EU's economic governance rules.

Remit or mandate (Table 2, Options 1, 2 and 5): In order to strengthen macroeconomic forecasts outside the euro area, the requirement that an IFI produces or endorses the macroeconomic forecasts underlying the fiscal projections of the government could be extended to non-euro area Member States. Similarly, the current requirement for euro area Member States to indicate whether budgetary forecasts have been produced or endorsed by an IFI could be strengthened by requiring that an IFI either produces or endorses also the budgetary forecasts and could be extended to cover all EU Member States. IFIs (or a similarly independent institution in case the forecast is produced by the IFI) could also be explicitly tasked with conducting the regular and systematic ex post review of the forecast. With the same purpose, the requirement set out in the 2011 Directive regarding the assessment of compliance with domestic numerical rules could be clarified by spelling out clearly that IFIs should be entrusted to assess compliance with the main domestic numerical rules and that they should also publish their assessments in a timely manner. It should be clearly stated that the assessment could be both forward-looking (ex ante) and backward-looking (ex post) and encompass the most important national rules (possibly even at subnational level in federal countries). The requirement could also be expanded to cover the assessment of compliance with elements of the EU fiscal framework. In addition, these assessments could be published directly as an element of the budgetary documents. Finally, to ensure a proper recourse to national escape clauses, IFIs could also be required to assess the occurrence or cessation of any exceptional circumstances that may allow for a temporary deviation from national fiscal rules.

Expanding mandates and tasks and increasing their weight (Table 2, Option 4): To give more weight to the opinions of IFIs and to raise the reputational cost of ignoring their advice, the 'comply-or-explain' principle could be extended to most assessments/opinions issued by the IFIs and an obligation for governments to respond to these assessments/opinions within pre-defined deadlines and to make their replies public could be included. This is not requested by the current legal base.

To increase the link between the short term and the long term in fiscal planning, IFIs could be tasked to review on a regular basis (e.g. every five years) the fiscal framework for coherence and consistency, including the medium-term orientation of policies.

Especially to the extent that the evolution of the EU framework moves toward a requirement that medium-term fiscal frameworks should ensure the sustainability of public finances with a high degree of probability rather than adherence to a specific numerical rule, it would be desirable that IFIs are given a role in assessing the credibility of the necessary sustainability assessment.

However, in order for IFIs to effectively carry out the above tasks, it is essential to first ensure appropriate resources, including with regard to staff numbers and skills, sufficient and timely access to information and a high degree of functional autonomy. An increased level of transparency and credibility surrounding national medium-term fiscal projections would also be essential.

Access to information, independence and non-partisanship (Table 2, Option 3): To further safeguard the independence of EU IFIs, the legal requirements indicated in the 2013 Regulation for euro area IFIs could be extended to cover also non-euro area IFIs. For all IFIs, it could be specified that IFI budgets should be established on a multi-annual basis, to facilitate medium-term planning by reducing the risk of unforeseen reductions in budgetary resources. It could also be envisaged that Member States should stipulate specific rules regarding the size of the IFI leadership or the length of its mandate (which should ideally be non-synchronised with the electoral cycle). EU IFIs could thus be required to meet the following criteria:

(a) to have a statutory regime grounded in national laws, regulations or binding administrative provisions;

(b) not to take instructions from budgetary authorities or any other public or private body;

(c) to have the capacity to communicate publicly in a timely manner;

(d) to have members nominated and appointed on the basis of their experience and competence, and through transparent procedures, with the criteria and process for their dismissal clearly specified in law;

(e) to have adequate and stable resources to carry out their mandate in an effective manner, including having funding for a multi-annual period;

(f) to have extensive, timely access to information, ideally codified in a Memorandum of Understanding with the relevant authorities.

Transparency and accountability, relation to legislature (Table 2, Option 6): Current legislation does not stipulate any specific requirements for IFI accountability to the national legislature. Therefore, to reinforce this aspect while also raising the profile of IFIs in the public debate, IFIs could be called to regular hearings by relevant parliamentary committees and their activity reports could be discussed at plenary or committee level.

External evaluation (Table 2, Option 6): To ensure that IFI activity meets minimum standards, to detect problematic areas in a timely manner and to promote continuous improvements, a requirement that IFI activities are subject to external evaluation on a regular basis could be introduced. Such a process could strengthen the reputation of IFIs.

Resources (Table 2, Option 3): As discussed above, one could specify that IFI budgets should be established on a multi-annual basis.

Table 2**. Options for strengthening Independent Fiscal Institutions in the EU**

	Issue to be addressed	Option
1.	**Strengthen macroeconomic and budgetary forecasts outside the euro area** Extending the independent endorsement of macroeconomic forecasts to non-euro area IFIs and to budgetary forecasts. [Two-Pack Regulation 473/2013, Article 4(4), requires of euro area countries that 'National medium-term fiscal plans and draft budgets ... shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body'.]	In all EU countries, IFIs to be required to endorse/produce macroeconomic and budgetary forecasts
2.	**Strengthen ex post evaluation of macroeconomic and budgetary forecasts** In some Member States, ex post evaluations are not done by an independent body. Provisions are often misunderstood. [Directive Article 4(6) "*The macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including ex post evaluation.*"]	Requirement that an IFI (or similarly independent institution in case the forecasts are done by an IFI) should carry out the systematic ex post evaluation of macroeconomic/budgetary forecasts.
3.	**Strengthen IFI independence** Extend requirements laid down in Fiscal Compact to all EU Member States	Legal requirements that IFIs should: (a) have a statutory regime grounded in national laws, regulations or binding administrative provisions; (b) not take instructions from budgetary authorities or any other public or private body; (c) have the capacity to communicate publicly in a timely manner; (d) be made up of members nominated and appointed on the basis of their experience and competence, and through transparent procedures; with the criteria and process for their dismissal clearly specified in law; (e) have adequate and stable resources to carry out their mandate in an effective manner, including by having stable funding for a multiannual period; (f) have extensive, timely access to information, ideally codified in a Memorandum of Understanding with the authorities.
4.	**Expanding IFIs' mandates and tasks** [Absence of Directive provision]	Extend 'Comply-or-explain' principle to most assessments/opinions issued by IFIs and lay down an obligation for governments to respond in public within pre-defined deadlines; Task IFIs to review on a regular basis (e.g. every five years) the fiscal framework for coherence and consistency, including the medium-term orientation of policies. Task IFIs to assess the plausibility of the debt sustainability analysis on which Member States' budgetary plans are based and to assess the reform and investment commitments, including their effective implementation.

5.	**Stronger IFI role in the monitoring of compliance with domestic numerical rules and EU fiscal framework**	Set a clear requirement for IFIs to publish timely assessments on compliance with main national rules, both ex ante and ex post, and covering the most important national rules (possibly even at subnational level in federal countries); IFIs could also be required to monitor the compliance with specific elements of the EU fiscal framework; these IFI assessments could be published directly as an element of the budgetary documents.
6.	**Increased accountability of IFIs** [Absence of Directive provision]	External and independent evaluation of IFI activity to be conducted regularly; Ensure appropriate accountability to the national legislature (e.g. regular IFI hearings held by parliamentary committee and discussion on IFIs' activities reports at plenary or committee level.

6. CONCLUSIONS

Following the introduction of EU legislation in the wake of the financial crisis, EU IFIs have grown rapidly in number and have taken on a variety of tasks. However, they have also come to exhibit substantial heterogeneity. In this paper, we have reviewed the existing regulatory and legal EU framework underpinning the activities of IFIs in order to identify possible avenues for improvement of the framework, which could strengthen the role of IFIs. In particular, the identified options aim at raising the minimum standards with regards to the tasks, resources and independence safeguards of IFIs, taking international standards and best practice as a starting point. In general, they are of an incremental nature in order to preserve the balance between national ownership and spreading best practice. This approach was also followed in the Commission reform proposal of April 2023, which to a large extent includes the options presented in this paper. In particular, option 1 (extending forecast production or endorsement to budgetary forecasts and to non-euro area) and option 4 (the comply-or-explain principle) are taken up in Article 8 of the proposed Directive. Finally, it is important to underline the inter-dependence of tasks, resources and independence and the potential for these elements to be mutually reinforcing. Expanding tasks without a commensurate adjustment of resources and sufficient independence safeguards is therefore to be avoided.

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ANNEX 1.

How the Scope Index of Fiscal Institutions (SIFI) is constructed

The SIFI index is derived from specific values for six separate groupings of tasks (the basis for this typology is described in Part II, Chapter 5 of the 2014 Report on Public Finances in EMU). The scores for tasks 4, 5 and 6 take the value of either 0 (no activity in the field) or 1 (active in the field). The scores for tasks 1, 2 and 3 allow for more granularity as they take account of further considerations, with more details available on the next page.

Since the index measures EU IFIs, there is an emphasis on those tasks that are derived directly from EU legislation, namely tasks 1-3 (including their sub-tasks, which may award a bonus score if also performed, in addition to the main task). This is reflected in the different weights awarded to each dimension, found below as percentages in bold.

The following six tasks, including subtasks, are included in the index:

(1) A. Monitoring compliance with fiscal rules; (score 0, 1 or 2) **[30%]**

B. Bonus: Correction mechanism (additional score 0.5)

C. Bonus: Monitoring of all general government rules (additional score 0.5)

(2) A. Macroeconomic forecasting; (score 0, 1 or 2) **[25%]**

B. Bonus: reconciliation procedure in place (additional score 0.5)

C. Bonus: ex post evaluations of forecasting accuracy (additional score 0.5)

(3) A. Budgetary forecasting and policy costing; (score 0, 1, 2 or 3) **[20%]**

B. Bonus: opinion based on quantitative policy costing (additional score 0.5)

(4) Analysis of long-run sustainability of public finances; (score 0 or 1) **[10%]**

(5) Active promotion of fiscal transparency; (score 0 or 1) **[5%]**

(6) Normative recommendations on fiscal policy; (score 0 or 1) **[10%]**

For each task, the activity is also multiplied by the relative ‘strength’ of the legal remit. In practice, this means that if an IFI only sporadically performs this task on a voluntary basis, their score will be lower than if they perform it regularly or according to an official mandate.

Legal force coefficient $C_{TK,t}$	
Tasks stipulated in legal remit	1
Own-initiative tasks – proven and regular output	0.5
Own-initiative tasks – sporadic output	0.25

Full breakdown of possible scores and corresponding answers for tasks 1 – 3:

Task	Score	Corresponding answer(s)
1A: Monitoring of compliance with numerical fiscal rules	2	Monitoring both ex-ante and ex-post
	1	Monitoring either ex-ante or ex-post
	0	Monitoring neither ex-ante nor ex-post
2A: Macroeconomic forecasting	2	Production of macro-economic forecasts used for fiscal planning (within the meaning of Art. 2.1b of the Two-Pack Regulation 473/2013)
	1	Official endorsement of the government`s macroeconomic forecasts used for fiscal planning (within the meaning of Art. 2.1b of the Two-Pack Regulation 473/2013)
	1	Assessment of the official macroeconomic forecasts which is published before submission to the Parliament of the budgetary planning documents
	0	The fiscal institution is consulted at the start or during the preparation of macroeconomic forecasts
	0	Production of macro-economic forecasts, but these are not used for the national fiscal planning
3A: Budgetary forecasting	3	Production of the official budgetary forecasts
	3	Official endorsement of the government`s budgetary forecasts (within the meaning of Art. 4.4 of the Two-Pack Regulation 473/2013)
	2	Assessment of budgetary forecasts BEFORE the adoption in the Parliament of the budgetary planning documents
	1	Assessment of the budgetary forecasts AFTER the adoption in the Parliament of the budgetary planning documents
	0	The fiscal institution is consulted at the start or during the preparation of budgetary forecasts
	0	Production of budgetary forecasts, but these are not used for the national fiscal planning

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