



POSITION PAPER ON INITIATIVES TO STRENGTHEN THE EU FISCAL FRAMEWORK

The Network of EU Independent Fiscal Institutions (IFIs) has examined the report on Completing Europe's Economic and Monetary Union (henceforth referred to as the *Five Presidents' Report*), the October Commission package to begin the implementation of the plans to deepen the EMU, in particular the Commission Decision establishing an independent advisory European Fiscal Board (EFB), and reflected on these initiatives to work towards an integrated framework for sound fiscal policies.

The Network supports the efforts to review and reinforce the EU fiscal framework, seeking to better exploit the synergies between rules and institutions, as well as between different levels of administration, whilst respecting the principle of subsidiarity and enhancing local ownership and accountability. At the same time, the independence of national IFIs and their current tasks must be fully respected. Improving the adequacy of the current framework is a priority, and the review should follow a clear timeline with strict deadlines.

Against this background, the Network would like to stress its readiness to provide its views and offers its collaboration on the initiatives aimed at strengthening the EU fiscal framework. The Network is of the view that there are particularly three issues on which further progress should be made and where the ensuing preparatory work would benefit from IFIs' contributions: reinforcing the role of independent bodies; streamlining fiscal rules; and enforcing and implementing existing legislation on national fiscal frameworks.

1. Reinforcing the role of independent bodies within the EU fiscal framework

The announced creation of an advisory European Fiscal Board (EFB) is a key element in the implementation of the proposals to deepen the Economic and Monetary Union set out in the *Five Presidents' Report*. Appointing highly regarded Board members and guaranteeing their access to adequate analytical support will be crucial to ensure that the functional independence of the EFB is not only statutory but a perceived one as well. The Network of EU IFIs stands ready to provide consultation on the appointment of the Board as envisaged in the Commission Decision.

At the national level, one of the most salient novelties of the recent reforms of the EU fiscal framework has been the decision to promote the establishment of Independent Fiscal Institutions. National IFIs, together with national fiscal rules, are indeed key to reinforce the national commitment to sound fiscal policies. The crisis has shown that strict rules defined and monitored at EU level are not enough. National ownership of the system is even more relevant. In particular, national IFIs can make a substantial contribution to promote responsible fiscal policies. National IFIs have two main value added with respect to EU level institutions: excellent knowledge of country specificities; and wide national acceptance.

It is, therefore, important that the cooperation between the EFB and national IFIs envisaged in Article 2 of the Commission Decision respects the principle of subsidiarity in the EU fiscal framework and the independence of the national IFIs. The Committee for EU affairs of the Network is ready to explore with the EFB how to materialize this



cooperation in order for it to be mutually beneficial, and efficient, while avoiding any unnecessary overlaps or redundancies between national and EU institutions.

The Network considers that in order for the EU fiscal framework to function effectively, it is highly desirable to ensure that the IFIs are strong enough to fulfill their functions. The IFIs are heterogeneous in tradition, mandates, specific tasks performed, functional organization, size and resources. Whilst national specificities need to be taken into account, there seems to be room to ensure all of them enjoy a strong position at national level to conduct all their tasks.

Therefore, we propose to develop a set of minimum standards IFIs should comply with in order to reinforce them, building on the provisions of EU Regulation n. 473/2013 and Directive 2011/85/EU and the Recommendation of the OECD Council on the Principles for Independent Fiscal Institutions. Article 2 of the Commission Decision provides a good legal backing for such work to be undertaken jointly by the EFB and the national IFIs. In particular, the minimum requirements should ensure the IFIs have an adequate remit and a commensurate level of resources, good and timely access to information, and reinforced position in more widely applicable binding Comply-or-Explain procedures. The Committee for EU affairs of the Network stands ready to provide further inputs as to how the role of the independent bodies can be strengthened.

Cooperation between the EFB and the national IFIs in the spirit of Article 2 of the Commission Decision could also help in addressing common issues such as methodological questions, as well as direct, timely and more frequent participation of national IFIs in ongoing technical and preparatory work in the area of fiscal surveillance at the EU level. At the same time, direct dialogue with the Commission will remain essential for the work of the national IFIs.

It is important to ensure that the EFB - in exercising its tasks under paragraph 2(b) of Article 2 of the Commission Decision, in particular those related to providing judgment-based advice on the fiscal stance for the euro area and national economies - does not jeopardize the enforcement of the prevailing EU and national fiscal rules and the role of national IFIs in this regard.

2. Streamlining fiscal rules

Streamlining fiscal rules seems necessary and timely.

Streamlining fiscal rules is necessary, because the current system has become too complex hindering its transparency, communication and ultimately putting at risk its effectiveness and credibility. Most recent reforms of the EU fiscal governance framework have resulted in a maybe too high number of fiscal rules, EU level and national rules. Consistency across rules is not fully guaranteed. Rules are becoming increasingly sophisticated: sometimes based on too complex methodologies (difficult to understand for the general public) or even requiring interpretation agreements or decision trees for policy makers. Changes in these methodologies and secondary legislation are too frequent (not always well understood or casting doubts on the true reason behind those amendments). Transparency on these methodologies and procedural understandings is limited.



Timely, because despite the relatively short time that passed since the last reforms, there seems to be a consensus among main stakeholders on the negative consequences of a too complex system.

The Committee for EU Affairs of the Network, therefore, welcomes the Commission plans on improving transparency and reducing the complexity of the current fiscal rules and offers its cooperation in the preparatory work regarding the consistency of the methodology of the debt rule and the medium term budgetary objectives as well as on the initiatives to streamline the methodology to assess compliance with the Stability and Growth Pact. The Committee for EU Affairs would also like to be informed in time about developments on all these issues as well as on the results of the Commission review of the national transposition of the Fiscal Compact.

The Committee for EU Affairs of the Network also welcomes the fact that the remit of the EFB includes conducting an evaluation and making suggestions with regards the functioning of the EU fiscal framework (paragraph 2(a) of Article 2 of the Commission Decision). The IFIs' experience on the monitoring of these rules could be very useful to identify the main deficiencies and potential improvements. Again, the Committee for EU Affairs of the Network is ready to contribute to the work on independent assessment by the EFB.

3. Enforcing and implementing existing legislation on national fiscal frameworks

Institutions and rules are only a part of the story. Sound public finances require comprehensive fiscal frameworks covering adequate budgetary information, good budgetary procedures and practices, a more medium term approach underpinned by numerical rules or adequate arrangements between levels of public administration.

The Directive on National Fiscal Frameworks is a remarkable step to promote good standards in all these issues. Its transposition into national legislation as well as practical implementation, however, reveals significant cross-country heterogeneity. An assessment by independent experts could take stock and identify areas where further work is necessary.

The Treaty on Stability, Convergence and Governance represents another legal means supporting national multi-annual fiscal frameworks based on sound rules and institutions. A number of provisions of the Treaty refer to input to be provided by the Commission. An independent review could identify areas where more guidance is needed.

The interpretation of the remit of the EFB under Article 2 of the Commission Decision could be extended to include such matters. The Committee is ready to provide inputs and collaborate as a key stakeholder.