



Completing Europe's Economic and Monetary Union

*Statement by the Network of EU IFIs
in response to the Proposal for a Council Directive
laying down provisions for strengthening fiscal responsibility and the medium-
term budgetary orientation in Member States*

The Network has reviewed the Commission's proposal for a Council Directive put forward on 6 December 2017. Since its formation, the Network has been supporting the efforts to review and reinforce the EU fiscal framework, seeking better to exploit the synergies between rules and institutions, as well as across different levels of administration, whilst respecting the principle of subsidiarity and enhancing national ownership and accountability. The Commission's proposal is a welcome contribution to the discussion at the EU level in this context. The Network stands ready to maintain a dialogue during the negotiations and provide its views whenever necessary.

Enhancing national ownership: institutional reinforcement of national IFIs

The Network welcomes the reinforcement of national Independent Fiscal Institutions (hereinafter IFIs) put forward in the Proposal for a Council Directive (hereinafter the Proposal) to integrate the substance of the Fiscal Compact into the Union's legal framework. This Proposal is a right step forward towards the consolidation of national IFIs as key institutions to promote responsible fiscal policies at the national level. National ownership of fiscal discipline has proven to be instrumental in ensuring responsible and sustainable fiscal policies.

The Network welcomes the fact that this Proposal introduces new obligations to Member States with respect to national IFIs. In particular, according to the Proposal, Member States become obliged to ensure national IFIs effectively (and not only *de iure*) meet a set of minimum conditions to be able to effectively perform their tasks.

The conditions spelled out in the Proposal seem mostly adequate but should be complemented with a clearer definition of minimum standards and an effective system for their safeguarding. Experience shows that functional autonomy of IFIs has been at times limited by information and/or resources constraints.

The Network of IFIs of the EU stands ready to cooperate in the definition of these standards along the lines contained in the Network position paper "Defining and enforcing minimum standards for IFIs" of February 2016.

Effective functional autonomy of national IFIs requires adequate and stable financial and human resources to perform the functions envisaged in EU and national law.



IFIs should also have complete, real-time and stable access to all information relevant for the fulfilment of their mandates, at no cost and in an accessible way. This should be clearly stated in national and EU legislation, and be enforceable. In particular, IFIs should be given the same right to information in its fields of activity at the national level as members of parliaments, central banks or as the Courts of Audit.

As information flow between the EU level and the national IFIs is not perfect either, representatives of the IFIs should be given an “observer” status at the meetings in Council on points related to the design and implementation of the EU fiscal framework.

The Network is of the view that the Proposal should also envisage a specific and recurrent monitoring process at the EU level to verify periodically that Member States are effectively complying with these obligations. An EU institution with operative capacity should be tasked with this regular monitoring role. National IFIs could, in turn, directly or through the Network of EU IFIs communicate with the monitoring institution if needed.

The Network also welcomes that with the Proposal, Member States become subject to the comply or justify principle regarding the assessments and/or recommendations produced by national IFIs when performing their tasks. It is a key tool for the effectiveness of IFIs as fiscal watchdogs since it allows building a constructive, transparent and public dialogue between IFIs and the public administration concerned in order to meet the fiscal goals. There is also a strong case for an ambitious implementation of this principle in national legislation, through a wide application scope and a detailed regulation of the procedure to follow, including its timing and the expected response from the administration concerned. The Proposal could additionally oblige Members States to ensure an ambitious implementation of this principle in national legislation by fixing the procedure and minimum requirements.

Enhancing national ownership: functional reinforcement of national IFIs

Articles 3(4) and 3(5) of the Proposal reinforce the functions to be performed by national IFIs in the future.

The Proposal rightly identifies sustainability as a key goal of fiscal policy. National IFIs, provided they have adequate resources and analytical capacity, are particularly well-placed to provide on top of their current tasks long-term sustainability analyses, medium-term macroeconomic and budgetary scenarios under the assumption of unchanged policies, including revenue projections. In this context, IFIs also perform an important early warning function.

Regarding the more normative analyses envisaged in the Proposal, the concrete role of national IFIs in assessing the “adequacy“ of the targets (MTO or government



expenditure path) as well as the assessment of structural reforms need to be further discussed and clarified. This includes a discussion of why elements of the Fiscal Compact are no longer part of the Proposal.

Making national fiscal rules and national medium-term budgetary frameworks more effective

The Network welcomes the intentions to reinforce the role of more observable indicators to ensure annual structural balances remain at or converge towards a country-specific medium-term objective (MTO). Maintaining structurally sound budgetary positions over the cycle is crucial for the sustainability of public finances. Thus, the Proposal rightly puts an MTO at the centre of national fiscal frameworks. At the same time, the experience of MTOs as operational fiscal policy instrument has been mixed across countries. Real-time point estimates of the structural balance level have sometimes been imprecise in the case of more volatile economies, resulting in inadequate policy prescriptions. National fiscal frameworks would thus benefit from operationalising the rules, in particular regarding the timely return to the MTO in case of a deviation, through more observable variables. These can render the monitoring of the national fiscal frameworks more transparent and predictable, making the early warning function of national IFIs more effective. Ultimately, this could benefit the credibility and legitimacy of fiscal surveillance both at the national and the EU level. The design of fiscal rules at the national level should remain – as much as possible – a responsibility of the Member States, so that they can take the local conditions into account.

At the same time, the reference value for general government debt of the Stability and Growth Pact (SGP) provides an effective upper bound for a long-term anchor for fiscal policy.

Moreover, a strong political commitment and consistency between annual and medium-term plans have been identified by the Network as desirable features for effective medium-term budgetary frameworks (MTBF) in its document adopted in April 2016. At present, the consistency between Stability/Convergence Programs and annual budgets is far from satisfied. There is room to take additional action at the EU level to strengthen national MTBFs beyond this Proposal.

The Network of EU IFIs stands ready to cooperate with the Commission, other EU institutions as well as Member States to help define what role (in particular, tasks) the IFIs could fulfill in the renewed framework.

Sequencing of implementation

The Proposal does not modify the content, procedural rules and the surveillance system existing at the EU level as set out in the SGP. The Proposal does require Member States to reinforce their national fiscal frameworks in such a way that promotes compliance with the SGP. In practice, currently two sets of similar but



not necessarily identical fiscal rules (national and EU rules) and two surveillance procedures (by the national IFIs and by the Commission) are to be simultaneously in place. Two different sets of rules could be confusing. The IFIs of the Network call for a fluent and timely dialogue with the Commission on the methodological and practical application of fiscal rules during this period.

Given that further reforms of the EU fiscal framework cannot be ruled out¹, the Network would also appreciate further clarifications on forthcoming reforms and how to handle the period until new reforms are adopted. The Network sees this as another reason justifying representation in the relevant discussions in the Council.

The sequencing of the reforms is key for their success. A decentralised system with a greater role for the national level has a higher chance of succeeding if it is complemented with a stricter enforcement of the corrective arm of the SGP. Likewise, from the Network's point of view, sound national IFIs and MTBFs are preconditions to be met before addressing more drastic reforms of the EU fiscal governance system, fiscal rules included, and the corresponding surveillance procedures.

¹ Current EU legislation foresees review clauses on all the main pieces of the EU Fiscal framework: Directive 2011/85 on requirements for budgetary frameworks of the Member States by 14 December 2018; 6-Pack (regulations on preventive, corrective arm and sanctions) and the 2-Pack (Regulation 473/2013 for euro area) by December 2019; the commonly agreed position on flexibility in the SGP (February 2016 ECOFIN) by June 2018.