



**EU INDEPENDENT
FISCAL INSTITUTIONS**

The capacity of national IFIs to play an enhanced role in the EU's fiscal governance

Executive Summary

In the context of the ongoing EU Economic Governance Review, many economists and researchers have called for a stronger role for national IFIs in the EU's future fiscal framework. National IFIs help to reduce procyclicality, they increase national ownership and they strengthen fiscal frameworks.

The paper finds that EU IFIs appear overall to have good capacity to carry out a wide range of tasks and play an enhanced role, but there is still some scope to ensure that all institutions are able to perform in line with their EU peers in all areas. The work of many IFIs would benefit from better access to data and information, as well as sufficient and stable resources. To enhance the role of EU IFIs in the EU's future fiscal framework, all national IFIs need to have the full capacity to successfully play their role.

- National IFIs in more than half of assessed EU countries report strong capacity across almost all proposed tasks. Most IFIs already carry out these tasks to some degree or another.
- This includes oversight of macroeconomic and budgetary forecasting, compliance with domestic fiscal rules, and assessment of one-off, discretionary measures, as well as other relevant technical areas.
- Looking across institutions, a small number of IFIs are strong in all areas. A broader group has strong capacity across most areas, but there are a few areas where their capacity is moderate.
- A small group of IFIs have weaker or moderate capacities across a broad range of activities. These IFIs are more likely to report a worse level of access to information and insufficient resources.
- Full access to good and timely information required to carry out the tasks proposed by the Network of EU IFIs is still a concern for most IFIs.
- While there are large differences in the responsibilities and size of IFIs, it currently takes IFIs at least a total of five fulltime analysts¹ to carry out the number of tasks related to the EU's macro-fiscal governance. These tasks would typically require around two additional FTE employees across IFIs and the related resources. For those IFIs performing additional tasks as required by national legislation, the required minimum number of fulltime analysts must be higher.
- Establishing minimum standards for IFIs at the EU level, including in terms of resources, access to good and timely information, safeguards to independence and the possibility to make

¹ This number is a median and it excludes IFIs' chair, board and support staff

public assessments at their own initiative, would underpin IFIs' capacity to deliver on proposed tasks at national level and strengthen the EU's future fiscal framework.

This paper builds on a new anonymous survey of the 29 IFIs from 25 EU countries conducted by the Network, self-assessing the IFIs' capacity to undertake a range of tasks as part of an enhanced role in EU fiscal governance, as well as the barriers they face.

Background

In the context of the ongoing EU Economic Governance Review, many economists argue for a stronger role for national IFIs in the EU's future fiscal framework. They argue that national IFIs could play a key role in strengthening fiscal frameworks and increasing national ownership of fiscal policies ([Eurogroup ES NL, 2022](#), [IMF, 2022](#), [EFB, 2021](#)).

In the same vein, the Network of EU IFIs has made a proposal to strengthen the role of the EU IFIs at EU level (Network of EU IFIs, 2021a) and to implement minimum standards for EU IFIs (Network of EU IFIs, 2021b). The Network proposed a number of areas, at national and EU level, where the expertise of national IFIs could enhance the EU's fiscal governance framework.

At the national level, enhancing IFIs' capacity would help to strengthen economic and fiscal governance, notably through greater public accountability and transparency, and a better connection of policies to national circumstances and settings. Together with other institutional reforms, this would lead to stronger national ownership and political commitment, and better and more sustainable fiscal outcomes.

At the EU level, this could improve the assessment of national economic and budgetary conditions, help to inform on the use of discretion at EU level in applying the fiscal rules and achieve greater coherence between national and EU-level decisions, strengthening fiscal governance as a whole. This approach could further reduce the risk that national IFIs are unduly weakened by contradictory assessments at the EU level or vice versa.

Building on these proposals, the Network outlined seven main tasks where the expertise of national IFIs could be used more systematically, increasing national appropriation in the context of the EU's macro-fiscal framework:

- Endorsement or assessment of macro-economic forecasts;
- Endorsement or assessment of short-term budgetary forecasts;
- Endorsement or assessment of medium-term budgetary forecasts;
- Assessment of the overall trajectory of public finances and government debt in the medium-term;
- Long-term assessment of public finances (assessment of debt sustainability and long-term fiscal trends);
- Assessment of measurement issues (ones-offs, DRMs, potential output, etc.);
- Assessment of *ex-ante* and *ex-post* compliance with EU fiscal rules.

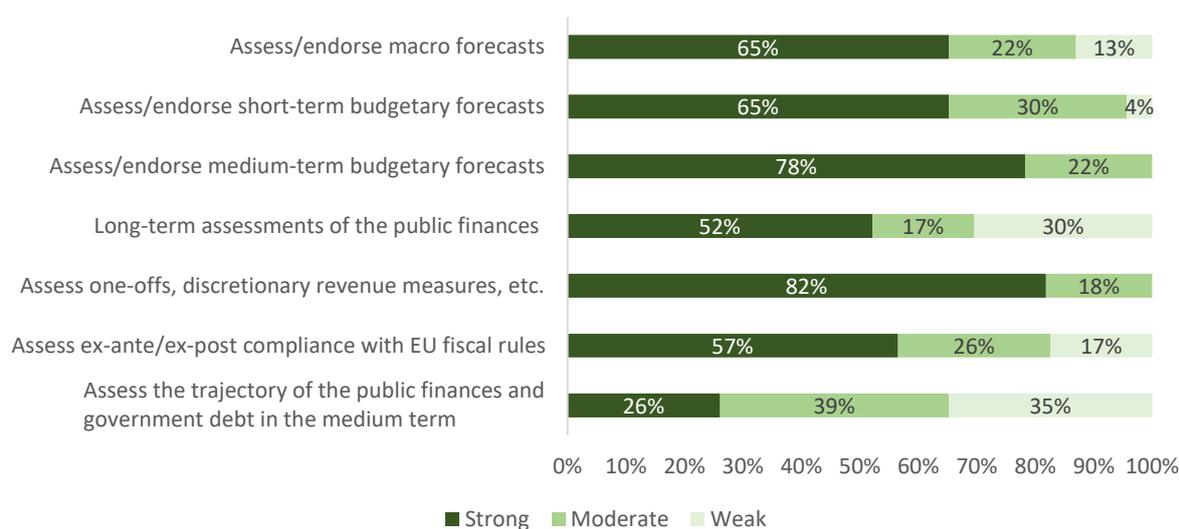
To enhance the role of EU IFIs in the future fiscal framework, all national IFIs need to have the capacity to undertake this role.

Against this background, this paper assesses the current capacity of EU IFIs to carry out an enhanced role in national fiscal frameworks and maps gaps between current IFIs' capacity and the proposed tasks they would take up. This paper builds on a new anonymous survey conducted by the Network of the 29 IFIs and covers 25 EU countries.

The current capacity of EU IFIs

Many EU IFIs appear to have the strong capacity to carry out the tasks proposed by the Network in its 2021 position paper. National IFIs in more than half of assessed EU countries report strong capacity across almost all proposed tasks (see Figure 1). Additionally, IFIs in a further fifth of EU Member States assess that they already have moderate capacity to carry out the proposed tasks.

Figure 1 IFIs capacity by type of task



Note: This figure is based on the survey responses of 29 IFIs from 25 EU countries. The category ‘strong’ includes IFIs that reported having sufficient or complete capacity, and the category ‘weak’ includes all IFIs that reported having minor or no capacity to carry out the proposed tasks.

Source: Network of EU IFIs (2022)

This is consistent with the findings of a large number of reviews of individual national IFIs carried out by the OECD². These point to the capacity of these IFIs to carry out the core tasks of fiscal oversight at the national level, including macroeconomic and budgetary forecasting, as well as the assessment of the public finances and compliance with the fiscal rules. The OECD reports highlight examples of how specific IFIs have strengthened the analysis of fiscal policy in their countries and helped to strengthen governance of the public finances.

This strong capacity is due to the fact that most IFIs already carry out these tasks to some extent as part of their mandate or on their own initiative. Most IFIs have the ability to make or assess macroeconomic forecasts, as required by EU legislation, as well as to assess short- and medium-term budgetary forecasts. Only a very small number of IFIs assesses their capacity in these areas to be weak.

Most IFIs report a strong capacity to assess one-offs, discretionary measures and other technical areas, but are somewhat less well-placed to undertake assessments of compliance with EU requirements.

Around half of IFIs have the strong capacity to undertake long-term assessments, but around half have only moderate or weak capacity. IFIs appear to have weaker capacity only when it comes to assessing the trajectory of the public finances and government debt in the medium term. One explanation for

² OECD Review of [Finland’s National Audit Office](#), the [Irish Fiscal Advisory Council](#), [Latvia’s Fiscal Discipline Council](#), the [Portuguese Public Finance Council](#), the [Slovak Council for Budget Responsibility](#), and [Spain’s Independent Authority for Fiscal Responsibility](#).

this could be that budgetary accounting is in general used for discretionary measures, whereas EU rules refer to national accounts.

Box 1. Methodology

This paper builds on a new anonymous survey conducted by the Network of EU Independent Fiscal Institutions.

The existing literature focusses either on measuring institutional features of the IFIs, which can fall short of capturing their real capacity, or looks at fiscal outcomes, which are influenced by a range of factors. Collecting a systematic self-assessment of IFIs' capacity to deliver on specific tasks and challenges is an important innovation. By conducting the survey anonymously, IFIs should have no reason to provide a biased assessment of their current situation.

For each of the tasks identified by the Network of EU IFIs in its proposal (Network of EU IFIs, 2022a), IFIs were asked to provide their own assessment of:

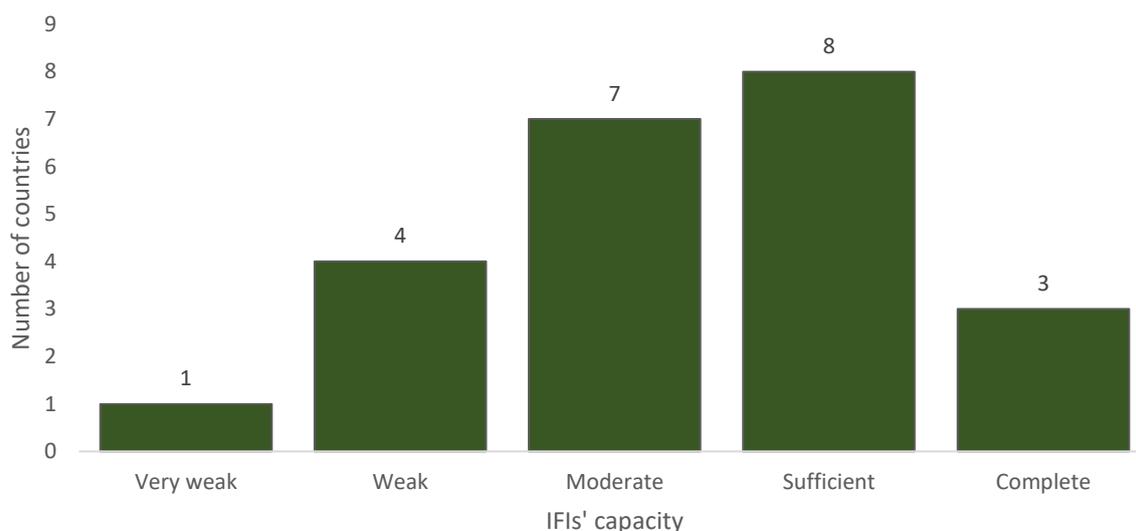
- 1) their capacity to carry tasks out (none, minor, moderate, sufficient, complete)¹;
- 2) the extent to which their access to data to carry out these tasks is complete and timely (full, partial or none);
- 3) their resources to carry them out (full, partial or none); and
- 4) the current and additional number of FTE staff required to carry them out.

The survey was conducted over June-July 2022. A total of 29 IFIs from 25 EU Member States replied to the survey. Where one country has two IFIs, the answers were aggregated (e.g. for FTE staff) or the highest value was assumed (e.g. IFIs' capacity).

¹ Capacity replies were then categorised into three types: weak capacity (none, minor), moderate capacity (moderate) and strong capacity (sufficient, complete). Furthermore, a general capacity indicator was constructed per IFI by summarising the capacity across tasks.

Looking across institutions, IFIs from a small number of countries are strong in all areas. A broader group has strong capacity across certain areas but there are a few areas where their capacity is merely moderate. IFIs in a small group of countries have weaker or moderate capacities across a broad range of activities (see Figure 2). IFIs in these countries are also more likely to report a worse level of access to information and insufficient resources.

Figure 2. Number of countries by self-reported IFIs capacity



Note: This figure is based on the survey responses of 29 IFIs from 25 EU countries. IFIs capacity was determined by adding up indicated capacity (from 1 – no to 5 – complete capacity) for each task.

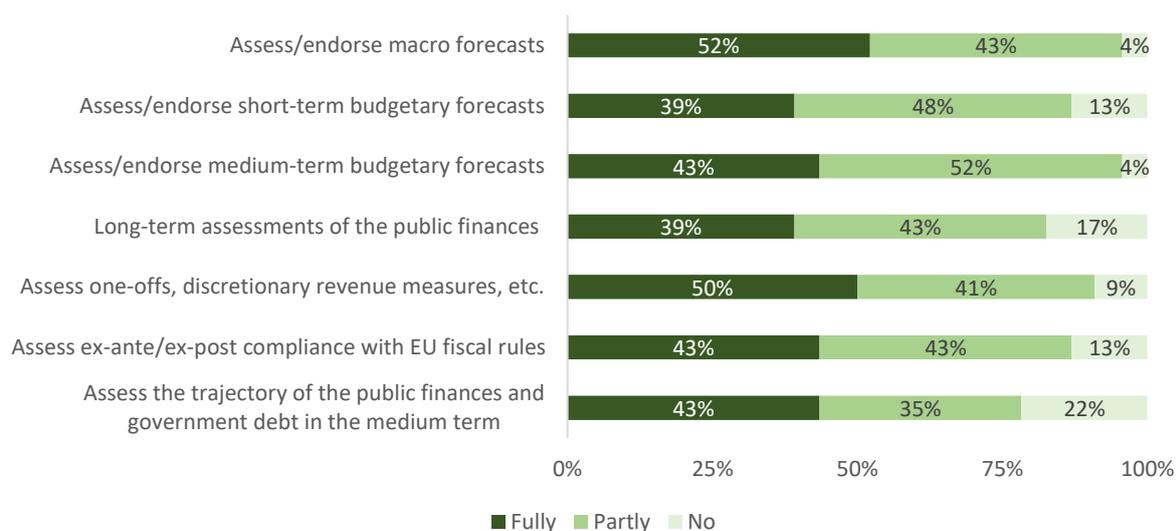
Source: Network of EU IFIs (2022)

Challenges faced by EU IFIs

The survey identified a number of areas where IFIs face many barriers. These obstacles are more severe in those institutions that assessed their capacity to be the lowest.

Full access to good and timely information required to carry out tasks proposed by the Network is still a concern for most IFIs. While just under half of surveyed national IFIs have full access to the information required to undertake the proposed tasks (see Figure 3), in the remaining countries national IFIs have incomplete or, in some cases, no access to information. Often this is either incomplete or is provided with a substantial time delay. This is problematic as the insufficient or delayed provision of information can undermine the content and timeliness of the assessments carried out by the IFIs. IFIs are well-placed to identify gaps in the availability of key budgetary information.

Figure 3. IFIs access to timely information by type of task



Note: This figure is based on the survey responses of 29 IFIs from 25 EU countries.

Source: Network of EU IFIs (2022)

While around half of IFIs have sufficient resources to carry out the proposed tasks, others face some constraints in their budgets and human resources. A small number of IFIs currently lack the staff to carry out some of the proposed tasks.

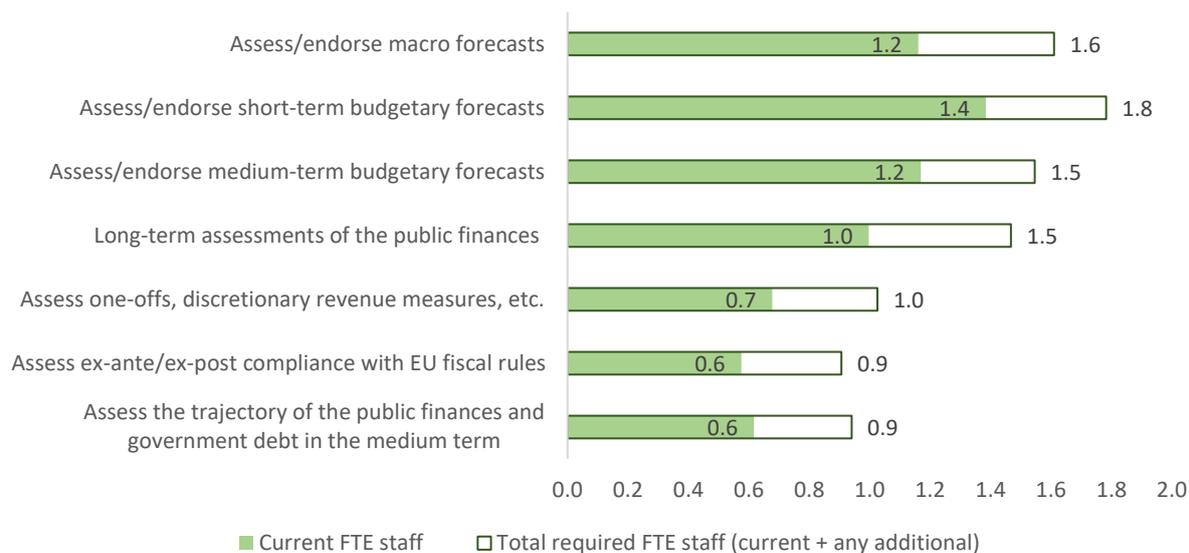
While there are large differences in the responsibilities and size of IFIs, the survey results suggests that it currently takes an IFI at least five full-time analysts³ to carry out all the proposed tasks related to EU macro-fiscal governance (see Figure 4). In total, surveyed IFIs currently employ about 150 full-time analysts working on the proposed tasks. Looking at the additional human resources required to undertake the proposed tasks, most IFIs report a gap of around two additional FTE employee to take them to a point where they would be confident in their ability to fully fulfill these tasks. For those IFIs performing additional tasks as required by national legislation, the required minimum number of full-time analysts needs to be higher.

In addition to human resources, one of the important constraints to stronger IFIs' capacity are financial resources. Only in about half of assessed countries' national IFIs report having sufficient resources to carry out the proposed tasks (see Figure 5). In other IFIs, resources are partially sufficient or are not sufficient enough to allow the task to be undertaken.

Sufficient resources and adequate flexibility to manage their resources are particularly important for IFIs' capacity to deliver on the proposed tasks. Inadequate funding and a lack of flexibility to manage their resources impacts the number of staff IFIs can employ and their level of reimbursement. This effectively leads to staff being overloaded and/or not compensated at the market rate. This makes it harder for IFIs to find and retain qualified staff, thus undermining their capacity to deliver on the proposed tasks.

³ This number is a median and it excludes IFIs' chair, board and support staff.

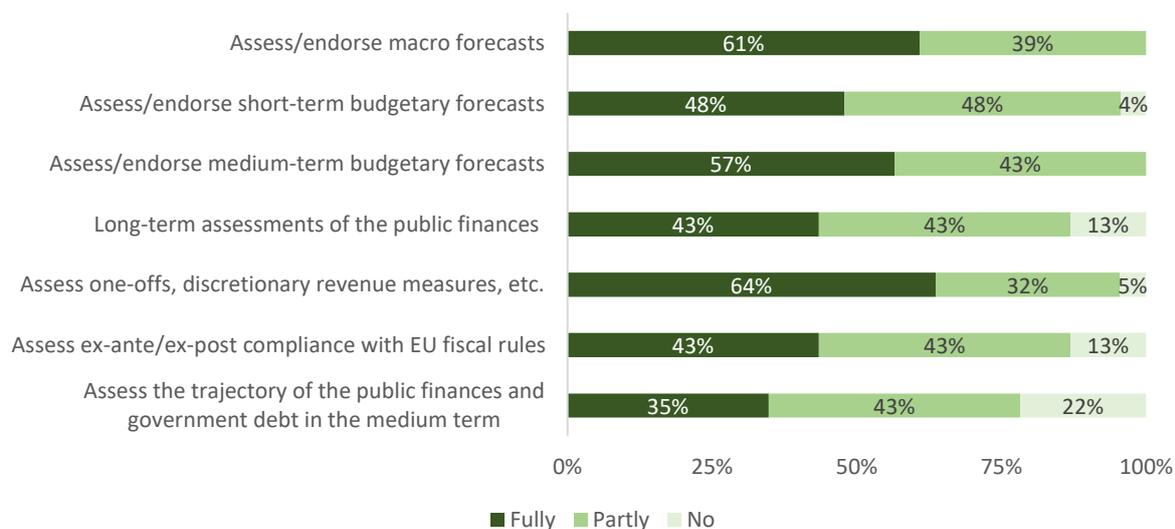
Figure 4. Average number of FTE staff required by type of task



Note: This figure is based on the survey responses of 29 IFIs from 25 EU countries.

Source: Network of EU IFIs (2022)

Figure 5. IFIs' access to resources by type of task



Note: This figure is based on the survey responses of 29 IFIs from 25 EU countries.

Source: Network of EU IFIs (2022)

How to strengthen the capacity of IFIs

Overall, the Network survey suggests that IFIs have solid and sufficient capacity to carry out the majority of the tasks proposed by the Network as part of the EU's governance reform. Some IFIs are already fully ready to play this role, while for most others, a relatively modest increase in resources, as well as upgrading capacity in a few areas (alongside their existing capability in other areas) would suffice. For some IFIs, more significant changes in their capacity are required to bring them up to their EU peers. Additionally, the work of many IFIs would be better supported through more comprehensive access to data and information, as well as sufficient and stable resources.

To this end, the Network reiterates its call for minimum standards for IFIs:

- Sufficient resources to carry out their mandates, including adequate funding provided on a multiannual basis to allow them to work effectively and to protect them from political interference. An EU requirement for the minimum mandate of IFIs could be established and linked to a minimum requirement in terms of the number of full-time equivalent analysts, which could also be underpinned by national legislation. Broader mandates than the EU minimum, as specified in national legislation, correspondingly require a higher minimum number of full-time analysts. IFIs should have adequate flexibility to manage their human and financial resources, for example in the hiring of staff, to guarantee their independence.
- Good and timely access to information. IFIs should have a legal right to obtain accurate information on demand on relevant issues from governments and national statistical offices, without any undue delay and at no cost. Any restrictions on access to information should be clearly defined in law. Governments should ensure that projections and statistics provide necessary coverage of the general government sector and relevant off-balance sheet activities. National IFIs should have timely information on relevant EU-level developments, including on the methodological discussions taking place in the relevant EU committees.
- Adequate safeguards to their independence, including legal requirements for the recruitment of IFI members on the basis of (technical) expertise and political independence with a transparent process for appointments. IFI members should be protected from arbitrary dismissal and should have staggered terms of at least four years.
- The possibility to make their assessments public and to publish own-initiative reports on any topic that may be relevant to the sustainability of public finances.

Establishing minimum standards for EU IFIs would underpin their capacity to deliver on proposed tasks at national level and strengthen the EU's future fiscal framework.