Having separate bodies (or 'agencies') from the government that engage in tasks previously carried out by government services is not new. The concept applies to entities that are highly disparate in terms of their missions (e.g., regulating a sector of economic activity, delivering public services, counselling the government, promoting citizen participation, etc.), rationales, and institutional designs. At the national level a growing number of independent administrative entities have been established in many countries (US agencies, Non-Departmental Public Bodies in the United Kingdom, Autorités Administratives Indépendantes in France, Autorità Amministrativa Indipendente in Italy) with provisions of varying legal force aimed at ensuring their autonomy. These entities are usually accorded a discretionary power regarding the use of the resources granted to them. Nevertheless, the exercise of this power is framed by various standards or conventions established by the delegating power or specific to the administrative culture of the respective countries.

The recent years have witnessed the gradual rise of Independent Fiscal Institutions (IFIs) in fiscal policy-making and budgetary processes. Such institutions have existed for a long time in some countries. They include the Central Planning Bureau in the Netherlands, the Economic Council in Denmark, the Congressional Budget Office in the US and the High Council of Finance in Belgium. Recently, similar institutions have been created in Sweden, Hungary, Canada, Slovenia and the UK, to name a few. They are often labelled 'fiscal councils'. Within the emerging concept of budgetary framework, IFIs, at the crossroads of structural and fiscal policies, have been identified as one promising area for research and reform. A decisive impetus for the rise of independent fiscal institutions derives from recent legislative developments at the EU level, where requirements in relation to their status, tasks and structure were enshrined in legislation. Concise initial references to them have been gradually followed by more detailed and prescriptive provisions.

In this section, we will examine in turn the rationale for the introduction of such institutions in Section 5.1; the evolving legal underpinnings for the development of such institutions in the EU and euro area in Section 5.2, and finally some descriptive elements of the IFI universe and first lessons from their establishment in Section 5.3.

5.1. RATIONALE FOR INTRODUCTION

The emergence of such actors as Independent Fiscal Institutions in the budgetary area necessarily raises questions on the relevance, scope and instruments at their disposal.

5.1.1. Non-partisan input in fiscal policy-making

As regards economic policies independent institutions ventured first in the field of monetary policy. The need for time-consistency, in reaction to monetary stimulus -labelled fine-tuning in the sixties and seventies but linked to the political cycle- justified the recourse to independent institutions for the management of monetary policies throughout the world. In contrast with a government’s tendency to abandon previously announced policy commitments (Kydland and Prescott, 1977), independent central banks were deemed to have escaped the time-inconsistency problem. Their expert leadership would then use the instruments of monetary policy at their discretion to reach their mandate-based objectives, with ex post accountability to Parliament and the public at large.

Fiscal policy was also identified in the literature as suffering from shortcomings including, but not only, time inconsistency. Calmfors (2010) reviews the various explanations leading to excessive debt accumulation. They range from an insufficient understanding of the long-run constraints on fiscal policy, rent-seeking behaviour from various constituencies, short-sightedness as too little weight is attached to the future (i.e. decision-makers have higher discount rates than citizens) or common pool issues.

While the first response to time-inconsistency took the form of fiscal rules, fiscal institutions were suggested as an alternative. Wyplosz (2005) grounded its support for fiscal institutions on the perceived weaknesses of fiscal rules designed to provide a numerical yardstick to fiscal policies on the path to sustainability. For fiscal rules to be effective and enforced, they should be stringent
and of a rigid nature. Yet there were too many uncertainties surrounding the setting of the numerical parameters which defined the essence of what a fiscal rule was. Foregoing discretion and constraining fiscal policy using rules on annual budget balance may cause welfare losses. Against that background, independent fiscal institutions were to be invested with a more intrusive mandate in fiscal policies, granting them powers equivalent to fiscal authorities. Therefore Wyplosz advocated having recourse to the ‘radical’ idea of creating national Fiscal Policy Committees (FPC) composed of unelected experts with the authority to decide on the budget balance on the basis of an explicit growth forecast. As second best he advocated a softer approach having recourse to independent advisory bodies but only as an intermediate step towards full empowerment.

Yet the alleged ineffectiveness of fiscal rules was challenged by a substantial body of evidence (for instance Debrun et al. (2008)) that documented a robust link between numerical fiscal rules and fiscal performance. Stronger and more encompassing fiscal rules tended to encourage higher cyclically-adjusted primary balances, after taking into account other factors potentially affecting fiscal behaviour. What seemed to matter more for the effectiveness of fiscal policy is the type and design of rules. Against this background, the involvement of an independent institution did not stand in confrontation or substitution to fiscal rules, but rather in tandem with them.

5.1.2. Limits to fiscal policy delegation

Using economic concepts, Alesina and Tabellini (2004) look for the various parameters that may cause government to manage in-house economic policies or delegate them to non-elected individuals. They define a number of features that provide for a more efficient division of tasks between government policies and management by non-elected experts.

Due to its overarching position, political leadership often makes trade-offs across policy streams that are sometimes loosely related. Objectives for one policy might be traded for progress in other areas considered more important. These trade-offs are usually not available to the leadership of single-purpose agencies. Another difference is that political leadership can provide compensation for losers from public policies or reforms (in particular in economic good times). This would not normally be envisaged by leadership tied to the fulfilment of a single objective or mandate. Conversely, the provision of time-consistent, well-targeted policy output against stable uncontroversial objectives may be left to non-political leadership.

Delegating decision-making powers in the fiscal field in the same conditions as monetary policy would represent a considerable break in existing practices as fiscal policies encompass a significant distributive component. To quote Alesina and Tabellini (2004): ‘Politicians instead are better if the policy has far reaching redistributive implications, if criteria of aggregate efficiency do not easily pin down the optimal policy, and if there are interactions across different policy domains (so that a single measure of performance is affected by several policy instruments and policy packaging is important).’

5.1.3. Terms for a pragmatic involvement of IFIs as ‘accountability-multiplier’

While investing IFIs with decision-making powers has been considered incompatible with the basic tenets of fiscal policy-making, room nevertheless exists for their involvement as advisory bodies, i.e. bodies which could issue non-binding opinions over a broad range of fiscal issues. Such tasks do not necessarily collide with tasks of National Parliaments, which routinely ensure budgetary oversight. According to the principal-agent theory, in order to enforce the contract linking two parties with appropriate incentives and sanctions, information about the way the agent accomplishes his task is critical. Acquiring decision-relevant fiscal information is costly and time-consuming. Another constraint is that feedback about the quality of economic policy decisions may be slow, so only durable institutions would be able to collect and make sense of information that becomes available gradually. Even if information is available, specialised skills are necessary to
make the most of it and these skills may not be present in sufficient numbers in the staff of national Parliaments. Parliaments may then benefit from the IFI deliverables when making governments accountable.

IFIs can use three channels to exert influence. A first one is linked to the impact of its policy deliverables on fiscal authorities (direct impact). Second, if IFIs benefit from sufficient credibility, the possibility of their intervention may induce the government to adjust preventively its policies for fear of receiving public criticism (implicit impact). Third, IFIs are likely to enhance scrutiny from existing checks and balances embedded into the budgetary process (Parliament, Constitutional Courts, Court of auditors, EU authorities, and eventually the public at large). This indirect impact should not be underestimated, at least potentially.

Table II.5.2: IFI Channels of influence

| Deliverables under policy mandate | → Direct impact on fiscal authorities |
| Potential for deliverables under policy mandate | → Implicit impact on fiscal authorities |
| Recycling of deliverables through other stakeholders | → Indirect impact on fiscal authorities (‘accountability-multiplier’)

Source: Commission services

In that sense, IFIs could be considered an ‘accountability-multiplier’. The IFI deliverables may convey messages that may be taken on board by a wide range of stakeholders, as depicted in Graph II.5.1. As a result:

• The public would benefit from additional information;

• National Parliaments may find IFI deliverables useful to discharge their budgetary oversight;

• Public bodies mainly focused on legal compliance matters, such as Constitutional courts or courts of auditors may draw on economic information to better ground their own assessments;

• EU bodies may draw on policy deliverables to feed into fiscal surveillance.

Existing accountability processes can capitalise on IFI deliverables to improve their general effectiveness. Governments themselves may use policy messages from IFIs. When budgets are prepared, timely IFI opinions may reinforce the authority of the Ministry of Finance over line Ministries, mitigating common-pool issues. In more fragmented political systems such as federal states, IFI recommendations could provide terms for a compromise between different layers of government.

Also, the public nature of assessments from an advisory body raises the stakes; it increases the costs of policy errors on both sides and the credibility losses that derive from them. Faced with uncertainty both fiscal authorities and IFIs may consider it safer to engage in cooperation rather than confrontation.

Under uncertainty, fiscal authorities may simply consider that the mere threat of a negative assessment may justify: (i) pre-emptive fiscal steps likely to win over the IFI’s endorsement; or (ii) informal, non-public, talks ahead of the issuance of the policy deliverable to better ascertain IFI preferences and sense what would be the measures that would be more likely to be endorsed.

Conversely, also faced with uncertainty, IFIs, with limited access to media and low at-start credibility capital, may find it safer to think twice before issuing excessively confrontational public statements that may be misunderstood over their first years of activity. Initial prudence may subside
over time as the IFI accumulates a higher level of visibility and authority in the internal public debate.

Overall, the presence of an IFI: (i) increases the odds that the right policy choices are made; (ii) provides an incentive for both parties to behave prudently. This is however conditional on the IFI's ability to provide a positive contribution to sound public finances in the form of robust deliverables, solidly underpinned by clear economic reasoning and proven empirical evidence.

5.1.4. Overview of the tasks usually discharged by Independent Fiscal Institutions

The first IFIs have started operating on account of pragmatic reasons and conditional on the benevolent attitude of the government. Therefore their remits were necessarily modular; they aggregated a number of specific tasks with a country-specific purpose and possible synergies between them. The following tasks were typically present in forerunner IFIs:

i. Monitoring of fiscal policy and rules;

ii. Policy costing;

iii. Macroeconomic forecasting;

iv. Analysis of long-run sustainability of public finances;

v. Promotion of fiscal transparency;

vi. Normative recommendations on fiscal policy.

The following sections describe these tasks as they emerged and discuss resource requirements deriving from them. The capability to foster accountability is also mentioned.

5.1.4.1 Monitoring and assessing fiscal policy and rules

In their seminal paper over fiscal rules Kopits and Symansky (1998) stressed that for fiscal rules to be successful they should enjoy the support of an institutional infrastructure, ‘especially as regards the budgetary process and surveillance mechanism’. They mention that the traditional institutions in charge of vetting the legality of budget laws (namely National Court of Auditors and Constitutional Courts) might not have all the expertise required to carry assessment of a more economic nature. Against this background, the involvement of an independent institution does not represent a breakthrough in itself, but rather serve to equip existing processes with an additional module which is supposed to provide additional efficiency, without essentially affecting the objectives pursued.

Fiscal rules set inter-temporal constraints on annual budgets with a view to weighing on the annual and medium-term budget plans of the government sector. Their effectiveness rely on the fact that non-observance would cause costs for the government, by way of either sanctions or reputational costs hitting the government’s credibility in the eyes of the public. Therefore an independent referee is an essential ingredient in the overall layout surrounding the functioning of a fiscal rule.

The degree of IFI involvement may vary. At its weakest materialisation providing a monitoring of fiscal policy in general terms does not make much of a difference with respect to reports produced by academic bodies or research institutes as such reports are rather of a descriptive nature (although the descriptive analysis therein may be very detailed).

Providing assessments on national fiscal rules goes a step further; while they include descriptive analyses similar to regular monitoring, on top of it assessments include judgement on whether the rules have been followed, and if not, why. The length and complexity of the assessment is obviously tied to the complexity of the rules themselves. Second-generation fiscal rules involving the computation and evaluation of structural balances and concurrent indicators of the fiscal stance might require sophisticated analysis. Yet the need to provide exploitable deliverables
for stakeholders calls for clarity of the deliverables (which does not exclude nuance). Such clarity is critical for ensuring that IFI actions foster accountability.

A somewhat stronger involvement of IFIs into rule assessment is provided for in the Fiscal Compact. There, ‘monitoring institutions’ do not only conduct ex post assessments; they also involved in ‘on-the-spot’ monitoring whereby opinions have to be issued on the management of the national correction mechanism attached to the fiscal rule itself. It differs conceptually from ex post assessment, which takes place with the benefit of hindsight. As such, it may foster a sense of ‘co-responsibility’ between IFI and fiscal authorities if the latter follows the opinions of the former.

In terms of resource requirements, delivering an ex post assessment over fiscal rules may only demand a relatively light structure meeting at distant intervals. This is for instance the format of the Swedish Fiscal Policy Committee. Monitoring fiscal rules require a more permanent structure, especially for the Fiscal Compact balanced-budget rule as a number of events subject to IFI opinion may occur at any time (such as the triggering of the correction mechanism). An appropriate skill set combining analytical excellence with the ability to communicate in non-technical terms is essential.

Non-public estimates are also critical when providing decision-makers with cost-benefit analysis when assessing different measures for a given policy action. Requests from fiscal authorities may come at short notice and require quick delivery. On the revenue side, costing requires first-hand knowledge of the often-complex tax legislation and access to non-public tax databases. On the spending side, it requires internal data from the relevant line ministries in relation to spending programmes. Entities in charge of such estimates often have recourse to modelling, either internally or from external sources. As a result, policy costing is often conducted by technical services of the Ministry of Finance or specialised public research institutions on behalf of the Ministry of Finance. Parliament may also request estimates in order to quantify the fiscal impact of amendments, either to its own administration or to the Ministry of Finance. As a result, the process is likely to involve significant resources.

The involvement in policy costing would usually be linked with a strong participation of IFIs in budgetary forecasting, given obvious linkages and scale economies to conduct both tasks jointly. This is the case in the UK with the Office of Budget Responsibility. Due to its limited resources, it liaises intensively with various government services so that it can get access to critical information and modelling resources. When IFIs are lodged in Parliament, it is more likely that the mandate includes such tasks, following the example of the US Congressional Budget Office, which prepares 500 to 700 of such estimates per year (CBO, 2012).

5.1.4.3 Preparing or assessing macroeconomic forecasts

Policy costing consists in providing, either at budget preparation stage or throughout the budget cycle, estimates of fiscal measures envisaged by fiscal authorities. Such estimates have a critical impact on the quality of the budgetary forecasts contained in budget bills and medium-term fiscal plans.
Part II
Recent development in fiscal surveillance

Table II.5.6: Preparing or assessing macroeconomic forecasts

<table>
<thead>
<tr>
<th>Task</th>
<th>Contribution</th>
<th>Complexity</th>
<th>Resource requirements</th>
<th>Generate Gov. Accountability?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparing macroeconomic forecasts</td>
<td>To ensure that macroeconomic forecasts used for fiscal planning are realistic or prudent</td>
<td>High</td>
<td>High</td>
<td>No</td>
</tr>
<tr>
<td>Assessing macroeconomic forecasts</td>
<td>To ensure that macroeconomic forecasts used for fiscal planning are not unrealistic or biased</td>
<td>High</td>
<td>Medium</td>
<td>Conditionally</td>
</tr>
</tbody>
</table>

Source: Commission services

Identifying biased forecast errors erring on the side of optimism that affected fiscal policy outcomes of four major EU Member States, Larch and Jonung (2006) advocated delegating the production of macroeconomic and budgetary forecasts to independent institutions. By contrast, the forecasts prepared by detached agencies tasked in this respect (in Austria, Belgium and the Netherlands) exhibited no statistically significant bias. They contended that producing forecasts did not form part of the function of a government and therefore could be contracted at no democratic cost to a body of non-political experts. Furthermore, there were no direct redistributive aspects linked to preparing forecasts. Benefits from the independent production of forecasts included: (i) reduced bias; (ii) improve transparency and accountability; and (iii) smoother exchange of information with European and international bodies.

Producing macroeconomic forecasts is a time-consuming process, involving skilled personnel and recourse to modelling. Specialised skill requirements are therefore high. In addition, the production of forecasts requires exchanges of information between government and delegated producers. In addition, forecasts have to be updated several times throughout the annual budget cycle, implying strong coordination needs through heavily-codified processes. These requirements are heightened when preparing budgetary forecasts where the acquisition of inside knowledge about budgetary programs and tax elasticities are essential. Unless the option is chosen to devote very large resources to the producing body, some have questioned whether this close cooperation can compromise IFI independence (Calmfors, 2010). However in the case of the UK OBR, Wren-Lewis (2010) mentions two mitigating factors: (i) fragmented discussions with a wide array of different public bodies when collecting information practically prevent the capability for manipulation, and (ii) experienced staff should be able to spot such attempts.

In order to alleviate these heavy resource requirements, IFIs may be entrusted to assess (instead of prepare) macroeconomic forecasts before they are formally incorporated into the budget. Such a procedural step may induce governments to prepare realistic or prudent forecasts, while limiting the need for extra IFI resources. Yet assessing forecasts still requires specialised skills and strong coordination patterns that still somehow 'embed' the IFI into the budgetary process.

5.1.4.4 Long term sustainability of public finances

Table II.5.7: Long term sustainability of public finances

<table>
<thead>
<tr>
<th>Task</th>
<th>Contribution</th>
<th>Complexity</th>
<th>Resource requirements</th>
<th>Generate Gov. Accountability?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term sustainability</td>
<td>To compute long-term trends in public finances aimed at ensuring fiscal sustainability</td>
<td>High</td>
<td>Low</td>
<td>Some</td>
</tr>
</tbody>
</table>

Source: Commission services

If existing stakeholders are not sufficiently informed about long-term sustainability of public finances, then fiscal policy choices might be skewed at the expense of future generations. An IFI can therefore exert influence by making its own calculations. While that analytical task could be carried out by research or academic institutions as well, the added-value of giving it to an IFI would lay in its capacity to properly compute and publish and integrate them in a narrative that would support the general objective of promoting sound public finances. Therefore strong synergies exist with other IFI tasks.

5.1.4.5 Promoting budget transparency

Table II.5.8: Promoting budget transparency

<table>
<thead>
<tr>
<th>Task</th>
<th>Contribution</th>
<th>Complexity</th>
<th>Resource requirements</th>
<th>Generate Gov. Accountability?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fostering transparency</td>
<td>To bolster clarity of budgetary documentation and engage in outreach to explain the fiscal performance and prospects and the benefits of sound public finance.</td>
<td>Medium</td>
<td>Medium</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Commission services
As the lack of information may be a cause of deficit bias, promoting transparency through clear explanations from fiscal authorities and unbiased information would foster better accountability. ‘Fiscal transparency is defined as openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities...so that the electorate and financial markets can accurately assess the government’s financial position and the true costs and benefits of government activities, including their present and future economic and social implications’ (Kopits and Craig (1998)).

Alt and Lassen (2006) show that budget outcomes are more favourable in countries where fiscal policies were more transparent. This could translate into various initiatives such the screening of legislation and fiscal documentation to make it more accessible and clear, communication initiatives to explain the benefits of sound public finances, suggestions to improve statistical coverage of general government entities, etc.

For instance, in its founding ordinance, the Swedish FPC has received the mandate to 'examine the clarity of the budget bills'. Also the Council is tasked to 'review and assess the extent to which the fiscal and economic policy objectives proposed by the Government and decided by the Riksdag are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy'. It shall also 'work to stimulate more public debate on economic policy'.

Yet, only a few countries explicitly mention transparency as a self-standing objective for IFIs. This may be explained by the fact that the objectives of transparency may be also fulfilled indirectly by discharging other tasks usually associated to IFIs. Also the relative vagueness of the objective might also justify broad policy activism, in areas like accounting and statistical legislation, whereas governments may prefer to narrow down IFI mandates to clearly-delineated tasks.

5.1.4.6 Issuing normative assessments

It is tempting to draw logical consequences of a given assessment and top up positive analyses with explicit recommendations on the fiscal stance or analyse the consequences of alternative policies. Yet, outright recommendations are creating 'two-way' accountability by making IFIs also accountable if fiscal authorities were to follow its recommendations. Issuing normative assessments involve difficult trade-offs and require sizeable resources and a well-established reputation. It certainly raises the profile of the institution beyond a technical body, with the consequence of becoming an important domestic actor which is accountable itself for the relevance of its policy advice.

5.2. THE EVOLVING LEGAL UNDERPINNINGS FOR THE DEVELOPMENT OF IFIS IN THE EU AND EURO AREA

A decisive impetus for the rise of independent fiscal institutions has been given by recent legislative developments at the EU level, where requirements in relation to their status, tasks and structure were enshrined in legislation. Concise initial references to them have been followed by more detailed and prescriptive provisions.

5.2.1. The Council Directive on requirements for national budgetary frameworks

The Directive on requirements for national budgetary frameworks (Directive 2011/85/EU), adopted in November 2011 as part of the so-called 'Six-pack' legislation on economic governance, already contained a reference to the need for independent bodies. First, national fiscal rules should be conducive to the respect of EU fiscal rules, acting as a first defence line against infringements of EU rules in the fiscal domain. Second, according to Article 6(1)(b) national numerical fiscal rules in the sense of the Directive should be equipped with procedures ensuring the 'effective and timely monitoring of compliance with
The monitoring should be based on 'reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States'. While discussions on the specific status and structure of such bodies did not materialise at the time, the Directive laid down for the first time a task to be allocated to independent bodies as a necessary specification attached to national numerical fiscal rules.

5.2.2. The intergovernmental Fiscal Compact and the Commission common principles

The fairly concise provisions of the Directive were broad enough to fit with the wide variance of national layouts across EU Member States. Yet they were considered insufficient for the balanced-budget rule in structural terms envisaged in the Fiscal Compact, itself part of the Treaty for Stability, Coordination and Governance (TSGC). This budget balance rule was meant to be a critical commitment of the euro-area to fiscal sustainability and therefore care was given to add monitoring institutions to national correction mechanisms in an effort to bolster credibility. The Commission was tasked to provide common principles regarding, among others, 'the role and independence of the institutions responsible at national level for monitoring compliance with the rules (...)’ (Article 3(2) TSGC). In its June 2012 Communication on national fiscal correction mechanisms (COM(2012)342), the Commission laid down detailed rules for Member States on the tasks and status of the 'monitoring institutions'.

As to tasks, the common principles implied a significant deepening. Monitoring institutions were expected to provide public assessments over: 'i) the occurrence of circumstances warranting the activation of the correction mechanism; (ii) whether the correction is proceeding in accordance with national rules and plans; and (iii) over the occurrence of circumstances for triggering, extending and exiting escape clauses'. The requirements went beyond the mere monitoring of compliance and involved the monitoring institution into the functioning of the fiscal rule. The term of 'enhanced monitoring' can be used to describe such a continuous relationship as opposed to the usually discrete ex-post assessment of fiscal rules.

The TSCG-related enhanced monitoring was reinforced by the 'comply or explain' principle – whereby the advice of these monitoring institutions would either be followed, or the concerned Member States would explain why it departed from it. The explanatory statement of the common principles recalled that the principle would 'ensure that assessments and opinions are not just ignored, without infringing on the policymaking responsibilities of fiscal authorities.' It unequivocally fostered accountability.

As to independence, while signatory parties were left to exert discretion as they 'shall take into account the already existing institutional setting and the country-specific administrative structure', a number of structural characteristics were suggested as instruments to indirectly foster independence. They include: (i) a statutory regime grounded in law; (ii) freedom from interference, whereby the above bodies shall not take instructions, and shall be in a capacity to communicate publicly in a timely manner; (iii) nomination procedures based on experience and competence; (iv) adequacy of resources and appropriate access to information to carry out the given mandate. While the margin of manoeuvre of legislators when grounding these institutions was not overly constrained, the principles nevertheless specify critical structural features of IFIs that enable them to function at arm's length from their respective governments.

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

Regulation (EU) No 473/2013 adopted in May 2013 as part of the so-called 'Two-pack' legislation introducing enhanced fiscal governance arrangements for euro area Member States replicated the TSGC common requirements regarding essential structural features inherent to independent bodies. It laid a bridge with the previous initiatives by requesting that independent bodies assess compliance with the national numerical fiscal rules identified in Directive 2011/85/EU and the Two-pack balanced-budget rule closely inspired from the one described in the Fiscal Compact. The format of the assessments to be prepared replicated the list of the requirements contained in the common principles issued by the Commission (assessment of the activation of the
Box II.5.1: The involvement of Independent Fiscal Institutions in the 2015 DBP process

The autumn examination of the 2015 Draft Budgetary Plans (DBPs) complemented, for euro-area Member States, the assessment of stability programmes and convergence programmes that takes place each spring. (1) The examination is focused on providing concrete *ex ante* guidance for the budget of the year ahead rather than on medium-term fiscal plans. For IFIs it provided a genuine test of their involvement in forecasting across the euro area (2). According to the DBPs, macroeconomic forecasts have been produced by separate entities from the Ministry of Finance in five Member States (AT, BE, LU, NL and SI). Endorsement of forecasts has been the preferred option in EE, ES, FR, IE, IT, MT, PT and SK. The following developments provide country-specific information. Unless specified otherwise, the macroeconomic forecasts referred to below are underpinning the submitted DBPs to the Commission.

**In Austria**, the macroeconomic forecast has been produced by the Austrian Institute of Economic Research (WIFO). WIFO is a non-profit association and benefits from a reputation as one of Austria's prominent policy oriented economic research institutes.

**In Belgium**, the macroeconomic forecast has been prepared by the Federal Planning Bureau (FPB). The FPB is a well-established institution formally attached to the Government that positions itself as an independent institution.

**In Estonia**, the macroeconomic forecast prepared by the Ministry of Finance was endorsed by the Estonian Fiscal Council. The Estonian Fiscal Council is an advisory body attached to the Bank of Estonia. According to its mandate, it assesses the macroeconomic and budgetary forecasts.

**In Finland**, the macroeconomic forecast underpinning the budget has been prepared by the Economics department of the Ministry of Finance. The management of the Economics department is separated from the Budget department, but no special legal provisions have been enacted to secure its independence. The forecast is not endorsed by any other third party.

**In France**, the High Council for Public Finances (HCPF) has published two opinions as part of the national endorsement procedure, on the DBP as well as on the overall budgetary strategy underlying the draft budget. The HCPF was established by the Organic Law n° 2012-1403 of 17 December 2012 as a monitoring body attached to the French Court of Auditors and whose independence is formally guaranteed by law.

**In Germany**, the federal budget is based on the federal government's own macroeconomic forecast and involves the Joint Economic Forecast (*Gemeinschaftsdiagnose*) which is issued twice a year by leading research institutes shortly before the government's spring and autumn projections. The forecast is not endorsed by a third party.

**In Ireland**, the macroeconomic forecast prepared by the Department of Finance has been assessed and endorsed by the Irish Fiscal Advisory Council (IFAC), in accordance with the Fiscal Responsibility Acts of 2012 and 2013. According to a Memorandum of Understanding specifying the process, IFAC is required to issue its view (in a letter of endorsement) according to which the forecast either falls within an appropriate endorseable range or not.

**In Italy**, the Draft Budgetary Plan is based on Italy's Economic and Financial Document (DEF) which presents a trend scenario, based on the hypothesis of unchanged legislation, and a programme scenario including the impact of the measures contained in the DBP. Both macroeconomic scenarios have been prepared by the government and endorsed by the recently-established Parliamentary Budget Office (PBO). The functional autonomy of the PBO is referred to in Constitutional Law 1/2012s and further detailed in Law 243/2012.

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(1) CY and EL do not need to submit 2015 draft budgetary plans because they are subject to macroeconomic adjustment programmes.

(2) While DBPs were already released in autumn 2013, IFI involvement was partial as many institutions had not been grounded or were at a very early stage of functioning.
In Latvia, the macroeconomic forecast prepared by the Ministry of Finance has not been formally endorsed by an independent body. The Fiscal Discipline Council, Latvia's fiscal monitoring institution, is expected to prepare a fiscal discipline monitoring report on the 2015 budget law that will be presented to the parliament, including an independent evaluation of the macroeconomic projections and the cyclical position of the economy.

In Luxembourg, the macroeconomic forecast has been prepared by the Direction "Etudes, prévisions et recherche" of the National Statistical Office (STATEC). The mandate and organisation of STATEC were revised by the law of 10 July 2012, which highlights its scientific and administrative independence.

In Malta, awaiting the creation of the Maltese Fiscal Council that is expected to endorse macroeconomic forecasts, the National Audit Office, whose independence is established in Article 108(12) of the Constitution of Malta, has published an assessment of the macroeconomic forecasts prepared by the Ministry of Finance.

In the Netherlands, the macroeconomic forecast underpinning the draft budget was produced by the Bureau for Economic Policy Analysis (CPB). This established practice has been formalised in 2013 by virtue of the Law on the Sustainability of Public Finances. The CPB is functionally attached to the Ministry of Economic Affairs but has built up since its foundation a strong reputation as regards the independence and quality of its deliverables.

In Portugal, the macroeconomic forecast prepared by a Department of the Ministry of Finance has been assessed and endorsed by the Public Finance Council (CFP). The CFP was established through the May 2011 reform of the Budgetary Framework Law (Article 12-I). It is a legal entity which has the nature of an independent body according to Article 5 of its Statutes.

In Slovakia, the macroeconomic forecast prepared by the Ministry of Finance is endorsed by the Macroeconomic Forecasting Committee (MFC). The constitutional act on budgetary responsibility, adopted in December 2011, formally endowed the MFC with the responsibility for assessing macroeconomic forecasts. The MFC assesses if the draft forecast by the Ministry of Finance is "conservative", "realistic" or "optimistic".

In Slovenia, the macroeconomic forecast is prepared by the Institute of Macroeconomic Analysis and Development (IMAD). In accordance with the Act amending the Government of the Republic of Slovenia Act of 2000, IMAD was reorganised as an independent government office managed by a Director who answers directly to the Prime Minister.

In Spain, the macroeconomic forecast underpinning the Draft Budgetary Plan has been endorsed by the newly-created Autoridad Independiente de Responsabilidad Fiscal -AIReF. The authority was created in law in November 2013 (Organic Law 6/2013), with a view to securing its independence.
Regulation. As a result, legal requirements follow an escalating pattern where monitoring institutions are subjected to increasing requirements in relation to the degree of involvement of Member States in the economic governance of the European Union.

Therefore in almost all Member States, EU legislation has provided considerable support for the creation of such bodies, while ensuring the capability for Member States to establish them in harmony with the idiosyncratic characteristics of their national frameworks. As many of them have therefore been created in recent years, further attention to their features is warranted.

### 5.3. A DESCRIPTIVE ANALYSIS OF THE IFI UNIVERSE AND FIRST LESSONS

#### 5.3.1. Fiscal Institutions in the Commission database on fiscal governance

Commission services compile a broad set of information on fiscal governance arrangements in the EU countries through a comprehensive survey launched in 2006 across Member States, known as the Fiscal Governance database. This survey collects inter alia information related to the main characteristics of national fiscal institutions covering their mandates and functions. From 2009 onwards it is being updated annually. The latest available information is from the 2013 update. It should be stressed that the eligibility criteria of the database may be wider than a strict definition of IFI according to the new EU requirements. Yet it is a valuable source of information in relation to the structural characteristics of IFIs. As reported by Member States in the database the number of fiscal institutions has grown steadily over the years. The past two years have witnessed an accelerating built-up in relation with EU requirements, with 36 institutions in 2011 and 43 institutions in 2013.

#### Table II.5.10: Legal requirements for independent fiscal institutions originating from EU legislation and intergovernmental Treaties

| AT, BE, CY, DE, EL, ES, FI, FR, IT, LI(*) | Source: Commission services | Note: (*) When LT joins the euro area |
| DK, RO, BG | Monitoring of national fiscal rules to be conducted by independent bodies |
| HR, CZ, SE, PL, HU | Monitoring of national fiscal rules to be based on independent analysis |
| UK | No requirements |

A majority of such institutions rely on a legal base grounded in equal or higher than legislative provisions. This provides a stable base for starting operations, especially for newly-created institutions. Implementing provisions (relative to nomination procedures, operating rules, relations with other bodies, etc.) are grounded in legislation for a good half of the fiscal institutions.

#### Table II.5.11: Fiscal institutions in the Commission services database on Fiscal Governance

<table>
<thead>
<tr>
<th>Fiscal institutions</th>
<th>2006</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT, BE, CY, DE, EL, ES, FI, FR, IT, LI(*)</td>
<td>27</td>
<td>29</td>
<td>30</td>
<td>34</td>
<td>36</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>DK, RO, BG</td>
<td>Monitoring of national fiscal rules to be based on independent analysis</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>HR, CZ, SE, PL, HU</td>
<td>Monitoring of national fiscal rules to be based on independent analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>No requirements</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

#### Table II.5.12: Legal base for fiscal institutions in the Commission services database on Fiscal Governance (vintage 2013)

<table>
<thead>
<tr>
<th>Constitutes</th>
<th>Law</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing document</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>Implementing provisions</td>
<td>2</td>
<td>22</td>
</tr>
</tbody>
</table>

### Source:

The Fiscal Governance database collects information self-reported by Member States on national fiscal rules, medium-term budgetary frameworks, budget procedures and fiscal institutions. More details and the results of surveys are available at: http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/index_en.htm
The database also collects information on the structure and the functioning of fiscal institutions. While a majority of fiscal institutions are fully detached, others have been attached to hosting institutions that provide logistics and sometimes seconded staff. Smaller Member States are reported to opt for the attachment model against the background of scarce specialised skills in public finance analysis.

Table II.5.13: Tasks of fiscal institutions as reported in the Commission services database on fiscal governance (vintage 2013)

<table>
<thead>
<tr>
<th>Task of Fiscal Institutions</th>
<th>24</th>
<th>30</th>
<th>17</th>
<th>16</th>
<th>9</th>
<th>3</th>
<th>12</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment of fiscal rules for central government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment of fiscal rules for non-central government</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production of macroeconomic forecasts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production of budgetary forecasts</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Endorsement of macroeconomic forecasts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy vending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Commission database on fiscal governance

Attachment is consubstantial to Parliamentary Budget Offices, which are included in the database. Parliamentary Budget Offices benefit from national Parliaments’ resources, while being well-placed to deliver advice to members of Parliament in the fiscal area. As to staff resources for fiscal institutions, they are expected to be commensurate with the institution’s task portfolio and a majority of them have relatively small staffing. Institutions with very large staffing (more than fifty) usually represent entities engaged in wider activities than fiscal surveillance (general economic analysis for economic research institutes, auditing of public accounts for national courts of auditors).

Table II.5.14: Structural information on fiscal institutions (vintage 2013)

<table>
<thead>
<tr>
<th>Structure</th>
<th>Detached</th>
<th>Attached</th>
<th>Less than 10</th>
<th>10 to 50</th>
<th>More than 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff employed</td>
<td>27</td>
<td>36</td>
<td>27</td>
<td>56</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Commission database on fiscal governance

Other structural features in relation to the practical capability of fiscal institutions may matter for effectiveness. While fiscal institutions are perceived to have no major impediment to their ability to communicate, the situation in relation to access to budgetary information seems more contrasted. While the quality of ex post assessments may not be compromised by relying on public information only (provided strong transparency requirements are in effect), access to non-public information from fiscal authorities may be warranted when discharging certain types of tasks, in particular forecasting or the issuance of opinion regarding current management of fiscal rules (for instance an opinion on the decision on the triggering the national correction mechanism). As to funding, most institutions rely on the state budget, whereas some are funded by hosting institutions (such as national Parliaments, central banks or court of auditors).

Table II.5.15: Safeguards for the leadership of fiscal institutions (*)

<table>
<thead>
<tr>
<th>Terms of office (**)</th>
<th>Requirements for appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than five years</td>
<td>Qualification criteria</td>
</tr>
<tr>
<td>More than eight years</td>
<td>Conflict-of-interest provisions</td>
</tr>
<tr>
<td>Four to eight years</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>15</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Commission database on fiscal governance

(*): Number of fiscal institutions with such characteristics
(**) data not available for three institutions

To enhance the autonomy of fiscal institutions and in compliance with requirements for TSCG signatory parties bound by the Fiscal Compact and euro-area Member States, fiscal institutions have been equipped with a number of safeguards ensuring the prevention of interference from external bodies. Terms of leadership are usually sufficiently long so as at least match equivalent characteristics of national decision-makers in the budgetary field. Additional national requirements include criteria for qualification (expressed sometimes in terms of experience), provisions aimed to avoid situations of conflicts-of-interest and incompatibility clauses between membership of fiscal institutions and other public or private capacities. These requirements are often found in the recently-grounded fiscal institutions as reported in the database.

Table II.5.16: Other structural features of fiscal institutions

<table>
<thead>
<tr>
<th>Freedom to communicate</th>
<th>Access to non-public fiscal information</th>
<th>Main funding source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (any time)</td>
<td>Yes (fixed dates)</td>
<td>No</td>
</tr>
<tr>
<td>18</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Commission database on fiscal governance

5.3.2. A typology of IFIs

With the impetus from EU legislation, the many new IFIs that have been created still allow Member States to tailor their mandate and structure to
country-specific considerations. As a result, the IFI landscape remains very diverse. IFIs are unified by the common tasks enshrined in EU legislation, but the breadth of such tasks depends often on EU legal requirements. Furthermore, Member States have used available room for manoeuvre to the full when designing the format of these new institutions. This has sometimes meant including tasks going beyond EU requirements.

Member States also sometimes decided to attach bodies tasked with EU requirements to existing entities. The attachment to existing entities facilitates access to resources (offices, IT equipment, staff secondment) and therefore a smooth start-up. A number of provisions have however to be in place to ensure that IFI activities are properly ring-fenced from the general missions of the hosting entity. While longstanding institutions may initially be better placed due to their established authority, it remains to be seen whether the credibility capital of these host institutions could 'spill over' to the attached entities.

While the description of the optimal features of an IFI is likely to remain elusive, a number of common characteristics are shared by several entities with similar functions and profiles. Three sub-groups could be isolated tentatively. The first group gathers a number of already-existing entities tasked with the production of macro-economic and budgetary forecasts. From a legal perspective, these entities have joined only recently the IFI universe. The passing of Two-pack regulation (EU) No 473/2013 has been instrumental in making more visible their contribution to the annual budget cycle. These institutions are already well-established and with ample staffing; they usually enjoy autonomy in practical terms within the public sector on account of their technical expertise. They often discharge other tasks than just macroeconomic and budgetary forecasting. Examples of such institutions include the Dutch Bureau for Economic Policy Analysis (CPB) and the Austrian Institute for Economic Research (WIFO). The challenge for these entities would be to maintain their existing autonomy while the extra visibility conferred to their output might also lead to external pressures.

The second group also concerns existing entities, with the difference that such entities are mostly tasked with the assessment of fiscal rules, in relation with the TSCG and the Two-pack regulation (EC) No473/2013. These already-established institutions (like the Finnish Court of Auditors or the Dutch Council of State) have been earmarked to be 'monitoring institutions' in the TSCG sense. While such entities have already established strong credibility in their field of excellence, fiscal rule assessment has become a new field for these institutions. It may warrant some internal reorganisation to ensure adequate staffing. At the same time, ring-fencing of the staff from the rest of the institution should be ensured.

The third group seems more conform to the traditional idea one may have of a fiscal council, based on the first prototypes fielded in forerunner countries like the Swedish Fiscal Policy Committee. They are often of recent establishment and their mandate significantly influenced by EU reforms (Six-pack and Two-pack). They are stand-alone bodies and often lightly staffed. As a result, they have been equipped with stronger defences against undue interferences from external bodies. Their mandate is often solely focused on fiscal issues, including periodic fiscal policy and rule assessments. Examples of such fiscal councils include the Slovak Council for Budget Responsibility. An extension of this model has been devised in countries facing strong fiscal consolidation needs, where, conditional on capacity constraints, such bodies have been entrusted with a wider range of tasks, for instance those related to the fiscal oversight of local public finances or state-owned enterprises. Only the resource-heavy production of forecasts has been left outside the mandate of these entities, which are poised to become important counterpart to fiscal authorities in the concerned Member States.

5.3.3. First lessons from their establishment

The rise of Independent Fiscal Institutions has been one of the most visible features of the recent strengthening of national fiscal frameworks across the EU. Entrusted with an advisory role these institutions have been tasked with a variety of functions in the fiscal area. Recent legislative developments at the EU level provided a decisive impetus for the rise of Independent Fiscal Institutions, where requirements in relation to their
status, tasks and structure were enshrined in legislation. As many such institutions have been created only very recently, their capability to make a difference in national fiscal policy outcomes has yet to be tested against the background of a challenging fiscal policy environment. Yet their potential contribution to transparency and accountability should not be under-estimated. Eventually it will be their capability to adapt to the specificities of their national framework while pursuing effectively the general goal of ensuring fiscal sustainability that will ensure their standing on the national scene and their reputation in the European and global fiscal landscape.