



## **Facilitating the Implementation of the Fiscal Compact and the Stability and Growth Pact by EU IFIs**

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The practical implementation of the provisions of the Fiscal Compact and the Stability and Growth Pact (SGP) presents the EU IFIs with a number of challenges. Several of them could be tackled with adequate information flows between EU Commission and the EU IFIs, whilst leaving their statutory as well as perceived independence fully intact. Transparency in both policy goals and methodologies that underlie the assessment of compliance with them would facilitate clarity in communication as well as an effective implementation of the Stability and Growth Pact and in particular the Fiscal Compact .

In this document, we propose the idea of a Memorandum of Understanding (MoU) between the European Commission and the EU IFIs, along the lines of those that many IFIs have with their national agencies. Its purpose would be to codify the information flow between the Commission and the EU IFIs.

The MoU should mainly cover the following areas: transparent communication of policy methodologies to determine budgetary targets (ranges and adjustment paths for medium-term objectives), real-time access to methodological documents and work in progress, data and software needed to allow IFIs to fulfil their mandates, communication at the technical level in areas with considerable room for judgment and discretion in interpretation.

### **1. Background**

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) requires from euro area member states the implementation of a balanced budget rule, defined as an annual structural balance, into national legislation. The rule has to be complemented with an automatic correction mechanism in case of significant observed deviation from the balanced budget or the adjustment path towards it. Its design relies on the concepts and rules of the EU-wide fiscal surveillance, namely the Stability and Growth Pact (SGP), and its national transposition needs to take into account country-specific features.

The EU IFIs provide public assessments of compliance with the balanced budget rule, and have a role to play in the correction mechanism too, besides assessing compliance with national fiscal rules. At the same time, they play a role in either the production or the endorsement of the macroeconomic and fiscal forecasts that underpin the budgetary process at the national level, in line with the provisions of the SGP regulations and directives.



It is thus a feature of the EU fiscal framework that similar issues are evaluated by different institutions based on national legislation and methodologies as well as EU-level legislation and methodologies. Such plurality in surveillance could provide different perspectives on the same problem and thus enrich the analysis. On the other hand, it presents the participating institutions with a communication challenge if assessments diverge.

## 2. Issues

A survey across EU IFIs on the implementation of the Fiscal Compact has been conducted whose aim was twofold: 1) to learn whether there are relevant differences in the implementation of the TSCG across IFIs and 2) to identify the main problems and issues IFIs face in the implementation. This survey has revealed the following main outcomes:

- Despite significant improvements in the provision of information through the interest group of EU IFIs in CIRCACB, it is still challenging to obtain timely information on the fiscal rules (methodologies and its specific features).
- There exists a significant heterogeneity when it comes to the identification of the trajectory used as a benchmark to assess whether convergence towards the medium-term objective is sufficient. A few IFIs rely on Council recommendations; another group takes paths defined in earlier Stability Programme Updates as a benchmark, whilst a large group of IFIs tries to follow the matrix communicated by the Commission in the document “Making the Best Use of the Flexibility within the Existing Rules of the Stability and Growth Pact”. There are also IFIs that follow national legislation or own methodology. This contrasts with the provision of the Compact according to which the time-frame for the convergence towards the medium-term objective will be proposed by the Commission.
- A majority of EU IFIs aims to replicate the estimates of the structural balances and the measures that underlie its calculation using the commonly agreed methodology (also used by the Commission). EU IFIs also tend to replicate EU methodology to compute the expenditure benchmark. Such work requires a range of analytical inputs including model descriptions, parameter values as well as items (such as one-off and temporary items, discretionary revenue measures, non-discretionary changes in unemployment benefits or convergence margin) where judgment is necessarily exercised. Information on some of these is only available to the EU IFIs when they become public, i.e. with a considerable time lag. Information on one-off and temporary items is only published in aggregated form which makes it difficult to distil how judgment had been exercised in particular cases and over time.



Whilst there has been considerable progress in the area of information sharing in the past two years, fiscal surveillance in the EU would benefit from a better information flow between the Commission and the EU IFIs. A formal Commission report assessing how each Member States has translated the Fiscal Compact into national legislation would also be very useful.

### **3. Proposal for an MoU**

Against this background, we propose that the Commission / Economic and Financial Committee of the European Union and the Network of EU IFIs signs an MoU which would set out the details of the information flow between the Commission / EFC and the EU IFIs.

In particular, it should include

- a commitment by the Commission / EFC to provide regular updates on the methodologies and any ongoing work or changes relevant for the implementation of the EU fiscal framework, in particular, regarding budgetary targets (MTOs and desired trajectory towards it under the Compact) and numerical fiscal rules (structural balance, expenditure rule, debt rule);
- a commitment by the Commission / EFC to release documentation, parameterisation and data in analyses where judgment is exercised to EU IFIs in a timely fashion;
- an agreement between the Commission / EFC and the EU IFIs to allow regular and direct formal and informal interaction between staff at the technical level;
- a commitment by the EU IFIs to maintain confidentiality where applicable;
- a clause confirming a full respect of statutory independence of all parties involved.