



EU INDEPENDENT
FISCAL INSTITUTIONS

Strengthening the role of EU national IFIs:

Minimum standards and mandates

A recent paper published by the EU Network of Independent Fiscal Institutions ([Network of EU IFIs, 2021](#)) called for an enhanced role for national IFIs in the EU governance framework, both as a way of strengthening fiscal policy institutions at national level and to make greater use of their capacity at EU level.

This calls for measures to reinforce the institutional underpinnings of national IFIs, particularly in countries where the resources, institutional design, and mandate of the IFIs is currently relatively limited.

Setting out minimum standards at the EU level for the governance of national IFIs and their mandates would support the role of national IFIs. While it is vital that national IFIs have strong national ownership and their roles will continue to vary according to the national context, a minimum set of standards and mandates would help all countries to reap the benefits of sound fiscal governance. These measures are required to help support a wider role of national IFIs in the fiscal governance at the EU level, as set out in a companion note on “Enhancing the contribution of national IFIs at EU level” ([Network of EU IFIs, 2022](#)).

This note sets out more detailed proposals regarding minimum standards and mandates. Raising the minimum standards would be required to ensure that all institutions can deliver the proposed extension of the minimum mandates, particularly with respect to the resources of IFIs and their access to information.

Background - current positions of IFIs in the EU

There are wide differences in institutional design between national IFIs in EU countries. Most were set up or granted new functions with the introduction of the IFIs to the EU fiscal framework in 2011 ([EC Directive 2011/85/EU](#)). However, some are long-established institutions that have taken on new roles, and some have longer histories undertaking such roles.

The main roles of the IFIs are to assess national fiscal policies, increase transparency and predictability of public finances, monitor compliance with fiscal rules and contribute to sound fiscal governance more widely. This goal is achieved through a wide range of tasks, including but not limited to assessment and/or endorsement of macroeconomic and fiscal projections underlying budgets, assessment of the fiscal stance, and assessment of compliance with the fiscal rules, including the need for activation of the correction mechanism under the Fiscal Compact and triggering, extending, and exiting escape clauses.

There is substantial heterogeneity across EU IFIs in terms of their set-up, mandates and tasks carried out ([Jankovics, L. and Sherwood, M., 2017](#)). This reflects differences in the national institutional

framework and context in each country. In some countries, national IFIs are large institutions with wide mandates and substantial resources. In others, national IFIs have limited powers and very limited resources. There is no national IFI in Poland. While most have at least some responsibilities directly linked to EU requirements, many have a wider range of roles and mandates. In some countries, responsibilities are assigned across more than one national IFI. This diversity reflects in part national institutional contexts and choices, so should remain a key feature of national IFIs in those countries even under minimum EU-wide standards.

Minimum standards for IFIs

Minimum standards at the EU level for the institutional design of IFIs would support developing the effectiveness of IFIs, where weaknesses hinder their work, and help them in meeting an enhanced role under the future EU governance framework.

Based on the experience of IFIs and drawing on the OECD Recommendation on Principles for Independent Fiscal Institutions ([2014](#)),¹ national IFIs should have:²

- Sufficient resources to carry out their mandates, including adequate funding provided on a multi-year 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 linked to a minimum requirement in terms of the number of full-time equivalent staff, which could also be underpinned by the national legislation. IFIs should have adequate flexibility to manage their resources, for example in the hiring of staff, to ensure their independence is preserved.
- Adequate safeguards to their independence, including legal requirements for recruitment of IFI members on the basis of (technical) expertise and political independence with a transparent process for appointments. There should be protections on the dismissal of IFI members. IFI members should have staggered terms of at least 4 years.
- Good and timely access to information. IFIs should have a legal right to obtain accurate information on relevant issues on demand from governments and national statistical offices, without an 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.
- The possibility to make public their assessments and to publish own initiative reports on any topic that may be relevant for the sustainability of public finances.

Many of these requirements should be mandated under EU law to ensure that they are applied at national level.³ The proposed 2017 Directive on strengthening fiscal responsibility proposed many of

¹ Almost all EU countries adhere to these principles, while the EU as a whole currently does not.

² These criteria could be fulfilled by a combination of national institutions, following the existing practice in some countries.

³ "Proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States" COM (2017) 824 2017/0335. This called for: (a) are established by a statutory regime grounded in national laws, regulations or binding administrative provisions; (b) do not take instructions from the budgetary authorities of the Member State concerned or from any other public or private body; c) have the capacity to communicate publicly in a timely manner; (d) are made up of members who are nominated and appointed on the basis of their experience and competence in public

these elements,⁴ building on the Communication from the Commission on “Common principles on national fiscal correction mechanisms” ([EC, 2012](#)). However, there are some aspects of that proposal that could be reinforced, such as a statutory right to information, and where the scope could be widened.

Ensuring adequate mandates

The IFI’s are well placed to carry out evidence-based and policy-relevant assessments. To do so effectively, IFIs should have an adequate mandate supported by minimum standards. The set-up and ownership of IFI’s should remain grounded in country specific needs and institutional settings.

While the proposed minimum mandates would require substantial changes to the mandates and resources of some IFIs, the approach builds on practices and roles that are already widespread among EU IFIs and that have proved useful.

To ensure IFIs have an adequate mandate, the following minimum requirements could be set out at EU level for the design of national IFIs:

- The assessment or endorsement of short- and medium-term expenditure, revenue, budget balance and debt projections. Medium-term projections are necessary to provide more stability and predictability of public resources and their allocation ([Network of EU IFIs, 2018](#)). This would broadly extend the role that IFIs currently have in macroeconomic projections towards budgetary forecasts, which are key to the fiscal situation and require the kind of detailed expertise that the national IFIs can provide. About half EU IFIs (14 out of 31) are currently mandated to assess budgetary projections ([Network of EU IFIs, 2021](#)).

This would require some transparent framework for how medium-term projections should be built based on objective and clear hypotheses that provide a plausible picture for the public finances under government policies. This would include assessment of how macroeconomic variables, such as output, inflation, and unemployment, impact the public finances. IFIs could assess the plausibility of no-policy change projections provided by national governments and could develop their own projections. They could examine the underlying methods and assumptions used, as well as the past forecast performance.

This minimum mandate would aim to ensure that IFIs have oversight of the overall budgetary projections needed to assess the fiscal stance and budgetary sustainability. It would not require IFIs to examine or assess every detail of government spending programmes and taxation line by line. Given the complexity of the public finances and role of discretionary decision-making, IFIs would remain reliant to a degree on information provided by governments. However, national IFIs could play a useful role in enhancing reliability of projections and analysis of the overall budgetary position, including by ensuring adequate transparency. At a minimum, this mandate should include assessment of the budgetary projections. Undertaking endorsement of the official budgetary projections, as many national IFIs already do with the macroeconomic projections, would support the

finances, macroeconomics and budgetary management, and by means of transparent procedures; (e) have adequate and stable own resources to carry out their mandate in an effective manner; (f) have extensive and timely access to information to fulfil their given tasks.

⁴ Proposal for a COUNCIL DIRECTIVE laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States, COM/2017/0824 final - 2017/0335

debate at EU level and make this process more rigorous, but may be difficult to implement in practice given the reliance on detailed information from national governments.

- The mandates of IFIs should be extended to cover all relevant budgetary publications, including final budgets, emergency budgets and substantial appropriations that fall outside the Draft Budget and Stability/Convergence Programme Updates. At present, national IFIs are typically mandated only to assess national Draft Budgets and Stability/Convergence Programme Updates, as well as to assess compliance with certain fiscal rules. However, governments may use other budgetary publications or make significant changes through revised budgets or during the legislative process. The mandates of IFIs should extend to all documents to ensure that governments are not able to avoid proper scrutiny.
- Analysis of compliance with all national rules that mirror requirements at EU level and relevant parameters, including wider use of the “comply and explain” requirement and strengthening its working, in addition to their roles with respect to entirely domestic budgetary rules. The current scope of EU requirements for assessment of compliance by national IFIs is focussed only on some aspects of the EU fiscal rules, notably around the “comply or explain” obligations of the Fiscal Compact. However, this could be extended to assessment of compliance with all domestic fiscal rules that mirror EU requirements. Some of the EU IFIs already assess the compliance with all domestic fiscal rules that mirror EU requirements and also EU fiscal rules. The role of “comply-or-explain” requirements could also be strengthened. National IFIs would retain their existing role with respect to any other domestic fiscal rules.
- The assessment of debt sustainability, the overall role of fiscal policy on macroeconomic stabilisation, debt sustainability challenges and fiscal risks. This role helps to provide a comprehensive perspective on national fiscal policies and can signal problems that may not be captured by a rules-based framework alone. This would help to ensure that formal compliance with the rules is supportive and sufficient for sound fiscal policy. About two thirds of EU IFIs (19 out of 31) currently have mandates to assess the fiscal stance⁵. Most national IFIs already produce debt sustainability assessments ([Network of EU IFIs, 2021](#)) and this role could be developed further. In light of mounting fiscal costs arising over the long-term (related to population ageing, climate change, etc.), an independent multi-angular overview of fiscal sustainability encompassing all aspects of public finances is required to inform and advise fiscal choices. IFIs are well-placed to carry out such an assessment due to their technical expertise and national experience. It could take the form of a separate report that would be made public or covered as part of existing publications. National IFIs should be free to choose how they undertake this assessment.

These requirements would be a minimum: countries would be free to set wider mandates for their national IFIs, including the existing wider roles that IFIs play in many countries. This could include tasks related to the assessment of the quality of public finances, including by undertaking spending reviews. The synergies between pursuing sustainability and having a sound composition of public

⁵ This assessment usually focusses on the level and/or change in the structural balance but may take into account a wider range of considerations, particularly relating to the long-term trajectory of the public finances. In some countries, the IFIs assess the “appropriateness” of the stance with reference to the EU or domestic rules, but an assessment of the stance can be made in terms of its implications for the public finances and risk without requiring a normative assessment.

finances are obvious and they should be exploited, so that early warning could be made regarding composition detrimental to growth. This could avoid dynamics such as the ones that took place during the fiscal consolidation phase after the Global Financial Crisis (GFC), if only by making them more politically visible in real time. For example, by carrying out or assessing spending reviews and regularly evaluating the quality of public finances IFIs can generate benefits in terms of allocative efficiency of fiscal policy, medium-term sustainability, stabilizing capacity and redistributive impact. Conducted periodically, spending reviews can free up a very-needed fiscal space for future challenges.