



## Strengthening the role of EU national IFIs:

### Enhancing the contribution of national IFIs at EU level

A recent paper on the EU Fiscal and Economic Governance Review prepared by the Network of EU IFIs called for “the capacity of national IFIs to make independent objective assessments of national fiscal dynamics and to raise transparency ... [to] be used more effectively in the EU fiscal framework.”

At national level, strengthening the mandates and capacity of the IFIs would help to strengthen economic and fiscal governance notably through greater public account transparency and predictability; this, together with other institutional arrangements and ultimately with adequate political commitment should lead to better and more sustainable fiscal outcomes.

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

This note sets out how the enhanced role for national IFIs - including the proposed obligation on the EU institutions to take IFI input into consideration when taking decisions – could be operationalised. This note focusses on those members of the EU that are members of the euro area.<sup>1</sup> To support these changes, it would be essential to ensure that all national IFIs have sufficient institutional underpinning: a separate note on “Minimum standards and mandates” ([Network of EU IFIs, 2022](#)) sets out proposals.

## Areas where the IFIs could play an enhanced role

Network of EU IFIs ([2021](#)) proposes a number of areas where the expertise of national IFIs could enhance the EU fiscal governance framework, including to increase the medium-term focus of the public finances by each Budget/SPU to include forecasts up to t+5 under the oversight of national IFIs:<sup>2</sup>

### Areas where the expertise of national IFIs could be used more systematically

Assessment of measurement issues	One-offs
	Discretionary revenue measures (DRMs)
	Potential output

<sup>1</sup> Many of these measures could be beneficial to non-euro area members but would need to be adapted to the relevant EU requirements.

<sup>2</sup> This assumes that the framework remains in other aspects similar to the current framework, notably in the use of potential output and structural balance measures.

	Cyclical budgetary elasticities Structural Balances
Budgetary forecasting	Reinforce assessment role to include budgetary projections focusing on medium-term public debt dynamics/sustainability
Compliance with fiscal rules	Analysis of compliance with all national rules that mirror requirements at EU level, including wider use of the “comply and explain” requirement and strengthening its working
Overall assessment of the fiscal position	An overall assessment of the fiscal position in terms of sustainability and its impact on demand provides a useful input to application of the fiscal rules. This should include debt sustainability assessment and assessment of long-term fiscal trends, taking into account demographic changes and climate impacts.

## Taking into consideration assessments of IFIs

There should be a legal obligation at the EU level to take into consideration the assessments of national IFI across a range of areas ([Network of EU IFIs, 2021](#)). The “obligation to take into account” the IFIs’ work more widely would codify existing practice, where Commission teams regularly draw on IFIs’ analysis. However, it would take it a step further by making it a legal requirement. The Commission should reference the assessments of national IFIs in staff documents and spell out any differences. This could be somewhat analogous to the consultative role of the European Fiscal Board for Euro Area wide policy issues.

The obligation to take IFIs’ assessments into consideration would not require the Commission and Council to follow the same approach or conclusions as the IFIs, but it would mean they would be required to consider the assessments of the IFIs. This could play a role in how discretion is already used in the interpretation of the fiscal rules at EU level by ensuring that decisions are well-aligned to the specificities of national situation based on objective assessment.

Assessment by the Commission and the Council of obligations under the Treaties would remain the formal legal benchmark at EU level.<sup>3</sup> If a country were found to be non-compliant by the Commission, this would trigger the existing processes with decisions taken by the Commission and the Council. National IFIs would continue to provide assessments under existing national “comply and explain” procedures. National IFIs could assess compliance with all domestic obligations that mirror EU requirements, particularly around the fiscal compact.

A key part of this process is that the national IFIs must not receive instructions from the EU level so as to maintain their independence. The analysis required to support EU level decision-making should be specified under their national mandates. Many IFIs have separate mandates connected to national fiscal frameworks that should not be compromised. National mandates of IFIs are a key part of their legitimacy and ability to engage with national stakeholders. The obligation of EU institutions to take into account

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<sup>3</sup> A further benefit of this process is that if, for some reason such as inadequate information, an IFI were unable to produce the relevant analysis, this would not hold up the EU process.

IFIs' assessments would – by leaving the ultimate decisions in EU hands - enhance the role of national IFIs without compromising it.

## Integration with the EU Semester

A proposed calendar (see Annex) suggests a process where national IFIs would feed into the EU Semester by providing analysis prior to the assessment by the Commission and other institutions. The main focal points where IFI analysis would feed into the EU Semester are around draft Budgets and Stability programmes.

Around both of these stages, the IFIs would provide endorsement/assessment of macroeconomic forecasts (as at present)<sup>4</sup> and the budgetary projections around the time of publication of the Government's plans and a subsequent wider assessment that would serve as background for the EC and Council opinions and recommendations in the following months.<sup>5</sup> Extending the horizon of macroeconomic projections to 5-years on all documents would help to improve the medium-term focus<sup>6</sup>. Extending the mandates of all national IFIs to include assessment of Budget decisions and medium-term budgetary projections would further support this objective.<sup>7</sup>

Undertaking analysis in a timely way would allow the work of the IFIs to feed into the EU level discussions. At the same time, this would avoid direct feedback between EU-level processes and the work of national IFIs.

Key constraints are the time and information needed for IFIs to undertake their assessment of government publications such as draft Budgets and Stability/Convergence programmes. While some national IFIs receive full information in advance or at the time of Budget publications, a full disclosure from national governments and assessment by the national IFIs can often take 1-2 months until publication. National governments should be required to provide all the necessary information at the time of budgetary publications, preferably with some information provided confidentially in advance to allow a timelier analysis. This would include a full list and justification of one-off measures and discretionary revenue measures, together with a costing of any significant spending changes. National IFIs should be in a position to produce analysis within a timeframe that would allow the Commission to take it into account within the existing timetable.

National IFIs should be free either to publish their assessments that feed into the EU semester through their existing publications or *ad hoc* communications at their discretion. One option could be for IFIs to issue a dedicated publication focussing on these areas.

The coherence of the process would be improved by an improved flow of information from the European Commission/Economic and Financial Committee (EFC) on decisions around the interpretation of the EU fiscal rules. National IFIs do not currently have any right to the information at the EU level on the interpretation of EU rules that should be implemented domestically or are mirrored through national fiscal rules, for example information on changes to how potential output is calculated or on how specific benchmarks are calculated. This can hamper national IFIs in delivering their mandates and lead to

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<sup>4</sup> Some IFIs undertake the macroeconomic projections, rather than endorsing those prepared by the Government.

<sup>5</sup> The Commission and the Council would remain responsible for decisions at EU level, including around compliance with EU rules and the overall area wide fiscal stance.

<sup>6</sup> As proposed in the companion note on "Minimum standards and mandates" (Network of EU IFIs, 2022), Governments should provide credible medium-term forecasts both in the spring and for the October Draft Budgets.

<sup>7</sup> This could include an endorsement of the budgetary projections, as is currently required for macroeconomic forecasts, but this may be difficult to implement given the reliance on national governments for information.

inconsistencies and undermine the credibility of national IFIs. This information should be provided to national IFIs in a timely and systematic way.

More broadly, clear guidance and a common approach on key definitional issues between EU and domestic rules frameworks, such as one-offs and discretionary revenue measures, would help to ensure consistency. While these issues are complex and often require significant discretion to interpret in specific cases in a national context, clearer common principles and guidance would provide a clearer starting point and avoid unnecessary inconsistencies. The proposed approach to allow the Commission to recognise and take into account the assessment of national IFIs could lead to fewer differences in interpretation for specific countries, though there may be a trade-off with consistency across countries. As proposed by Network of EU IFIs ([2021](#)), providing clearer and more comprehensive common principles and guidance in areas such as the measurement of discretionary revenue measures, one-offs or appropriate “no policy change” benchmarks would help to avoid these differences.

The EUNIFI Network of the Commission and the national IFIs could be developed further to provide a richer forum for dialogue on these issues, both for the national IFIs to be consulted in the development of EU wide rules and to discuss on-going issues with implementation as they arise. IFIs are not currently formally informed or consulted in the methodological discussions that take place at the EPC/EFC, between the European Commission and national governments and in case of changes to the interpretation agreements to the existing framework.

## Annex - Indicative timeline for EU IFI contributions to EU semester

The Annex provides an indicative time of how the IFIs could contribute to the EU Semester process. Shaded contributions indicate activities that go beyond existing practice. National IFIs should be mandated to assess any other budgetary documents or revisions that are made during the year.

Month	Existing EU Semester	IFI contribution
October	Submission of MS draft budgetary plans	← IFIs undertake/endorse macroeconomic projections underpinning draft budgets
November	EC delivers Autumn Economic Forecast, Annual Growth Survey, Alert Mechanism Report (AMR), Joint Employment Report and recommendation on the economic policy of the euro area.  EC delivers Opinion on draft budgetary plans of Eurozone members	← IFIs make assessment/endorse short- and medium-term budgetary projections. <sup>8</sup>  IFIs assess <i>ex ante</i> (t+1): <sup>9</sup> - policy costing of main budget measures  - discretionary revenue measures  - one-off measures  - assessment/analysis of compliance with national fiscal rules mirroring EU requirements. This assessment would be published before the EC delivers its opinion.
December		
February	EC delivers Winter Economic Forecast.  Council adopts recommendation on the economic policy of the euro area.	↓ IFIs make assessment of the overall current and medium-term fiscal sustainability and conjuncture in each country ahead of Stability Programmes, including ex

<sup>8</sup> This would require an extension of the budgetary projections in Draft Budgets, consistent with a better medium-term anchoring of the public finances.

<sup>9</sup> National governments should be required to include in the Draft Budget a full list and justification of one-off measures and discretionary revenue measures, together with a costing of any significant spending changes. The focus on t+1 is due to the fact that a full set of specific measures is included in the national Budget and legislated for the following year. Similar issues would be covered for the medium-term based on the Government's plans as part of the assessment of the overall medium-term fiscal stance.

			<i>ante</i> medium-term analysis/assessment of compliance with national fiscal rules mirroring EU requirements.
February	EC publishes Country reports		
March	European Council endorses AGS and lists priorities.		
April	Each MS sets out: (1) National Reform Programme and (2) Stability/Convergence Programmes.  Publication of Maastricht returns.		IFIs undertake/endorse macroeconomic projections underpinning Stability/Convergence Programmes
May	EC recommends Country-specific recommendations (CSRs).  EC delivers Spring Economic forecast.		IFIs make assessment/endorse short- and medium-term budgetary projections. <sup>10</sup>  IFIs asses <i>ex ante</i> (t+1): <sup>11</sup> <ul style="list-style-type: none"> <li>- policy costing of main budget measures</li> <li>- discretionary revenue measures</li> <li>- one-off measures</li> <li>- analysis/assessment of compliance with national fiscal rules mirroring EU requirements</li> </ul> IFIs make assessment of the overall current and medium-term fiscal sustainability and conjuncture in each country ahead of Stability

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<sup>11</sup> National governments should be required to include in the Draft Budget a full list and justification of one-off measures and discretionary revenue measures, together with a costing of any significant spending changes. The focus on t+1 is due to the fact that a full set of specific measures is included in the national Budget and legislated for the following year. Similar issues would be covered for the medium-term based on the Government's plans as part of the assessment of the overall medium-term fiscal stance.

		<p>Programmes, including <i>ex ante</i> medium-term analysis/assessment of compliance with national fiscal rules mirroring EU requirements.</p> <p>This assessment would be published before the EC delivers its recommendations.</p>
July	<p>EC delivers Summer Economic forecast.</p> <p>The Council formally adopts the country-specific recommendations.</p>	