



ROMANIAN FISCAL COUNCIL

EU Economic Governance Review and the Evolving Role of EU IFIs – An IFI Perspective*

SPECIAL MEETING OF CESEE PARLIAMENTARY BUDGET OFFICIALS AND
INDEPENDENT FISCAL INSTITUTIONS, 6-7 SEPTEMBER, TBILISI

Georgiana Georgescu – Member, Romanian Fiscal Council

Outline of the presentation

- The role of IFIs: Opportunities and challenges related to the reform proposals*
- Readiness of EU IFIs (Romanian Fiscal Council) in playing a meaningful role in the new fiscal framework**
- Some thoughts about the discussion paper *Reviewing the National Budgetary Frameworks: An Opportunity to Strengthen Independent Fiscal Institutions?****
- Conclusions

*Based on **Daniel Dăianu**, *A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?*, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

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***Christos Axioglou, Oskar Grevesmühl and Martijn Hoogeland, June 2023

The role of IFIs - Opportunities and challenges related to the reform proposals (1)*

- The Commission asks for an extension of the IFIs' mandates
- So far, IFIs have provided assessments/endorsements of macroeconomic and budget forecasts
 - *many EU national IFIs do not undertake macroeconomic forecasts themselves*
- The EC new vision would extend the mandate to an **assessment of structural reforms and public investment**
 - the medium term fiscal structural plan
- This proposal has a rationale. But it cannot avoid the raising of significant questions
 - how would reforms in various sectors, in education and medical systems for instance, be evaluated?
 - *a few national IFIs may have expertise in such undertakings, but most of them do not*

*Daniel Dăianu, *A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?*, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (2)*

- In addition, investment projects are hard to fathom out in terms of concrete results
 - the outcome of structural reforms, of investments, may take years to show up
 - whereas national IFIs would be asked to provide assessments on a regular basis
 - arguably, the EC has to come up with clarifications in this regard

*Daniel Dăianu, *A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?*, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (3)*

- The concerns of the EC are fully justified in view of the enormous challenges that the Union is facing
 - the energy crisis, climate change, digitalization, the impact of artificial intelligence, an overall productivity problem, security concerns etc.
- On the other hand
 - national IFIs have a validated niche of work that concerns fiscal/budget policy, tax regimes which impact budgets
 - they can also judge, and some of them do it increasingly, the overall macro policy-mix, though, inadvertently or not, they can insinuate themselves in the realm of monetary policy evaluation

*Daniel Dăianu, A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (4)*

- Nonetheless, getting involved in an *analysis of structural reforms and public investment* could become “mission impossible” unless proper conditions exist
 - one can examine the impact of public investment, as an aggregate, on potential economic growth
 - but to get into an analysis of the composition of public investment is, arguably, very tricky

*Daniel Dăianu, *A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?*, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (5)*

- Spending reviews are done by a few national IFIs (but not by most of them), aside from what is required on the part of national governments (in almost 2/3 of OECD member states governments undertake spending reviews on a regular basis.)
- Spending review assessments, which are different from spending reviews per se, may become a component of the work of EU IFIs in the years to come
 - for instance, Romania's National Recovery and Resilience Plan envisages for the Romanian Fiscal Council to undertake spending review assessments
 - but to have national IFIs involved in a detailed analysis of spending, of investment, is an open issue.

*Daniel Dăianu, A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (6)*

- National IFIs are asked, apparently, to be involved in the *design* of policies.
- For the proposal for a COUNCIL REGULATION amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure says:

..."article 3. the Member State concerned shall report to the Council and the Commission on action taken in response to the Council's recommendation under Article 126(7) TFEU. The report shall include (...) **information on the measures taken and the nature of those envisaged to achieve the targets.** (...) shall also include the **opinion of the independent fiscal institution of the Member State concerned on the adequacy of the measures taken and envisaged with respect to the targets.**"

*Daniel Dăianu, A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

The role of IFIs - Opportunities and challenges related to the reform proposals (7)*

- An involvement, be it subtle, of national IFIs in the policy making process can be problematic. There are at least **two relevant aspects** involved here.
 - **The first aspect** is of *substance in view of the broader scope of assessments* that would be asked of national IFIs by the suggested new mandate
 - IFIs may not necessarily have the best views, for "independence" does not imply best judgement automatically (for instance, public agencies/entities failed as regulatory bodies with their light touch regulation of financial systems)
 - **The second aspect** – an inescapable *conflict of interests*
 - if national IFIs get involved in the policy design process, then a "third party" would presumably have to come into the picture, as a genuinely neutral assessment entity
 - *de facto* and even semantically, IFIs would have to change, and become a sort of "*independent economic policy councils*"

*Daniel Dăianu, A New EU Economic Governance and Fiscal Framework: What Role for The National IFIs?, February 9, 2023, <http://www.consiliulfiscal.ro/IFIs%20role.pdf>

Readiness of EU IFIs (Romanian Fiscal Council) in playing a meaningful role in the new fiscal framework (1)**

- The Romanian Fiscal Council started its activity in 2010, in the aftermath of the 2008 economic crisis, as an independent authority (composed of five members with experience in macroeconomic and budgetary policies) that supports the work of Government and Parliament in *the process of elaboration and development of fiscal and budgetary policies to ensure the quality of macroeconomic and budgetary mid- and long term forecasts underlying such policies.*
- The executive staff – in terms of number of personnel – is not significant due to several reasons:
 - unattractive salaries
 - ponderous and rigid administrative selection procedure
 - other legal restrictions regarding the employment of public personnel etc.

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Readiness of EU IFIs (Romanian Fiscal Council) in playing a meaningful role in the new fiscal framework (2)**

- New and complex tasks should be performed by the Romanian Fiscal Council if the EC proposal will be adopted by the Council
- Currently, our IFI is involved in:
 - ✓ monitoring the compliance with numerical fiscal rules
 - ✓ macroeconomic forecasting
 - ✓ budgetary forecasting and policy costing (fiscal forecast)
 - ✓ debt sustainability analysis, but not on a regular basis
 - ✓ active promotion of transparency
 - ✓ normative recommendations
 - ✓ elaborating and disseminating different analyses (for instance, *Budget Consolidation And Higher Fiscal Revenues - A Vital Need For Romania's Stability And Economic Security, May 2022*)

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Readiness of EU IFIs (Romanian Fiscal Council) in playing a meaningful role in the new fiscal framework (3)**

| Current main tasks of RFC vs. EC proposal | |
|---|---|
| Current tasks of RFC | EC proposal |
| analysis and issuing opinions and recommendations on official macroeconomic and budgetary forecasts | producing the annual and multiannual macroeconomic and budgetary forecasts underlying the government's medium-term planning or endorsing those used by the budgetary authorities; |
| analysis and issuing opinions and recommendations on the fiscal strategy and assessing its compliance with the principles and rules specified in this law | |
| analysis and issuing opinions and recommendations on the annual budget laws before approval by the Government and before submission to Parliament, on the supplementary budgets and other legislative initiatives that may have an impact on the budgetary targets, as well as assessing their compliance with the principles and rules specified in the Fiscal Responsibility Law | producing debt sustainability assessments underlying the government's medium-term planning or endorsing those provided by the budgetary authorities |
| monitor the compliance and enforcement of fiscal rules stipulated under Fiscal Responsibility Law, including those related to the correction mechanism and extraordinary circumstances | monitoring compliance with country-specific numerical fiscal rules; monitoring compliance with the Union fiscal framework in accordance with EU Regulations |
| assessment of the budgetary performance of the Government against the fiscal targets and policies specified in the fiscal strategy and the compliance of such policies with the principles and rules specified in the Fiscal Responsibility Law | producing assessments on the impacts of policies on fiscal sustainability and sustainable and inclusive growth or endorsing those provided by the budgetary authorities |
| preparation of cost estimates and issuing opinions on the budgetary impact of the normative ordinances and the amendments made on the annual budget law during the parliamentary debates | participate in regular hearings and discussions at the national Parliament |
| provision of information, upon request, to the President, the parliamentary commissioners, the President of the State Audit Office, the Governor of the National Bank of Romania and the committees of Parliament concerning issues within their competence | |
| provision of information and advice to the Government and Parliament concerning legislative recommendations for the maintaining fiscal discipline and the transparency of the fiscal and budgetary policies | |
| carry out an ex post evaluation, starting with the 2024 budget, of the analysis of expenditures carried out by the Ministry of Finance and the main credit authorities according to the multi-year strategy provided for in art. 311 para. (3) lit. a) from Law no. 500/2002, with subsequent amendments and additions. In order to fulfill this new attribution, the Fiscal Council will be provided with all the necessary resources. (New task according to NRRP, in force starting with 2023) | conducting, on a regular basis, reviews of the national budgetary framework, in order to assess the consistency, coherence and effectiveness of the framework, including mechanisms and rules that regulate fiscal relationships between public authorities across subsectors of general government (new and extended task) |

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Readiness of EU IFIs (Romanian Fiscal Council) in playing a meaningful role in the new fiscal framework (4)**

- New and extended tasks will require:
 - ✓ additional staff (superior in number and qualifications)
 - ✓ full access to non-public information
 - ✓ supplementary and more stable funds (multi-annual funding)
 - ✓ improved analysis capacity (the Romanian Fiscal Council pleads for being invited to be part in all actions that are oriented towards the development of new skills for an enhanced analytical capacity to perform current and future IFIs tasks – e.g., [Twinning projects such as the 23EL23 – Strengthening the capacity of IFIs: Greece, Belgium, Cyprus, Latvia, Lithuania, Malta, Slovenia and Spain](#)).
- New aspects in terms of accountability (increasing the weight of the IFI mandate):
 - ✓ introduction of [comply-or-explain principle](#) for IFIs' assessments and opinions might influence the budget process in a higher proportion (through regular dialogue)

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Some thoughts about the discussion paper *Reviewing the National Budgetary Frameworks: An Opportunity to Strengthen Independent Fiscal Institutions?* - Christos Axioglou, Oskar Grevesmühl and Martijn Hoogeland, June 2023 (1)**

- For strengthening Independent Fiscal Institutions in the EU, the authors underlined 6 issues to be addressed by the new fiscal framework:
 - ✓ strengthen macroeconomic and budgetary forecasts outside the euro area (covered in the EC proposal)
 - ✓ strengthen *ex post* evaluation of macroeconomic and budgetary forecasts
 - ✓ strengthen IFI independence (covered by the Fiscal Compact)
 - ✓ expanding IFIs' mandates and tasks (covered in the EC proposal)
 - ✓ stronger IFI role in monitoring the compliance with domestic numerical rules and EU fiscal framework
 - ✓ increased accountability of IFIs
- 4 out of these issues are not directly treated by the current EC proposal. Though, there are significant chances to be gradually integrated in the EU legislation, since the options identified by the authors take international standards and best practice as a starting point.

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- Out of the 4 issues mentioned before and of the corresponding options identified for each of these issues, **our IFI currently involves in:**
 - ✓ carrying out the systematic basic *ex post* evaluation of macroeconomic/budgetary forecasts
 - ✓ following the legal requirements laid down in the Fiscal Compact (as Romania adhered to this instrument)
 - ✓ publishing timely opinions
 - ✓ assessing the compliance with main national rules, both *ex ante* and *ex post*, and covering the most important national rules
- Improvements and **additional activities** to be implemented refer to the following options:
 - ✓ IFI assessments could be published directly as an element of the budgetary documents
 - ✓ external and independent evaluation of IFI activity to be conducted regularly

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Conclusions**

- an involvement, be it subtle, of national IFIs in the policy making process might generate an inescapable *conflict of interests*
- IFIs would have to change, and become a sort of “*independent economic policy councils*”
- new and extended tasks will require: *additional staff, full access to non-public information, supplementary and more stable funds (multi-annual funding)* and might take a few years/one mandate of an IFI to be fully implemented
- national IFIs have to make their contribution in discouraging populist temptations and demagoguery, help instill public governance with common sense and vision, consolidated good practices
- the main operational and conceptual problems are related to climate change and demography

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Thank you for you attention!