Summary report of the 10th EUNIFI meeting

(Brussels, 25 January 2019)

42 delegates representing 32 national IFIs (both are record numbers) participated in the 10th meeting of the EU Network of Independent Fiscal Institutions (EUNIFI) organised by the Commission (DG ECFIN) in Brussels on 25 January 2019.

4th joint meeting between the Alternates of the EFC and national IFIs

Following a short welcome address by **Marketta Henriksson** (EFC-A Chair), **Jose Luis Escriva** (Chair of the Network of EU IFIs) updated the committee on the recent initiatives and activities of EU IFIs. He explained that over the last year joint thematic work-streams (in working groups of the Network) was concentrated on nowcasting techniques and output gaps. The bi-annual European Fiscal Monitor continued to be published, a recurrent feature being critical remarks by many contributing IFIs on an emerging pro-cyclical policy stance. Finally, he regretted that the Network's previous statements calling for further strengthening national budgetary frameworks, including the medium-term orientation as well as the safeguards for IFIs, had not been followed up so far.

To set the scene for the thematic discussion on the public impact of IFIs' communication, **Stefan Ciobanu** (DG ECFIN) recalled briefly the main publication patterns in EU IFIs, ranging from entities who are publishing (only) mandatory reports to think tank-like IFIs with a wide range of products. He illustrated the diversity of national arrangements with specific cases of ex post monitoring reports on the structural budget balance rules and the perceived quality of official responses to IFIs reports and opinions. He also presented some trends based on ECFIN's IFI survey showing increasing engagement of IFIs with stakeholders (parliamentary hearings and media relations). **Beatrice Pierluigi** (ECB) stressed her institution's support for the surveillance work by national IFIs.

In the following **four country-specific presentations** (Cyprus, Malta by Alternates; Slovenia, Sweden by IFIs, there were short reactions to each interventions from national counterparts), a varied picture emerged, but with a common feature that via their publications, national IFIs had already impacts on policy choices. Some Alternates opined that their national IFIs could be seen as strategic partners both in promoting the principle of fiscal sustainability and discipline and in communicating the admittedly complex EU fiscal rules to the broader public.

More specifically, in the case of **Cyprus**, the media presence of the Fiscal Council was assessed to be robust, despite the fact that over the recent years fiscal policy had chiefly been formed within the framework of a financial assistance programme, followed by the international creditors' ongoing post-programme surveillance. In **Slovenia**, it was highlighted that beyond the fulfilment of its mandatory tasks, the newly-established Fiscal Council had proactively published also reports on their own initiative, such as the assessment of the new coalition agreement in September 2018. In that case, the relationship with government representatives was jointly assessed to be constructive. In **Sweden**, the stimulation of public debate was explicitly enshrined in the mandate of the Fiscal Policy Council. Indeed, the strong visibility of the Council contributed to recent episodes when the published opinions had a genuine influence on the national policy debate. In **Malta**, the Fiscal Council's reputation was assessed to be solid, which was also achieved through vivid engagement with the domestic press. Given the potentially confusing effect of the current high number of mandatory reports, it was announced that the Council recently decided to significantly streamline their publication policy: reports issued in the same 'budgetary season' will be merged into one broader document from 2019.

In the subsequent discussion, the importance of transparency and outreach to stakeholders to establish a constituency for the work of IFIs was singled out. It was clarified that as regards compliance reports on structural budget balance rules some countries had an early release date of April (e.g. Lithuania, Portugal), while in others (e.g. Latvia) the relatively late publication was linked to a timeline set out in the domestic legal order. More generally, some delegates argued that more time would be needed to appreciate fully the impact of institutional changes - such as the establishment of IFIs - on policymaking,.

In his concluding remarks, **Jose Luis Escrivá** advocated to launch more joint work-streams with a participation of both Treasuries and IFIs to better explain the pressing fiscal issues to the broad public. **EFC-A Chair** concurred with the idea of more intensive collaboration, and announced that next year's joint meeting would provide the opportunity to continue to discuss these issues.

Regular EUNIFI meeting

The regular part was chaired by **Lucio Pench**, DG ECFIN's Director for Fiscal Policy and Policy Mix. Before his presentation**, Niels Thygesen** (Chair of the European Fiscal Board) informed the meeting participants that the Commission had started the procedure to extend the mandate of the current members of the Board for a second 3-year term. In his summary of the EFB's second annual report, he stressed that in 2017, the implementation of the Stability and Growth Pact was not adjusted to better-than-expected economic conditions, partly due to some discretion applied to soften requirements. It was also resulted in the lopsided use of windfalls: Member States with high-debt had spent important part of higher revenues. As to EMU reform, he argued that recent attempts to simplify the SGP had not been effective: according to the Board, a comprehensive overhaul of the EU rules was needed, based on simplification coupled with the review of governance. Finally, he noted that some national EU IFIs proved to be successful in strengthening public scrutiny over fiscal policy-making. Responding to inquiries about the lack of reference to the work of national IFIs, he explained this omission with resource constraints on the EFB's side, but expressed his appreciation for the surveillance work carried out by national fiscal councils.

Keeping with the tradition of last years, **Cristiana Belu Manescu** (DG ECFIN) presented the results of the 2017 update of the Fiscal Governance Database. The stabilisation tendency that emerged in 2016 across the design strength of all national fiscal frameworks areas continued into 2017, particularly illustrated by the medium-term budgetary framework and the scope of IFIs' mandates indices. The strength of fiscal rules increased somewhat in the EU compared to 2016, driven by several newly introduced rules with a wide coverage. In terms of compliance with fiscal rules, 55% of the rules were complied with both ex-ante and ex-post in 2017, slightly less than in 2016, which is most likely due to richer data requirements and enhanced data scrutiny (facilitated by the migration to the new Scopax-FGD IT platform) rather than a genuine decline in compliance levels. At the same time, similar to 2016, compliance could not be computed for an important number of rules (25%), most notably due to lack of quantitative information reported by the Member States or lack of targets applicable for 2017. In the subsequent Q&A session, more clarity was sought on some methodological issues, such as the scoring of forecast ex-post evaluations or the impact of the number of rules on the design index.

Following the lunchbreak, the first presentation on external reviews was delivered by **Robert Chote** (Chair of UK Office for Budget Responsibility*)*, who recalled that the British legislation explicitly require to "*appoint a person or body to review and report on of the Office's reports*" every five years. The first of such report was commissioned from Kevin Page in 2014, a well-respected former practitioner, which was followed by the UK Treasury own review led by Chief Economist Dave Ramsden in 2015. He highlighted the resource needs of such reviews (a 6-strong external team with a total cost of 62 000 pounds and 9 Treasury civil servants over 3 months, respectively). In his view, the Page report provided a useful health-check, basically endorsing the analytical quality of OBR's publications. The Ramsden report concluded with more granular recommendations, including, most notably, the call to launch a dedicated 'Fiscal risks report' every two years and a wide-ranging review of funding and access to information arrangements. It also paved the way to get new resources, also in view of the new tasks as staff size was increased from 22 to 30 subsequently. **José Luis Escrivá**

(President of AIReF) reasoned that there were compelling reasons for initiating an OECD-led external evaluation of the Spanish body, including the principle that institutional independence call for higher accountability. In terms of organisational matters, he highlighted an intensive preparatory period, and the occasional availability of all staff in or the process as very granular information was requested. To increase the transparency and self-accountability of the exercise, AIReF decided to impose the comply-or-explain norm on itself, and regularly updates its response actions to the 20 recommendations. As a visible outcome, other public bodies addressed by the recommendations also decided to comply (e.g. AIReF's statute was amended and its resources was increased in view of new tasks). In the subsequent discussion, more IFI representatives announced their plans for similar external appraisals: in Lithuania, an OECD review is scheduled to start in April, while Slovakia and Finland have already applied for technical assistance from the Structural Reform Support Service to undertake such review.

Gilles Mourre (ECFIN) presented some recent developments with the EU fiscal surveillance framework. First, he explained the scheduled update of the budgetary semi-elasticities, which were instrumental to the implementation of the SGP given their role in the computation of structural and cyclically adjusted balances. He concluded that the update resulted in limited adjustments (and close to zero on average), which would be used from spring 2019 in fiscal surveillance. Second, Mourre clarified how the Commission deal with revenue windfalls in the preventive arm of the SGP. This issue is particularly relevant for MTO over-achiever countries benefiting from significant revenue windfalls, in order to avoid primary expenditure growth that is not sustainably financed. The presentation described the Commission's case-by-case approach on how to identify significant revenue windfalls. Analysis should be made with due care of country-specific elements, such as the drivers of persistent revenue windfall or the design of the tax system. Responding to questions on how to interpret revenue increases which could be linked to targeted measures against tax evasion, he admitted that the Commission deliberately erred on the cautious side when assessing the yields of such measures as it considers tax compliance as a long-term structural phenomenon.

In the final session on long-term sustainability assessments, **László Jankovics** (ECFIN) set the scene by recalling the key findings of the 2018 Ageing Report. He explained that there was no legal requirement for Member States or IFIs to regularly undertake long-term sustainability assessments, there were many potential uses for these analyses. He recalled that IFIs started to publish such assessment in more than one-third of EU countries, while there are in addition a few which had specific plans to launch with this publication. In the discussion, **Asta Kuniyoshi** (LT-Director of Budget Policy Monitoring Department) explained that their first report was published in 2015, with the main conclusion that age-related spending was set to explode on a no-policy change basis. The alarming findings contributed to the drive for parametric pension reforms enacted in the subsequent year. **Janis Platais** (LV-Chair of Fiscal Discipline Council) explained that his institution was inspired by the Lithuanian example to publish a long-term assessment. Given important resource constraint, the Latvian study used the Commission's Ageing Report as its basis, and simulated various country-specific scenarios.

Regarding the future activities, **Stefan Ciobanu** (DG ECFIN) informed delegates about the upcoming EUNIFI survey (questionnaires to be submitted in March-April) and the planned date of the 11th EUNIFI meeting (likely to be in September). **Chiara Goretti** (IT-IFI) announced that a new working group would be established by the Network of IFIs focusing on fiscal forecasting, including exchange of best practices in econometric modelling and in-year monitoring techniques.