



INTERPARLIAMENTARY CONFERENCE ON STABILITY, ECONOMIC COORDINATION
AND GOVERNANCE IN THE EUROPEAN UNION

**PLENARY SESSION; “THE FISCAL COMPACT AS PART OF
NATIONAL ECONOMIC POLICY MAKING: EXCHANGE OF VIEWS
ON BEST PRACTICES”**

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Chair of the Network of EU Independent Fiscal Institutions
Tuesday, 31 January 2017- 15:00-16:30, Hemicycle**

Mr President, members of the European and national Parliaments

Thank you very much for this invitation, which I would like to extend to the Republic of Malta. It is an honour for me and the members of the Network of EU Independent Fiscal Institutions (IFIs) to participate in this interparliamentary conference on the Fiscal Compact as part of national economic policy-making. In actual fact, IFIs are in most cases a creation of the Fiscal Compact and, in spite of our relatively short life, we are already building up experience from operating within the framework set out by the Fiscal Compact.

From this accumulated experience, let me single out two particular features of the Fiscal Compact that we in the Network value most: firstly, the greater attention paid to the preventive role of fiscal surveillance and its monitoring by national IFIs for which a set of common principles are laid down to ensure their effectiveness; and secondly, the capacity to adapt the EU rules to national specificities. Countries can mould the FC to fit their own economic and institutional particularities while still adhering to the general features of the EU rule and especially while still respecting the prerogatives of national Parliaments.

As you know the Fiscal Compact brings together a whole host of elements but I will focus today on the institutional context, where budgetary decisions are made, and on national ownership of fiscal commitments.

All too often fiscal debates within the EU are confined to a mere discussion of fiscal figures, sometimes simply about decimals of deviations from targets, or to the interpretation of the decisions made



by the ECOFIN about a particular Member State. We in the Network are of the view that a more medium-term orientation is badly needed and the focus should be shifted towards the reinforcement of national fiscal frameworks and national ownership of fiscal commitments. A model mainly based on strict EU rules and close EU surveillance of compliance with those rules has proven itself to be inadequate and insufficient either to prevent a severe fiscal crisis or to promote sound public finances.

Strong national institutions, on the other hand, are a prerequisite for effective fiscal policy.

Firstly, because when national institutions and parliaments are able to play their respective roles in the budgetary process, rules and surveillance by the EU become less necessary and fiscal decisions are no longer seen as an imposition from the centre.

And secondly, because with this deeper engagement by national institutions in the budgetary process, fiscal policy can widen its scope of action and goals. It is important for the efficiency and the quality of public finances to be added to the agenda, also in view of the challenges posed by demographic ageing and sluggish productivity growth performance. Primary government expenditure accounts for nearly 45% of EU GDP. Consequently, efficiency gains drawn from this expenditure may have a very strong positive bearing on economic activity and welfare.

For all of these reasons, engagement by national parliaments, national IFIs and all economic agents in each Member State is crucial for implementing a stability-oriented fiscal policy, coupled with efficiency-oriented government expenditure. In doing so, fiscal and budgetary policies should be able to fully deploy their functions of income redistribution and of management of the business cycle in a counter-cyclical manner.

Against this backdrop, from the Network's standpoint, the Fiscal Compact has been a positive step. It has made a difference to the governance model for fiscal policy by decisively promoting national ownership of fiscal discipline, including tasking national IFIs with the



monitoring of the transposition of the preventive arm of the SGP at national level and ensuring unbiased and prudent macro and fiscal projections.

Since then, the number of IFIs in the EU has grown very rapidly so that today almost all EU countries (all but Poland and the Czech Republic) now have an institution of this kind and indeed are members of our Network. In many countries, these are brand new institutions that have been created from scratch.

We are understandably still very much on a learning curve, actively engaged in solving practical problems in order to become truly effective institutions. Ensuring access to information, obtaining human and financial resources commensurate to our tasks, true functional independence or an effective comply-or-explain principle are all issues IFIs are still working on.

But institutions and rules are only part of the story. Sound public finances also require “comprehensive” fiscal frameworks at national level encompassing adequate budgetary information, good budgetary procedures and practices, a more medium-term approach underpinned by numerical rules or adequate arrangements between different levels of public administration. The view from where we stand is that progress in these issues has been uneven across countries and topics. More attention must be paid to their implementation at national level. In particular, the Network would highlight the relevance of medium-term budgetary frameworks.

The Fiscal Compact is, therefore, a step in the right direction towards stronger national fiscal institutions and national ownership. Well-functioning IFIs, in particular, can be highly beneficial through the contribution they make to fiscal sustainability.

Further endeavours must be made and even intensified, however, to keep this approach on course. We encourage the Commission to monitor closely the transposition of the Fiscal Compact as a whole, including the implementation into national legislations of the principles for national IFIs. This monitoring exercise should not primarily have a “*de-iure*” dimension but also examine whether “*de-facto*”, in their day-



to-day life, IFIs have the means and self-organisation capacity to fully exercise their independence to perform the functions that the Fiscal Compact and their national legislations have granted them. Member States on their part must be ready and willing to have faith in the capacity of these institutions and to facilitate their smooth functioning accordingly.

Let me finally also say a few words about the way fiscal rules are currently set at EU level. I must confess that the practical monitoring of the rules contained in the Fiscal Compact by IFIs is frequently a challenging task. It is true that each country has been given a certain amount of leeway to adapt the preventive rules (the so-called correction mechanism) to its own national specificities. This is definitely a welcome approach.

But the basics of the Fiscal Compact continue to be overly complicated. Despite on-going efforts to simplify EU fiscal rules, they continue to be based on complex analytical tools, procedures and interpretation agreements. Concepts such as the MTO, sustainability risks, the output gap, significant deviation or one-offs, to give you just a few examples, are not easily understandable for the general public, nor are they even matters the experts can reach any common agreement on.

Of course, IFIs are well-placed to monitor these rules and we tend to believe that we are contributing to making them more accessible. Nevertheless, the Network believes that both the ownership of fiscal rules and the effectiveness of the EU fiscal framework would benefit from further simplification. Steps are undeniably being taken in this direction, but in our view there is still much room for improvement.

In this regard, the Network welcomes the fact that one of the tasks included in the remit of the new Fiscal Council at EU level, the European Fiscal Board, is for it to carry out an evaluation and make suggestions on the functioning of the EU fiscal framework. The experience IFIs have already built up in monitoring these rules could be very useful here to help pinpoint the main shortcomings of the EU fiscal framework in its current form and identify any potential enhancements that could be made to it. We stand ready and willing to make our



contribution to the work to be done on independent assessment by the EFB.

Let me conclude by stressing my readiness and that of the Network to keep collaborating with institutions of the European Union and national parliaments alike. Hearings before national parliaments are in fact all part of the regular activity of national IFIs. This is so not only because in most cases reporting to parliament is envisaged in our mandates but also and more importantly because accountability is at the heart of IFI strategy to become and remain effective and useful institutions for society as a whole.