

Box 5

The creation of a European Fiscal Board

On 21 October 2015 the European Commission adopted its Communication¹ on steps towards completing Economic and Monetary Union (EMU), following up on the short-term reform proposals made in the Five Presidents' Report². The Communication includes a variety of measures aimed at improving the functioning of EMU. These merit a discussion in their own right, but this box focuses on one particular element, namely the Commission's Decision³ establishing an independent advisory European Fiscal Board. In line with the roadmap presented in the Five Presidents' Report, the European Fiscal Board was established on 1 November 2015 and is expected to become operational by mid-2016.

Steps towards improving fiscal governance

An independent assessment of the European Commission and the Council's application of the rules laid down in the Stability and Growth Pact (SGP) should help increase the transparency and consistency of fiscal surveillance at the European level. Recent reforms of the EU's fiscal governance framework, notably the "six-pack" and "two-pack" regulations, aimed to ensure a more effective implementation of the SGP rules. The reinforced framework has grown in complexity, rendering it difficult for the public and elected representatives to hold the Commission and the Council accountable for their actions without additional information provided by a well-informed, independent body. In this vein, as early as 2010 the Governing Council of the ECB called for the creation of an independent fiscal agency at the euro area level. The special nature of the euro area also warrants an independent assessment of its aggregate fiscal policy stance, which should be carried out on the basis of the SGP rules and should carefully take into account sustainability considerations for individual countries. For such a body to be effective, it needs to have the right to carry out and publish its assessments in real time. Those assessments could then support an informed debate on decisions taken by the Council and Commission, both in the public arena and in the European Parliament.

Most EU Member States have already established independent fiscal councils to strengthen national budgetary frameworks. The recent reforms of the EU fiscal governance framework broadened the role and tasks of independent public institutions at the Member State level in order to foster budgetary discipline and increase national ownership of EU fiscal rules.⁴ While the mandates of the fiscal councils in EU Member States differ considerably across countries, the councils are

¹ http://www.ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/communication-emu-steps_en.pdf

² The report, "Completing Europe's Economic and Monetary Union", is available at http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf

³ http://www.ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/decision-efb_en.pdf

⁴ See the box entitled "Fiscal councils in EU countries", *Monthly Bulletin*, ECB, June 2014.

typically in charge of monitoring compliance with national fiscal rules, including the functioning of the automatic correction mechanism required by the fiscal compact as part of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The “two-pack” also lays down specific standards for the institutional set-up of independent fiscal institutions at the national level. These include not only the capacity to communicate publicly in a timely manner, but also, for example, a far-reaching organisational independence based on a statutory regime grounded in laws, regulations or binding administrative provisions.⁵

The Five Presidents’ Report published on 22 June 2015 recommends the establishment of an advisory European Fiscal Board to complement national fiscal councils and to improve the transparency of the application of the SGP.

The main task envisaged for the European Fiscal Board is “to provide a public and independent assessment, at European level, of how budgets – and their execution – perform against the economic objectives and recommendations set out in the EU fiscal governance framework”. The report specifies that the European Fiscal Board “should be able to issue opinions when it considers it necessary, including in particular in connection with the assessment of Stability Programmes and presentation of the annual Draft Budgetary Plans and the execution of national budgets”. While the European Commission – in line with its prerogatives under the EU Treaties – should have the right to deviate from the views of the European Fiscal Board on the implementation of the fiscal rules, it would need to justify such deviations (the “comply or explain” principle). This means that the European Fiscal Board needs to carry out and publish its analyses in real time. Furthermore, it should provide an ex post evaluation of how the governance framework was implemented, as well as form an economic judgement on the appropriate fiscal stance at the national and euro area levels on the basis of the SGP. The Board’s advice should feed into the decisions taken by the Commission in the context of the European Semester, which was introduced under the “six-pack” regulation to improve the coordination of Member States’ fiscal and economic policies. Lastly, the new advisory entity should also coordinate and complement the national fiscal councils that have been set up under the EU Directive on budgetary frameworks⁶. In this context, it should conform to the same standard of institutional independence as the national fiscal councils.

Composition, role and mandate of the European Fiscal Board

The European Fiscal Board will be composed of five renowned experts, i.e. one Chair and four members, with credible competence and experience in macroeconomics and practical budgetary policy-making. While the Chair and one member will be appointed by the European Commission upon a proposal of the President, after having consulted the Vice-President for the Euro and Social Dialogue and the Commissioner for Economic and Financial Affairs, Taxation and Customs,

⁵ See Article 2 of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

⁶ See Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

the other three members will be appointed by the Commission upon a proposal of the President, after having consulted the national fiscal councils, the European Central Bank and the Eurogroup Working Group. The Board will be supported by a secretariat – consisting of a Head of Secretariat and dedicated supporting staff members – which will be attached to the Secretariat General of the European Commission for administrative purposes, but which will report solely to the Board. The Chief Economist Analyst (CEA) will exercise the function of Head of Secretariat. The post of CEA, who acts as an adviser within the Commission, was set up in late 2011 in response to calls for more independent monitoring in order to support a uniform application of the rules.

The role of the European Fiscal Board will be to contribute, in an advisory capacity, to multilateral fiscal surveillance in the euro area. First, it will provide the European Commission with an assessment of the implementation of the EU fiscal framework, particularly with regard to the horizontal consistency of decisions and the implementation of budgetary surveillance in cases where there is a risk of serious non-compliance with the rules. The European Fiscal Board may also make suggestions for the future evolution of the EU fiscal framework. Second, the Board will advise the Commission on the appropriateness of the prospective fiscal stance at the euro area and the national levels, based on an economic judgement. Third, it will cooperate with the national fiscal councils, notably with a view to exchanging best practices and facilitating common understandings.

The European Fiscal Board will need a strong public voice for it to operate effectively. This is envisaged in the Five Presidents' Report and will be an essential aspect of increasing the transparency and consistency of the implementation of the SGP rules. The Commission Decision does not explicitly provide for the European Fiscal Board's assessments to be published in real time and makes no mention of the possibility for it to issue public opinions. The same is true for the "comply or explain" principle spelled out in the Five Presidents' Report. The Commission Decision implies that the Board will mainly provide its advice and evaluations only directly to the Commission, although it does not specify how these would feed into the internal decision-making process. While it is unclear whether or not the European Fiscal Board will communicate publicly in real time, there is a reference to the publication of an annual report.

It will be important that the set-up of the European Fiscal Board follows the principles established in the context of the creation of independent bodies (like fiscal councils) at the national level. The Five Presidents' Report states that the same standard of independence that applies to the national fiscal councils should apply to the European Fiscal Board. The Commission Decision grants independence to the five members of the Board, although they will all be appointed and remunerated by the Commission. In addition, the creation of the European Fiscal Board on the basis of a Commission decision within its organisational structure is not in line with the standards established for its counterparts at the national level.

Overall, the establishment of the European Fiscal Board is a step in the right direction. Its mandate and institutional independence could be clarified and strengthened further to ensure that it can play an important role in increasing

transparency and improving compliance with the fiscal rules. First, since having a public voice is essential for the European Fiscal Board to be effective, it will be important that its right to publish is not limited to an annual report. In particular, the Board should be able to provide and publish assessments of the European Commission's SGP-related decisions in real time. Second, it should now be clarified how the advice of the Board will feed into the fiscal surveillance framework at the European level, for example by giving the Chair of the European Fiscal Board the right to make submissions in the European Parliament and at the relevant Council/Eurogroup meetings. In this context, the Commission – in the event that it deviates from the Board's advice on a particular matter – could commit to giving justifiable reasons for doing so. Third, it will be important to spell out the mandate of the European Fiscal Board, in particular with regard to the interplay between its assessment of the application of the SGP and its assessment of the prospective fiscal stance. While the former can build on well-established methodological foundations, this is not the case for the assessment of the appropriateness of the fiscal stance, notably at the euro area level. In this context, it will be important to ensure that SGP compliance in all Member States and debt sustainability risks form key elements of the assessment of the fiscal stance. Lastly, the institutional set-up of the European Fiscal Board could be revised over time, notably with a view to removing the Board from the institutional structures of the Commission so that it can operate as an independent institution with its own legal personality.