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**THE SIGNIFICANCE OF THE EUROPEAN
FISCAL BOARD IN THE SURVEILLANCE
OF FISCAL POLICY IN THE EURO AREA –
THE TWO YEAR EXPERIENCE WITH ITS
OPERATION AND THE PROSPECTS
FOR THE FUTURE**

**ZNACZENIE EUROPEJSKIEJ RADY BUDŻETOWEJ
W NADZORZE POLITYKI FISKALNEJ
STREFY EURO – DOŚWIADCZENIA
PO DWÓCH LATACH FUNKCJONOWANIA
I PERSPEKTYWY NA PRZYSZŁOŚĆ**

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Summary: This article indicates the place of the European Fiscal Board in the fiscal supervision in the euro area, demonstrates the most important principles of the Board's functioning, and presents the most important results of its two-year work. The Board acts as an independent advisory body to the European Commission. The outcomes of its work constitute an important voice in the debate on the new European fiscal framework. The article concludes with an evaluation of the Board's functioning. On this basis, it has been concluded that the body is characterized by many limitations and therefore is a type of a low-significance fiscal council. A series of recommendations have been presented to strengthen its status. The research methods included in the work are a literature review and a comparative analysis of the documents issued by various institution of the European Union.

Keywords: euro area, fiscal supervision, fiscal union, European Fiscal Board.

Streszczenie: W artykule wskazano miejsce Europejskiej Rady Budżetowej w nadzorze fiskalnym strefy euro, przedstawiono najważniejsze zasady funkcjonowania tej Rady oraz wyniki jej dwuletniej pracy. Rada pełni funkcję niezależnego ciała doradczego Komisji Europejskiej. Wyniki jej prac stanowią ważny głos w debacie na temat nowych europejskich ram polityki fiskalnej. Artykuł zamyka ocena funkcjonowania Rady. Na jej podstawie sformułowano wnioski, iż ciało to charakteryzuje się wieloma ograniczeniami i tym samym jest typem rady

fiskalnej o słabym znaczeniu. W celu wzmocnienia jej statusu przedstawiono szereg rekomendacji. Do przygotowania artykułu wykorzystano metodę badawczą studium literatury i analizę porównawczą oficjalnych dokumentów wydanych przez instytucje Unii Europejskiej.

Słowa kluczowe: strefa euro, nadzór fiskalny, unia fiskalna, Europejska Rada Budżetowa.

1. Introduction

The debate on the effectiveness of the European fiscal framework has swung into high gear in the context of the crises, especially the debt crisis that occurred in Europe after 2007. This led to a revision of the entire economic policy management system in the Economic and Monetary Union (EMU) [EFB 2017a, p. 1], including numerous reforms on fiscal policy management within the euro area (EA) [Asatryan, Heinemann 2018, p. 165]. Fiscal rules have been strengthened notably by the extension of surveillance both on national and supranational level. On that supranational the European Fiscal Board (EFB) has been established [Cavallo et al. 2018, p. 12].

The aim of the study is to indicate the place of the EFB in fiscal supervision in the euro area, to demonstrate the most important principles of the Board's functioning, and to present the most important results of its two-year operation. It needs to be emphasized that the EFB acts as an independent advisory body to the European Commission (EC). The outcomes resulting from its work constitute an important voice in the debate on the new EMU fiscal policy framework aimed at the establishment, as part of the EMU, of a fiscal union and, as such, the completion of the process associated with the creation of the EMU. The article concludes with the evaluation of the EFB's functioning, on the basis of which it has been concluded that the body is characterized by many limitations and therefore is a type of a low-significance fiscal council. A series of recommendations were presented to strengthen its status. The research method used to prepare this article involved a literature review and a comparative analysis of the documents issued by various institution of the European Union (EU).

2. The European Fiscal Board's place in the fiscal surveillance within the euro area

Fiscal policy in the euro area is run independently by its Member States. To limit the risk of having a decentralised fiscal policy, at EU level, common fiscal rules were set up and procedures of their enforcement introduced. From the perspective of fiscal discipline in the euro area, the provisions of the Stability and Growth Pact (SGP) are most crucial. They make up an operational development and refinement of the relevant Maastricht Treaty¹ provisions adopted in 1992. In other words, the SGP is a set of fiscal

¹ Also known as the Treaty of Lisbon (signed in Lisbon in 2007), in which the provisions regarding the conduct of the fiscal policy within the EMU were restated. It came into force on December 1, 2009.

rules and procedures oriented at ensuring their enforcement in the EMU countries. The disciplinary actions provided for in the SGP are divided into two parts: the preventive arm, which is supposed to prevent an *ex ante* formation of an excessive budget deficit, i.e. above 3% of GDP, and the corrective arm, which is meant to eliminate an excessive *ex post* deficit [Giżyński 2016b, p. 170]. The SGP was formally adopted in 1997, and its provisions were reformed for the first time in 2005. As part of this reform, the fiscal rules have been made flexible, while the sanctions for non-compliance have been eased [Giżyński, Wierzba 2015, p. 16].

The first decade of the euro area's functioning went relatively calmly. Only the beginning of the second decade brought a series of tensions and institutional challenges. These challenges emerged as a result of the global financial crisis of 2007-2009 and, subsequently, in connection with the problems that arose within the peripheral EA countries. These countries have struggled with a series of debt and financial crises. The most dramatic in this series of crises was the 2010-2016 public finance and financial crisis in Greece. In the summer of 2015 the country was on the verge of leaving the euro area.

As a result of the crisis, beginning in 2010, the EA countries initiated a series of reforms. These reforms were meant to resolve the crisis at the time and strengthen the EMU's resistance to future turmoil [Dabrowski 2019, p. 8]. Institutional reforms, in turn, involved, among others, strengthening the SGP provisions (its two additional reforms: the so-called Six-Pack in 2011 and the so-called the Two-Pack in 2013) as well as the adoption of the Fiscal Compact in 2012. Within the framework of these reforms, national fiscal rules were implemented as well as the Macroeconomic Imbalance Procedure and the European Semester were introduced [see EC 2018]. Additionally, the European Stability Mechanism was set up and a banking union was created [Dabrowski 2019, p. 7].

As part of the SGP reform, the role of independent fiscal institutions (IFIs²) [Jankovics, Sherwood 2017, p. 5], also known as fiscal councils [Beetsma, Debrun 2017, p. 138], were broadened and their tasks formalized. The euro-area countries were required to set up these institutions on the basis of the provisions of the Two-Pack, as a partial reaction of the EMU authorities to the debt crisis [Von Hagen 2018, p. 187]. It was aimed at supporting the budgetary discipline and increasing ownership of European fiscal rules at national level. IFIs were assigned the following tasks:

- Monitoring the EMU countries' compliance with numerical fiscal rules.
- Assessment of the need to start the correction mechanism provided for in the Fiscal Compact.

² There is no single model of an IFI (a fiscal council). Despite their heterogeneity, these institutions are characterized by common features: 1) they have a clear mandate resulting from the law; 2) act as an official guard (watchdog), directly contributing to the debate on fiscal policy; 3) are guided by impartiality in their work [Beetsma, Debrun 2017, p. 138]. At the end of 2018, IFIs operated in all nineteen EA countries, including sixteen in the form of Fiscal Councils (Austria, Belgium, Cyprus, Estonia, Finland, Greece, Spain, the Netherlands, Ireland, Luxembourg, Latvia, Malta, Germany, Portugal, Slovakia and Slovenia) and two in the form of Audit Institutions (France and Lithuania). In Italy, IFI took the form of a Parliamentary Budget Office (PBO). Moreover, in four countries, i.e. Austria, Finland, Greece and Ireland, more than one IFI operated [OECD 2018; EU Independent... 2018].

- Preparation and approval of macroeconomic forecasts in individual Member States [Jankovics, Sherwood 2017, p. 5].

It should be emphasized that the fiscal councils of the euro-area countries do not act in isolation. Their cooperation takes place within two ‘networks’, at a supranational (aggregate) level. The first network – the EU Network of Independent Fiscal Institutions (EUNIFI) – is organized by the European Commission. Its meetings, launched in November 2013, take place twice a year. The second network – the EU Network of Independent Fiscal Institutions (EUIFI³) – was established by the EU countries on their own in September 2015. This network represents its members vis-à-vis the EC. Additionally, it prepares documents containing mutual stands on EU fiscal initiatives. It also sets minimum standards for the functioning of IFIs. Research indicates, however, that these institutions, as part of the network, are reluctant to engage in formal arrangements [Schwieter, Schout 2018, p. 35].

‘The Five Presidents’ Report⁴ [Juncker et al. 2015], submitted in June 2015, was the culmination of the discussion on further steps strengthening fiscal surveillance within the EMU. This report assumed, inter alia, the three-stage creation of a ‘Fiscal Union’, with regard to complete and genuine EMU [Juncker et al. 2015, pp. 14-15]. As part of the first stage, establishment of a consultative European Fiscal Board was proposed [Giżyński 2016a, p. 161]. This motion was a response to the criticism received from those supporting the stricter application of the SGP provisions [Valero 2016a]. The EC implemented this recommendation as early as in October 2015, by issuing a Decision [Commission Decision (EU) 2015] on the establishment of the above-mentioned body. The Commission’s decision came into force on 1 November 2015 [Giżyński 2016a, p. 161]. The creation of the EFB was the first decision towards the future ‘Fiscal Union’⁵ [Asatryan, Heinemann 2018, p. 165].

The reformed process of fiscal policy coordination within the euro area is based on relevant objectives⁶, instruments and institutions (see Figure 1). The European Fiscal Board was, among others, a new institution set up in this process. It aims to support the EC in fiscal coordination, and is an equivalent of the IFIs, but at the level of the

³ Currently (the cutoff date: 01 May 2019) EUIFI comprises thirty IFIs from the EU, including twenty-two IFIs from the euro-area countries [EU Independent... 2018].

⁴ This report was prepared by the President of the EC J.C. Juncker, in cooperation with the Euro Summit President D. Tusk, the President of the Eurogroup J. Dijsselbloem, the President of the European Central Bank M. Draghi and the President of the European Parliament M. Schulz.

⁵ In its announcement presented at the end of 2017, the EC confirmed the validity of the action plan outlined in ‘The Five Presidents’ Report’ and indicated initiatives to be discussed and agreed on in the next 18 months, along with a possible path of action until 2025 [EC 2017a, pp. 12-18].

⁶ There are two goals of fiscal policy coordination within the EA, i.e. fiscal sustainability at a national level and fiscal stabilization at a national and a supranational (aggregate) level. Often, however, attention is paid to only one goal, i.e. fiscal stabilization, and to a single intertemporal budget constraint. In the monetary union, however, fiscal sustainability is treated as an end in itself. Therefore it can be assumed that one of this union’s goals is precisely fiscal sustainability, due to the possibility of the spread of negative phenomena within the union’s financial system [Benassy-Quere 2017, p. 60].

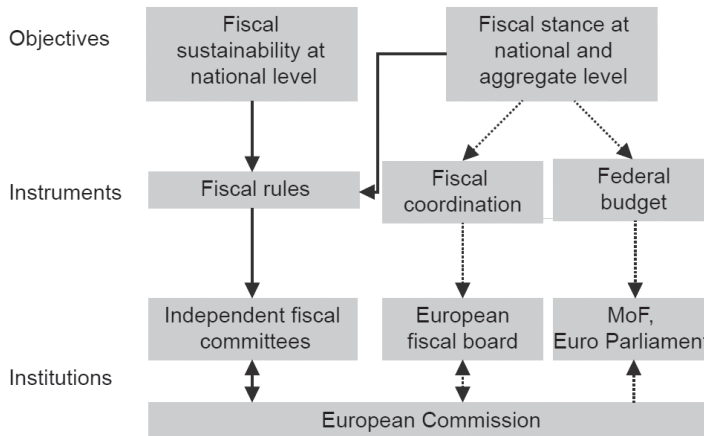


Fig. 1. Elements of coordination of the fiscal policy within the euro area

Source: [Benassy-Quere 2017, p. 60].

entire zone. It should be emphasized that the issues concerning the federal budget, shown in Figure 1 are only a proposed supplement to this surveillance (see [Benassy-Quere 2017, pp. 60-62]).

3. The principles of operation of the European Fiscal Board

On October 19, 2016, the European Commission appointed members of the European Fiscal Board [EC 2017b], and its first two meetings were held in November of the same year [Valero 2016b]. The Board consisted of experts experienced in the field of fiscal policy, public finances and macroeconomics. The Chair of the EFB was a Retired Professor from the University of Copenhagen – Niels Thygesen [EC 2017b], a person respected among policy makers and the academic community [Valero 2016a]. The Board also included four members: Roel Beetsma, Massimo Bordignon, Sandrine Duchêne and Mateusz Szczurek⁷ [EC 2017b].

The EFB members were elected by a selection committee consisting of senior officials from the European Commission and the Council of the European Union, based on defined criteria. The selection process lasted several weeks and was an ‘open call for expression of interest’. In the selection process, both the substantive competencies of the candidates and the need to ensure balance in terms of their representativeness, gender and geographical origin were taken into account [EC 2016]. Members of the Board are elected for a three-year term, which can be renewed once [Commission Decision (EU) 2015, Art. 3].

⁷ For more about a description of the EFB members see e.g. [EC 2016].

The EFB's main task is to support the European Commission in the process of fiscal policy surveillance within the euro area. It acts as an advisory to the EC by performing four main tasks [Giżyński 2016, p. 161], including:

- Evaluation of the implementation of EU fiscal rules.
- Advising the EC on the fiscal stance, relevant to the euro area as a whole.
- Cooperation with the fiscal councils of Member States.
- Ad-hoc advisory, at the request of the EFB Chair, regarding fiscal issues [EC 2017b].

As part of the first task, the Board provides the Commission with an assessment of the implementation of the EU's budgetary framework. The subject of this assessment in particular entails: decision consistency and implementation of budgetary surveillance; cases of serious non-compliance with the fiscal rules; as well as correctness of the fiscal stance, taken at both the euro-area and national level. For the purpose of above-indicated assessment, the Board may include proposals regarding the future shape of the fiscal rules in the EMU.

By implementing the second task, the EFB utilizes economic analysis. The Board may indicate directions in the fiscal stances of individual Member States. Those fiscal stances are to be consistent with the opinions on the aggregate fiscal stance in the euro area, in accordance with the SGP rules. If there is a risk threatening the proper functioning of the euro area, then the Board's task is to include, in its opinion, detailed analyses that are based on the strategic scenarios contained in the SGP.

The third task, i.e. cooperation with national fiscal councils, enables the EFB, on the one hand, to exchange best practices and, on the other, to establish a common stand on the issues pertaining to fiscal surveillance.

The Board's competences, as part of the fourth task, include ad hoc counseling, at its Chair's request [Commission Decision (EU) 2015, Art. 2].

The EFB's activity is supported by a special secretariat, with its head Martin Larch, and auxiliary staff [EC 2019a], who are highly qualified and experienced in the fields relevant to the activities of the Board [Commission Decision (EU) 2015, Art. 3]. For practical reasons, such as the need for access to similar data, this secretariat has been administratively included in the Commission's Secretariat-General [EC 2016]. The tasks of the EFB secretariat include, first of all, supporting the Board in its decision-making process by: preparation of its meetings, analysis of the documents constituting the subject of its deliberations and monitoring the progress of work on the priorities set by the Board (for more see [Commission Decision (EU) 2015, Art. 3]).

Despite the inclusion of the EFB's secretariat in the European Commission, representatives of this EC point out that the Board was designed as a fully independent body, whose mandate and independence has a clear legal basis [EC 2016]. Article 4 of the Commission's Decision indicated that members of the EFB are to make decisions independently. They cannot ask for (nor accept) any instructions from EU institutions and bodies nor from Member State governments. This also applies to all other public and private entities. What is more, from article 4 it follows that the EFB members'

independence is supervised by the Board's Chair, while employees of its Secretariat can only accept instructions from the Board members [Commission Decision (EU) 2015, Art. 4]. The solutions that have been accepted for the protection of the EFB's independence were inspired by the experience gained during the creation of national fiscal councils within the EMU [EC 2016].

The quorum for accepting the Board's decisions is three members (including the Chair). If possible, the EFB shall accept its opinions by agreement. In the absence of such an agreement, it shall make decisions by a simple majority of votes. Abstained votes are not counted as votes. If there is an equal number of votes, the Chair of the Board decides on the direction of the decision.

The EFB operates on the basis of its own Rules of Procedure [Commission Decision (EU) 2015, Art. 5]. This means that its members define their own methods of work, in accordance with the regulations adopted, and organize their activities freely [EC 2016]. Board meetings are confidential. The EFB publishes a summary of the opinions and assessments prepared for the Commission in an annual report [Commission Decision (EU) 2015, Art. 5 and 6; Giżyński 2016, pp. 161-162].

It is extremely important to provide adequate financial resources for the functioning of the EFB. This issue was addressed in a special Memorandum of Understanding signed between the Council and relevant Commission services [Commission Decision (EU) 2015, Art. 5]. This protocol specified, *inter alia*, the amount of financial resources and human resources as well as the scope of access to the data and information necessary to carry out the Board's tasks [EC 2016].

It should be emphasized that the EFB does not make decisions regarding the supervision and coordination of the fiscal policy of the euro area. The authors of 'The Five Presidents' Report' [Juncker et al. 2015] clearly indicated that the Board "should advise, not implement policy. Enforcement of the rules should remain the task of the European Commission" [EC 2016]. Moreover, the EC, in its information memorandum on the EFB [EC 2016], emphasized that its role clearly stems from the Treaty provisions. It argued that, if an independent expert body (in this case the EFB) could make fiscal decisions, it would violate the exclusive privileges of various EU institutions, including the responsibility and decision-making procedures set out in the Treaty. In this context the Commission concluded that the EFB's tasks, established at a supranational level in order to advise the EC, should not be mixed with the tasks of national fiscal councils established at a national level. It should be remembered that IFIs carry out specific tasks related to national budgetary processes. These tasks, however, do not occur at an aggregate level.

Despite the fact that the EFB does not interfere with the work of IFIs, it is supposed to carry out some form of cooperation with these institutions, particularly in terms of the exchange of best practices and a common understanding of the issues related to the EU fiscal rules. Such cooperation is to bring benefits and strengthen both EFB and IFIs [EC 2016].

4. Implementation of the European Fiscal Board's consultancy duties – the most important observations and implications

The reporting achievements of the European Fiscal Board during the first two years of its functioning, i.e. October 2016 – October 2018, entails:

- Two annual reports.
- Two assessments regarding the prospective fiscal stance relevant to the EA.
- A statement on the transfer of the Danish Economic Council outside Copenhagen.

The EFB members also participated in various events during which they presented the results of the Board's work, held open discussions and exchanged viewpoints with all interested parties (for more see [EC 2019b]).

In the annual reports the EFB members include the most important conclusions and recommendations for the EC, which concern the surveillance and coordination of the fiscal policy in the euro area. A synthetic overview of the tasks imposed as part of the EC Decision is presented below [Commission Decision (EU) 2015, Art. 2].

It should be emphasized that many points of the first EFB's annual report [EFB 2017a] criticized the European Commission and the Council of the EU for implementing the fiscal framework in 2016. These critical remarks, at the same time, were supplemented with a statement that the above-mentioned framework contributed positively to the EA economies' recovery from the crisis. They provided a better basis for the economic recovery observed since 2014. What is more, the EFB expressed an opinion that implementation of fiscal surveillance in 2016 prevented, on one hand, a significant relaxation of the rules which potentially could be detrimental to the longer-run sustainability of public finances, and on the other, a rigid implementation of those rules which could weaken the still unstable economic recovery in the EA. Concurrently, the Board concluded that the imperfect implementation of the fiscal rules can, sometimes, turn out to be the lesser evil, as opposed to 'blatant errors' resultant from a very loose or limited application of these rules [EFB 2017a, pp. 1, 7-8].

In contrast, the second EFB's annual report [EFB 2018a], was more critical of the implementation of the SGP provisions. This results from the fact that in 2017, despite a very good economic situation and the overall balance of risk, the fiscal surveillance authorities relaxed the restrictions enforced by the fiscal rules, especially with regard to fiscal adjustments. Certain euro-area countries, particularly those highly indebted and subjected to the excessive deficit procedure, narrowed their consolidation efforts. The countries towards which the fiscal surveillance authorities have demonstrated great understanding are, among others Belgium, Italy, France, Spain and Portugal [EFB 2018a, pp. 4-5].

When assessing the reforms of the fiscal policy surveillance and the new interpretations included in those reforms, the members of the EFB indicated that they did not change the existing structure of the surveillance. What is more, they stated that, although the reforms were introduced in good faith, they caused significant

difficulties in managing the fiscal policy and strengthened the Commission's role in this process. The EFB members indicated:

- The blurring of the difference between economic and political assessment, which has exacerbated the tensions among the policy-makers.
- The disappearance of transparency and impartiality in the application of the fiscal rules.
- Relaxation in enforcement of the surveillance rules (see [EFB 2018a, pp. 4-5]).

In connection with the above, the Board has warned that the adoption of further (additional) regulations will complicate the surveillance even more, and thus will not solve the problem. Therefore, the need for a fundamental review and reform of the fiscal rules within the EMU was pointed out, in order to simplify them and improve their application. However, the fact that the EMU decision-making bodies, i.e. the European Commission and the Council, postponed the discussion on this matter until 2020 has raised the EFB's concern [EFB 2018a, p. 1].

The EFB's tasks also include advice on the fiscal stance⁸ for the euro area as a whole. In the report from 2017 the Board expressed an opinion that the 2016 fiscal stance in the EA had adopted an expansive character. This fiscal stance was considered to be correct. In addition, the current implementation of the SGP assumptions caused its small-scale expansiveness. The EFB members also stated that, in the countries where the sustainability analysis was less favorable, the overall orientation of the fiscal policy was loose/looser than the one warranted. In turn, a restrictive or more restrictive character of this policy than the one warranted, was observed in countries where the sustainability analysis did not show particular limitations. In the Board's view, the above-described divergence between the euro area as a whole and the national perspective results from the adopted framework of fiscal policy management, which is characterized by significant decentralization and a lack of a centralized capacity [EFB 2017a, p. 4].

Contrarily, in the report from 2018, it was assessed that the fiscal stance had changed in 2017 to being slightly more restrictive compared to the previous two years, when it was more expansionary. In light of the significantly better than the expected economic growth, such an outcome was considered correct. Furthermore, it was also found that the change in the fiscal stance has not stopped the sustained economic recovery in the euro area. This change took place despite the clear modification of the above-mentioned policy guidance. In July 2016, representatives of the Commission and of the Eurogroup agreed that the course of the fiscal policy within the euro area should be neutral [EFB 2018a, pp. 4-5].

Members of the EFB have addressed the implementation of various tasks on the part of IFIs, but to a small extent. They confirmed that these institutions constitute an

⁸ This fiscal stance measures the direction and the scope of the discretionary fiscal policy. It is defined as the annual change in the structural primary balance. If the change in this balance is positive in nature, the fiscal stance is considered restrictive. However, when the change in the balance is negative, the fiscal stance is described as expansionary [EFB 2017b, p. 19; EFB 2018b, p. 28].

important element of the euro-area fiscal framework [EFB 2018a, p. 5] and the Board can draw on their experience [EFB 2017a, p. 33]. However, based on the carried out review they stated that, for instance, in the 2017 fiscal surveillance cycle, only a few IFIs asked, or had to ask, their local governments questions regarding their budgetary policy (for more see [EFB 2018a, pp. 5, 48-50]).

In the first annual report [EFB 2017a], the Board presented its preliminary reflections on the improvement of the fiscal surveillance efficiency within the EMU. At that time, issues were raised regarding, among others:

- Strengthening the implementation of the fiscal rules on the part of the Member States, but, at the same time, simplification of these rules, maintaining their appropriate flexibility.
- Establishment of clear responsibility for surveillance, preferably within one institution that would be supported by independent counseling.
- Creation of fiscal buffers on the part of the Member States in the event of an economic downturn.
- Strengthening the ‘comply or explain’ principle, in the context of the IFIs’ role as advisories for the member states.
- Increasing the resilience to changes in the economy [EFB 2017a, pp. 52-60].

The EFB also evaluated the proposals for introduction of centralized fiscal stabilization tools intended to increase long-term sustainability of the euro area. In this regard, the EFB expressed an opinion that, out of all the instruments proposed (see [EFB 2017a, pp. 64-67]), the investment protection scheme will be easier to implement from an operational and a political perspective [EFB 2017a, p. 6].

In the second annual report [EFB 2018a], the Board elaborated on the simplification of the fiscal rules and their enforcement, while maintaining flexibility with regard to these rules (see [EFB 2018a, pp. 77-88]). A reduction of the number of fiscal rules and indicators was considered the key issue (see Table 1). As such, only one overall objective was proposed, i.e. a target path for reducing the debt ratio. This rule, embedded in the Treaty provisions, would apply to those countries where the long-term public debt reference value is above 60% of GDP. The above-mentioned objective would be accompanied by one operational rule, i.e. the expenditure benchmark [EFB 2018a, pp. 1-2]. The implementation and monitoring of the government expenditure control mechanism would consist in the assessment of significant deviations during the medium term (i.e. in a three-year surveillance cycle), rather than in smaller deviations in each year (see Table 1) [EFB 2018a, p. 6]. The EFB supported the above proposals with the fact that they source from many scientific works, including the most recent ones. At the same time it was stressed that further research is needed before the European fiscal rules can be revised.

The EFB also indicated the need to preserve the countercyclical function of the fiscal rules. However, it rejected the possibility of a deeper refinement of those rules. Instead, a ‘general escape clause’ was proposed [EFB 2018a, pp. 1-2]. The Board nevertheless pointed out that the application of this clause would be only

possible under exceptional circumstances, after assessment by independent experts [EFB 2018a, p. 81]. It was stated that the disappearance of the boundary between the economic and the political arguments regarding the application of fiscal rules has led to many tensions between the EC and the Council of the EU [EFB 2018a, p. 2]. The discussions between these bodies, gradually implemented into EU law, complicated fiscal surveillance even more. As a result there has been a decrease in the transparency and credibility of the fiscal rules. The EFB concluded that without a revision of the current fiscal surveillance, the simplification proposed will not change much and can only temporarily alleviate the tensions associated with the supervision.

The detailed SGP reform plan proposed by EFB [EFB 2018a] had been prepared with regard to the goal of the long-term sustainability of public finances. This plan is to be successful due to the use of one operational mechanism that is based on the

Table 1. Comparison of the current rules contained within the Stability and Growth Pact with the proposals of new provisions

Current SGP rules	Proposals of new fiscal rules
NUMBER OF FISCAL ANCHORS	
TWO:	ONE:
<ul style="list-style-type: none"> – Maintain balanced budget over the cycle, with deficit ceiling at 3% – Reduce debt to 60% 	<ul style="list-style-type: none"> – Reduce debt to 60%
NUMBER OF FISCAL REQUIREMENTS	
FOUR:	ONE:
<ul style="list-style-type: none"> – Structural budget balance – Nominal budget balance – Net expenditure growth – Short-term debt dynamics 	<ul style="list-style-type: none"> – Net expenditure growth
NUMBER OF FLEXIBILITY PROVISIONS	
MANY:	ONE ESCAPE CLAUSE:
<ul style="list-style-type: none"> – Fiscal adjustment modulated over the cycle – Flexibility clauses: investment, structural reforms – Several escape clauses covering different contingencies: economic downturn, unusual events 	<ul style="list-style-type: none"> – Covering different contingencies (economic downturn, unusual events)
DURATION OF THE SURVEILLANCE CYCLE	
ANNUAL:	LESS INVASIVE:
<ul style="list-style-type: none"> – Annual surveillance cycle 	<ul style="list-style-type: none"> – 3-year surveillance cycle
THE INSTITUTIONS RESPONSIBLE FOR GOVERNANCE	
<ul style="list-style-type: none"> – Commission and Council of the EU 	<ul style="list-style-type: none"> – Commission and Council of the EU – Independent bodies to produce economic assessment including for escape clause

Source: [Thygesen 2018, p. 9].

control of government spending. The mechanism will be set in motion when the level of indebtedness in a given EMU country is above 60% of GDP [EFB 2018a, p. 6].

A summary of the most important changes in the fiscal rules contained in the SGP, as proposed by the EFB, is presented in Table 1. The table compares the proposals of new fiscal rules with those currently in force.

5. Evaluation of the functioning of the European Fiscal Board – remarks and recommendations

Taking into account the OECD criteria (see Table 2), it should be noted that the European Fiscal Board is a fiscal council of a weak type manifested in many areas. Serious deficiencies can particularly be observed in terms of the Board's independence, its resources and diversified powers. Nevertheless, the proposal to create the EFB was submitted in 'The Five Presidents' Report' and approved by mutual agreement. Thus the EC's Decision establishing the Board does not interfere with the national legal order [Asatryan, Heinemann 2018, pp. 167-169].

Table 2. The European Fiscal Board in light of the principles formulated by the OECD for independent fiscal institutions

Key principles	Significance of the principles	The EFB vs. the OECD criteria	Evaluation
Local ownership	Support of the respective jurisdiction	– Mutual suggestion contained in 'The Five Presidents' Report'	+
Resources	Guarantee of appropriate resources	– Too small resources in the context of the mandate granted	–
Access to information	Very good access to budget and economic data	– The EC's direct access to data – Difficult acquisition of information due to insufficient resources	+/-
Communications	Free access to the media and the public opinion, preferably in real time	– Expectation of open communication – Uncertainty in terms of the frequency and the nature of communication	+/-
Independence and non-partisanship	High degree of independence	– Dependence of the decision-making process and of the selection of members and staff on the EC – The members' part-time work basis	–
Relationship with the legislature	Strong relationship with the legislator	– No connection with the Council of the EU or the European Parliament	–
Mandate	Permanent and sufficiently broad permission to perform the tasks assigned	– Permissions included only in the EC Decision – The problem of discrepancies between the fiscal stance and SGP framework	–

Source: own elaboration on the basis of [Asatryan, Heinemann 2018, pp. 168-169].

The EFB's independence was formally guaranteed through the EC Decision (Art. 4). It ought to be remembered, however, that all its members are designated by the Commission. What is more, its members' term of office, despite its single renewal, is to last only three years, which means that it is shorter than the EC's five-year term. Another limitation is that the Board does not have its own staff. The secretarial staff supporting the members of the EFB in their work are the staff of the Commission. Although this solution facilitates access to the information necessary to prepare relevant analyses, the proximity of the supervising institution is worrying. The lack of the indissoluble independence of the EFB may reduce its credibility as an independent advisory body, and hence limit its potential as a guard against potential politicization of the decisions regarding application of the fiscal rules in the EMU [Asatryan, Heinemann 2018, pp. 169]. Meanwhile, this view was counterbalanced by EFB's Chair Niels Thygesen in one of his first interviews in December 2016. At the time he argued that practical benefits, e.g. access to numerical data, outweigh the potential risk of the Board members' lack of independence. Furthermore, Thygesen pointed out that the EFB could lose its credibility if the academic community, the media, or representatives of the financial sector began to suspect it of too close a relationship with the EC staff [Valero 2016b].

Another limitation of the EFB's activities, which strengthens the concerns about its independence, refers to adequate resources. The Board's secretariat employs six persons. Meanwhile the largest national fiscal councils in Europe (approximately one third of them), employ twenty people on average. In addition, the Chair of the EFB was contracted for 20 days a year, while its members for just 10 days [Asatryan, Heinemann 2018, p. 169]. Thygesen also referred to this allegation by reminding that the majority of the national fiscal councils are facing a similar situation, while their employees must rely on detailed calculations carried out at these countries' ministries of finance. He argued, though, that it does not pose an obstacle to expressing independent opinions [Valero 2016b]. Nonetheless, such relative constraints of resources, especially with regard to the members of the Board and its Chair, raises many uncertainties. The main question is how the EFB will convincingly and comprehensively perform its broad mandate. Moreover, its limited human resources may cause a restriction in terms of information. The Board simply may not be able to re-evaluate the EC's analyses. It will not be tempted to experiment with new analyses [Asatryan, Heinemann 2018, p. 169]. A statement made by the Chair of the EFB, who, in the initial stage of the Board's activity, proclaimed that the current fiscal rules in EMU have become so complicated, that it would take some time to analyze the issue, is also thought-provoking [Valero 2016b].

Another weakness of the European Fiscal Board is that it is only accountable to the European Commission. The EFB therefore has no support from other institutions.

As far as the Board's mandate is concerned, a problem arises in the discrepancies between the fiscal stance and the SGP framework. The EFB's broad mandate refers to analysis and the expression of an opinion on the above-mentioned aggregate fiscal

stance within the euro area. The first document presented by the EFB in July 2017 focused on this issue [EFB 2017b]. It should be emphasized that the dimension of the fiscal stance, which also includes the objective of macroeconomic stabilization, may potentially interfere with performance of the fiscal surveillance that is based on the provisions of the SGP. Any thorough analysis of the macroeconomic stabilization within the euro area is an extremely difficult task, in analytical terms. The results of this analysis raise questions which the research community does not provide definite answers to. Therefore it is extremely important that the EFB, in its reports, does not replace the goal of long-term balancing public finances with the need for their short-term stabilization [Asatryan, Heinemann 2018, p. 170].

The above-addressed shortcomings and limitations (cf. Table 2) regarding the initial period of the EFB's operation lead to the formulation of several recommendations to strengthen its status. The most important postulates include:

- Granting the EFB staff full organizational independence.
- Increasing the Board members' involvement and the expansion of their term.
- Establishment of a close link among the EFB, the Council of the EU and the European Parliament.
- Implementation of the 'comply or explain' principle reported in 'The Five Presidents' Report' (for more see [Juncker et al. 2015, p. 9]).
- Possibility of requesting precise answers from the EC, in the case of fundamental differences.
- Establishment of a comprehensive and a more active strategy for the Board's communication with the public, in order to both develop awareness of its opinion and to help it gain authority higher than the decision-makers' [Asatryan, Heinemann 2018, pp. 169-170].

The studies carried out by Christian Schwieter and Adrian Schout are also worth mentioning [Schwieter, Schout 2018]. The authors identified three groups of restrictions to the development of new independent euro-area institutions, including the EFB. These limitations are:

- 1) practical,
- 2) task ambiguities,
- 3) network deficiencies.

Within the practical limits, reservations regarding the shortage of the EFB's human resources and the independence of its staff were confirmed.

The second group of restrictions refers to the ambiguity of the tasks being performed. This is due to the fact that, at a supranational level, the EFB evaluates the process of monitoring the EA countries, carried out by the EC, as well as discusses this zone's overall fiscal stance. However, in this process, the EFB does not take into account the remarks provided by IFIs, which also control the Member States. On the other hand the EC continues to monitor these countries, despite the creation of fiscal councils at national level. Therefore the complaint here refers to the lack of an appropriate monitoring system that would be based on the subsidiarity principle.

The issue of network shortage, being the last group of restrictions, concerns, among others the EFB's cooperation with the fiscal councils of the EA countries. Not enough effort has been put, at European level, into designing an effective network within which the above-mentioned bodies could cooperate (e.g. by creating professional values) and engage in joint control [Schwieter, Schout 2018, pp. 37-38]. It should be remembered that the EFB's cooperation with IFIs has been authorized via the EC Decision [Commission Decision (EU) 2015, Art. 2]. Meanwhile, it turns out that the Board does not do much in this regard. As a result, on the one hand, it is closely related to the EC, and on the other, it is very distant from IFIs [Schwieter, Schout 2018, p. 36]. Jurgen Von Hagen pointed out that when the regulations imposing the creation of national-level fiscal councils on the EA countries were introduced, it was feared that it would be perceived as external interference in these countries' affairs. Such a situation could reduce the general public's support for this solution. Additionally, any attempt to coordinate and dominate the work of IFIs by the EFB can only materialize this problem [Von Hagen 2018, pp. 193-194].

When creating the institutional foundations for an independent EFB, the ordinary legislative procedure was not used and as a result a contradiction arose. It is expected that the Board will create its own policy within a multi-level system of monitoring the fiscal policy of the euro area. In reality, however, nobody wants to take responsibility for the development of such a system [Schwieter, Schout 2018, p. 39].

With regard to the identification of the above-mentioned restrictions [Schwieter, Schout 2018], two recommendations can be additionally made:

- Transition from the central fiscal policy coordination system under the auspices of the EC to a decentralized surveillance and monitoring system.
- Changing the model of network operation at an aggregate level, following the example of the European Central Bank (the ECB network).

The first proposal is to overcome the practical limitations and the ambiguity of tasks. Bearing in mind the goal of creating own local ownership, IFIs could take over the EC's role in terms of monitoring. In turn, the independent quality control of IFIs would be handed over to the EFB (along with the support), as part of a network of such institutions. Subsequently, this network, managed by the EFB, would act as an independent observer of the fiscal stance in the euro area.

In turn, reorganization of the network model, at an aggregate level, would be an opportunity to ensure transparency of the tasks the institutions involved in the evaluation of fiscal policy surveillance perform. As a result of such reorganization, national institutions would control implementation of the fiscal rules. Contrarily, the EC, supported by the EFB, would check the national systems.

The above considerations lead to the conclusion that the EFB cannot create its own reform policy without embedding it in a multi-level system that would be based on the subsidiarity principle. This system should delegate clear tasks at each level of the surveillance. Currently, however, it cannot be said that the European Fiscal Board is a promising innovation in the European surveillance of budgetary policies

[Schwieter, Schout 2018, p. 39]. That is why it is extremely important for the EFB to be able to gain authority in the public opinion, which could protect this institution from unjustified attacks on the part of the governments. First, however, the EFB must gain this authority by convincing the public about the significance and the effectiveness of its activity [Von Hagen 2018, p. 193]. Undoubtedly, the current effectiveness of the EFB's operations will depend on its own decisions and the initial results of its work [Asatryan, Heinemann 2018, p. 171]. These issues will also affect the level of support this institution will receive from the public [Von Hagen 2018, p. 194].

The EMU managers should eliminate the above-mentioned weaknesses of the EFB in the initial phase of the institution's functioning. This is a key time to determine what its future will look like. There is a high risk of losing the chance to guarantee an independent (apolitical) evaluation of the fiscal surveillance at a supranational level [Asatryan, Heinemann 2018, p. 171].

6. Conclusion

The European Fiscal Board has been created as a response to the criticism of those supporting the stricter application of the fiscal surveillance in the euro area. This surveillance is based on fiscal rules and procedures oriented at ensuring their enforcement, included mainly in the Stability and Growth Pact provisions. The EFB creation was proposed in 'The Five Presidents' Report' in June 2015, as a first step towards the 'Fiscal Union' within the euro area. The Board is to be an equivalent of the national fiscal councils, but at the level of the entire zone. The euro-area countries were required to set up these institutions on the basis of the provisions of the SGP third reform in 2013. The EFB functions on the basis of a Commission Decision, issued in October 2015. A year later it appointed five Board members, including its President, for a three-year term, with a one-time renewal option. The EFB's main task is to advise the Commission in the process of monitoring the fiscal policy of the euro area. It does not, however, make decisions regarding this surveillance. The EFB meetings are secret, while summaries of their opinions and assessments are primarily published in annual reports. The EFB, fulfilling its tasks in the first two years of its functioning, predominantly recommended a critical review of the fiscal rules to the European Commission, in order to simplify them and improve their application. A reduction of the number of fiscal rules was considered a key issue. Moreover, the EFB proposed a detailed plan for a reform of the SGP. This plan is to be successful owing to the use of one operational mechanism that is based on control of government spending. It will be launched when the level of indebtedness in a given euro-area country is above 60% of GDP. What is more, when making the first evaluation of the functioning of the EFB, it should be indicated that the Board has minor significance. Particular deficiencies exist with regard to its independence, resources and diverse rights. These weaknesses should be eliminated in the initial phase of the institution's functioning. In fact the EFB cannot formulate its own reform policy without embedding it in a multi-level system

that is based on the subsidiarity principle. In connection with the above, currently the EFB is not a promising innovation in the European surveillance of fiscal policy. If it wins the public's respect, then it will be able to protect itself from unjustified attacks.

The financial crisis and the debt problems of some of the eurozone countries caused by it are the most obvious examples of common-pool problems democratic systems face. In connection with the crisis, public funds were used to 'rescue' and 'save' various private institutions of a financial and economic nature. It should be emphasized that the lack of transparency in the fiscal policies of Member States was not the main cause of the crisis, while the main weaknesses of public budgets were known in the most part and resulted from political choices. In turn, the IFIs, including the EFB, created in the aftermath of the crisis, perhaps not by chance, were established in order to solve the incongruent problem. If a given fiscal council's project fails, the above-indicated issue will be the cause. Some of these councils may, however, be able to re-orientate their tasks, and thus effectively solve the common-pool problem. This would mean that they will remain active, while their activity can become the subject of further analyzes [Von Hagen 2018, p. 194]. It remains a hope that the EFB will be one of those institutions.

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