Independent fiscal institutions:
the work, the wins and the worries

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THE WORK
The work of IFIs: why do we need them?

- Fiscal policy is technical and not easily understood
- Governments can present information in a partisan way
- Short-term nature of political cycles does not incentivise sustainable public finances
- Effects of poor fiscal policy choices can be significant for society and the economy

IFIs help:
- foster greater transparency, accountability and public debate
- promote sound fiscal policy and sustainable public finances
The work: is their value recognised?

- 30 out of 36 OECD countries now have an IFI
The work: is their value recognised?

- ¼ of OECD countries with an IFI now have multiple institutions
  - National and subnational
    - Australia, Canada, UK
  - Fiscal council and PBO
    - Austria, Greece, Ireland, Portugal
  - It’s complicated
    - Finland
The work: what do they do?

Functions of OECD IFIs

Source: OECD IFI Database, 2019
• Important role in relation to LT fiscal sustainability

• Specific considerations
  – commodity-price forecasting and windfalls
  – commodity revenue rules
  – increased economic volatility
    (GDP, interest rates, exchange rate)

• Can merit special functions
• e.g. Chilean Fiscal Council

• Some challenges:
  – messaging during good times
  – can be transparency issues
The work: what do they need to do it?

- Staffing (full-time)
  - Monitoring compliance with fiscal rules
  - Make forecasts
  - Assess forecasts
  - Costing
The work: how have we seen their role evolving?

• As they become trusted and valued institutions, IFIs are being asked to do more
  – UK OBR, fiscal risks
  – Spanish AIReF, spending review
  – Canadian PBO, election costings

• Taking on new tasks has been a vehicle to negotiate additional resources

• IFIs are also proactively becoming more involved with LTFS, fiscal risks and policy costings
The work: how do they ensure quality?

• About half of OECD PBOs use peer review to ensure the quality of their work

• The larger PBOs also use external advisory panels
THE WINS
The wins: many IFIs set up in line with OECD Principles for IFIs

*Helps ensure good performance and long-term viability*

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<tr>
<th>Local ownership</th>
<th>Independence and non-partisanship</th>
<th>Mandate</th>
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<tr>
<td>Role and structure determined according to local needs</td>
<td>Independent appointments and non-partisan analysis</td>
<td>Mandate clearly defined and IFI able to work at own initiative</td>
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<th>Resources</th>
<th>Relationship with legislature</th>
<th>Access to information</th>
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<tr>
<td>Resources commensurate with mandate</td>
<td>Appropriate accountability to the legislature</td>
<td>Access to information guaranteed in legislation</td>
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<th>Transparency</th>
<th>Communication</th>
<th>External evaluation</th>
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<tr>
<td>Act as transparently as possible</td>
<td>Effective communication channels, especially with media</td>
<td>A mechanism for external evaluation in place</td>
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The wins: independence and autonomy

- The percentage of OECD IFI leaders appointed on the basis of merit and technical competence.

- Almost all OECD PBOs able to set their own work programme and do work at their own initiative.
CASE STUDY: US CBO

The importance of IFI leadership in instilling a culture of independence and non-partisanship

- **Background**: CBO established in 1974 to support the new congressional budget process.

- **Key challenge**: Many were doubtful that a nonpartisan, analytical agency could survive amid intensely partisan political atmosphere of Congress.

- **Success factors**: Strong leadership from beginning and dedication to non-partisan analysis (decision early on that CBO should not make recommendations).
The wins: benefits IFIs have been found to bring

- Better fiscal and economic data
  - Scotland: publication of an annual statement of data needs helped push the government to provide new and improved economic data

- More accurate forecasts
  - Canada: pessimism bias in government fiscal forecasts reduced

- Improved fiscal management
  - Spain: regional governments gained earlier awareness of slippage in relation to fiscal targets, bringing improved compliance with fiscal rules

- Increased awareness of fiscal risks
  - UK: presentation of information on fiscal risks that was not previously available
The wins: benefits IFIs have been found to bring

- A more orderly budget process
  - United Kingdom: in general, budget date now announced earlier, all policy costings are validated and budget document printed 48hrs before budget day

- Enhanced fiscal transparency
  - Portugal: new data published, improved analysis of existing data, and enriched discussions of the data

- Better-informed parliamentary debate
  - Lithuania: report on long-term fiscal sustainability made an important contribution to parliamentary debate on pensions

- Enriched public debate
  - Slovakia: policy costings work had significant influence on public debate around pensions reform
The wins: benefits IFIs have been found to bring

- Increased fiscal responsibility
  - Italy: non-endorsement of macro forecasts one of reasons EC asked Italian Government to revise budget

- More apolitical information
  - Australia:
THE WORRIES
The worries: what poses risks to IFIs?

• Informed by OECD Reviews
  – Principle 9.1 of the OECD Principles for IFIs states: “IFIs should develop a mechanism for external evaluation”
  – Methodology for OECD reviews anchored in the OECD Principles for IFIs and evaluation framework developed by the PBO Network
  – OECD Reviews undertaken so far include: Spain, Portugal, Victoria (Australia), Lithuania, Scotland (UK), Slovak Republic, UK.
Access to information remains a major challenge

- Escalations in Portugal, Slovakia
- Legal interventions in Spain, Canada
The worries: resources

• Adequacy and security of resourcing a key issue
  – Ministry of Finance often has key role in approving funding
  – Less than half of OECD PBOs have their own budget line
  – Even fewer have multi-annual funding commitments
**Understanding the watchdog tightrope**

**CASE STUDY: Hungarian Fiscal Policy Council**

- **Background:** Fiscal Policy Council established in 2009 as part of wider fiscal reform package.

- **Key challenge:** The Council was operating in a polarised political landscape. After it released a report criticising the government’s budgetary policy, its mandate was reduced and its resources were cut.

- **Lessons:** Important to protect resources from political interference so that watchdogs can “bark” without fear of risks to institution.
Prioritisation to cope with limited resources

CASE STUDY: Canadian PBO

• **Background:** Established in 2008 to improve the accuracy of government economic and fiscal forecasts.

• **Key challenge:** Being given a broad mandate but having relatively little resource to deliver it.

• **Success factors:** The PBO prioritises requests based on materiality and contribution potential.
The worries: can be difficult to achieve impact

- IFIs rely on others for impact:
  - Independent institutions, academics and think tanks
  - Parliaments
  - Media
  - Civil society
KEY MESSAGES
Key messages

- IFIs now a major feature of fiscal frameworks across OECD countries

- Impacts can be substantial, particularly in relation to improved fiscal management and transparency gains

- However, access to information and adequate and secure resourcing remain major concerns

- Good design choices from the start help protect these institutions and underpin their good performance
THANK YOU