



**Delivering with limited resources:
issues facing small-size IFIs:
The experience of the Romanian
Fiscal Council**

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Legal framework - Fiscal Responsibility Law no. 69/2010

Background:

- ❖ Extremely procyclical fiscal policy in the boom period before the financial crisis:
 - Ever increasing budget deficits due to rapid expansion of public spending without matching revenues
 - Overly generous wage and pension increases
 - Increase in public sector employment
- ❖ Non-adherence to announced medium-term deficit targets
- ❖ Very frequent intra-annual budget revisions with a tendency for overoptimistic revenue projections
- ❖ Low efficiency of public spending
- ❖ Lack of concern for the long-run consequences of policy action

The role/scope of the Law:

- ✓ strengthening fiscal discipline (by introducing a rule-based framework)
- ✓ improving medium term fiscal planning (by introducing MTBF)
- ✓ introducing independent fiscal surveillance

Membership of the Fiscal Council

- Five member council functioning within the Romanian Academy
 - ✓ supported by a small technical secretariat (a maximum of 10 people)
- Strong guarantees of independence:
 - ✓ Members appointed by Parliament, but nominations made by independent institutions (The National Bank of Romania, The Romanian Banking Association, The Romanian Academy, The Bucharest University of Economic Studies, The Romanian Banking Institute)
 - ✓ Attempt to capitalize on the reputation of nominating institutions
 - ✓ Members of the council perform their duties as supplementary activities to their ordinary work
 - ✓ Long tenures (9 years)
 - ✓ Very strict compatibility requirements

The remit of the Fiscal Council

- Ex-ante and ex-post monitoring of compliance with fiscal rules
- Evaluating official macroeconomic and fiscal forecasts:
 - ✓ The council does not provide its own macroeconomic forecasts, limiting to a balance of risks evaluation, but it realizes an independent general assessment of the fiscal forecasts based on the evolution of relevant macroeconomic basis, the elasticities of revenue and expenditure aggregates and on the announced discretionary measures.
 - ✓ In practice, members often draw upon their knowledge of forecasts in parent institutions.
- Ex-post assessment of fiscal developments and budget execution
- Issuing opinions/recommendations on fiscal policy
- Costing of policy plans
- Centerpiece required product: Annual Report

Technical Secretariat

Permanent staff: Technical Secretariat organized within the Romanian Academy, formed of 10 positions, of which 7 are occupied with 5 economists and 2 administrative employees => **supporting the members of the Fiscal Council to fulfill their remit**, with the following main responsibilities.

Main responsibilities:

- Provides technical analysis on the fiscal strategy's draft, the supplementary and annual budget laws' drafts and on the budget execution reports;
- Assesses the budgetary impact for draft laws;
- Performs macroeconomic analyses, draws up materials supporting the Council's members in formulating their opinions and recommendations, prepares budget forecasts and forecasting methodologies;
- Creates and updates the necessary databases for the Fiscal Council's analyses.

Quantitative & Qualitative Resources

Financial Resources of the Romanian Fiscal Council				
	2011	2012	2013	2014
Total Budget (euro)	162,998	149,239	171,892	203,891
Personnel Expenses (euro)	158,094	142,846	163,024	194,319
Personnel Expenses (% of total budget)	97%	96%	95%	95%

Main difficulties: limited staff with respect to the remit and unattractive wages in the public sector => *high staffing fluctuations* (average number of economists during 2011-2015 was 3.7, currently we have 4.5 occupied positions for economists, 2 vacant).

Qualitative Resources: adequate: 4 PhD degrees & 1 Master degree

Resource Restrictions:

- we do not have the financial resources to sub-contract against fees different services (such as for translation services)
- *..but we have very low operating expenses* as from a functional perspective we operate within the Romanian Academy, without affecting the Fiscal Council' independence

Allocation of Resources

- Low budget and limited number of staff make it impossible to allocate specific resources to each task within our remit.
- Generally, when issuing opinions or drafting reports all the economists are contributing.
- Some tasks within our remit can be performed only at a base level: e.g.: costing of policy plans.
- The Fiscal Council's assessments are somewhat limited to a general, macro level as the current design of the institution does allow only to a small extent for micro level analyses: e.g. the budgetary plans are assessed only considering the evolution of the main aggregates, only discretionary measures with a significant budgetary impact are assessed.
- However, some micro level analyses are performed: e.g. Assessing the performance of SOE's.

Impact of the Romanian Fiscal Council

- Increased transparency in the conduct of fiscal policy => **generating debate** by objectively informing the public and in an accessible language of the fiscal policy measures considered by the decision makers and of their consequences.
- Virtually, **the only** domestic institution to perform an ex-ante and ex-post analysis regarding the fiscal policy conduct in Romania.
- However, even if the FRL *de facto* introduced a rule-based framework, the law exercises weak constraints upon the policy makers and the rules have been repeatedly circumvented, the Government being exposed only to a **reputational risk** as the Fiscal Council has in general an advisory role.
- Also, even in the case when the Fiscal Council endorsement was needed according to the FRL, the Government was able to surpass it.

Concluding remarks

- ❑ Broad remit but very limited resources allocated. Personnel expenses have a very high percent in total budget, conditioning the Council's capability (it cannot sub-contract services or buy expensive software).
- ❑ Unattractive wages in the public sector contributed to a very high staff turnover – it is proving extremely difficult to develop and maintain a relevant know-how in the Technical Secretariat. However, currently we have 4.5 occupied positions for economists with a good background (4 PhD).
- ❑ Functioning within another institution saves resources and could be a solution as long as it does not interfere with the perceived independence of the Council.
- ❑ A good profile in the media is crucial for an institution whose opinions subject the Government only to a reputational cost, but this objective can also be met with limited resources.

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