Evolutions in Legislative Budgeting and Independent Fiscal Institutions

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Abstract

Two trends can be observed over the past decade within the OECD: the legislature reasserting its budgetary role and the growth of independent fiscal institutions (IFIs - independent parliamentary budget offices and fiscal councils). These trends can be seen as interlinked, particularly in those countries that have chosen an independent parliamentary budget office model, as sufficient analytical capacity is a necessary prerequisite for a legislature to exercise its budgetary function. This paper explores the potential benefits of parliamentary budget offices using two case studies from Mexico and Korea. Drawing on the OECD Principles for Independent Fiscal Institutions, the paper also identifies good practices for the design and governance of IFIs.

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Introduction

Two trends can be observed over the past decade within the OECD: the legislature reasserting its budgetary role and the growth of independent fiscal institutions (IFIs). These trends can be seen as interlinked, particularly in those countries that have chosen an independent parliamentary budget office model, as sufficient analytical capacity is a necessary prerequisite for a legislature to exercise its budgetary function. At the same time, the budget process and associated fiscal frameworks have become more complex in recent years and the need to ensure fiscal sustainability more pressing.

The "power of the purse" is a cornerstone of legislative power in democratic countries. An effective budgetary role for the legislature goes to the heart of issues that preoccupy our countries today – transparency, inclusiveness, and democratic accountability. OECD legislatures are subject to a range of different legal frameworks, procedures, customs, and traditions, but the vast majority can be termed "budget-influencing", with the authority and capacity to amend or reject the executive’s budget proposal. The US Congress and the UK Parliament, two of the most studied legislatures, are outliers in the legislative landscape. At one end of the spectrum, the US Congress is able to redraft the President’s budget proposal and typically does so. At the other end, the UK Parliament and many legislatures with a Westminster heritage demonstrate weak engagement during the approval phase and a near inability to use amendment powers in practice as this would be equated with a vote of confidence. Most OECD legislatures fall somewhere in the middle of this spectrum.

A number of factors impact on legislative influence in the budget process. Some factors, which are related to the budget procedure and capacity within the legislature include (but are not limited to) whether the legislature has a role in the approval of ex ante fiscal frameworks; the comprehensiveness of the budget documentation received; amendment powers; time available to scrutinise the budget; committee organisation; and access to technical analysis. Santiso and Varea (2013) argue that the effectiveness of the legislature in the budget process is not so much a function of greater or lesser powers but rather of how responsibly those powers are exercised, emphasizing the need to strengthen technical and institutional capacities that allow the legislature to engage in informed and realistic budgetary discussions and become more credible partners in the budget process.

There are also other factors and incentives structures related to the constitutional division of responsibilities, party and electoral systems, whether governments traditionally have large majorities within the legislature or whether coalitions are the norm, as well as constraints related to the public finances such as the level of mandatory spending and available fiscal space. Moreover, parliaments are not monolithic institutions but a collection of actors with diverse and changing strategies and incentives. As noted in Schick (2002) legislatures face tension between the self-interest of members to promote their careers or to do good for constituents and the collective interest of the institution. The oversight culture of parliament is critical to its success in budgetary oversight and holding government to account. The oversight culture of the parliament will also impact its relationship with a parliamentary budget office should one be established.

2 In 2007, the OECD found that legislatures in more than half the countries surveyed had a larger budgetary role than they had a decade earlier (Anderson, 2009). This trend has continued to be observed in subsequent OECD surveys (Survey on Parliamentary Committee Structures for Budget Approval and Oversight, 2011, and Budget Practices and Procedures, 2012). Legislature, parliament and congress are used interchangeably.

3 According to Norton’s (1993) classic taxonomy of legislatures.
The second trend, the growth of independent fiscal institutions, has moved at a remarkably fast pace in recent years. Independent fiscal institutions are independent public institutions with a mandate to critically assess, and in some cases provide non-partisan analysis on, fiscal policy and performance (Hagemann, 2011). They are distinguished from audit institutions as they have a forward looking diagnostic task (Kopits, 2011). While legislatures have a combination of ‘hard’ and ‘soft’ powers at their disposal in the budget process, independent fiscal institutions, and more specifically parliamentary budget offices, have only ‘soft’ power. They do not make budgetary decisions; rather their influence comes mainly from their ability to influence the public debate. Legislative budgetary discussions – which should include fiscal policy objectives, the macroeconomic framework and the policy basis for the budget, as well as major fiscal risks – provide a unique opportunity to consider independent fiscal institutions’ analysis. IFIs work can empower legislators in their debates on the performance of the economy and on the impact of the budget. And by bringing transparency to the public finances IFIs can also empower the public to make more informed electoral choices. In the longer term, the check provided by an IFI incentivises the executive’s budget office to continually improve the quality of their work and may protect technical staff in the executive’s budget office from producing politically motivated numbers.

Diverse examples of IFIs have existed for decades (e.g. Belgium, 1936, the Netherlands, 1945, Denmark, 1962, Austria, 1970 and the United States, 1974). A new wave of institutions in the decade following the global financial crisis has more than tripled their numbers within the OECD. 27 OECD Member countries report having some form of IFI, although of varying degrees of independence, and several countries report multiple institutions. The characteristics of these new institutions are informed by country-specific circumstances and, in the case of European IFIs, by supranational commitments leading to wide variations in terms of their institutional models, mandates, tasks, governance provisions and resources. The fiscal council model tends to dominate within the EU, although the variation among these institutions is considerable including in terms of their explicit links to the legislature. Outside of the EU the establishment of IFIs has largely been driven by parliamentary reforms. For example, the Korean National Assembly Budget Office (NABO), the Office of the Parliamentary Budget Officer (PBO) in Canada (2006) and the Australian Parliamentary Budget Office (PBO) (2011) were all established as part of commitments to increase fiscal transparency and enhance the legislature’s budgetary role.

The model that is most often cited in discussions of parliamentary budget offices is the United States Congressional Budget Office (CBO) which was established in 1974 as part of a package of measures adopted by the US Congress to reassert its budgetary powers. The CBO has served as an

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4 Unless otherwise noted, the figures and charts in this paper refer to the 26 institutions currently covered in the OECD IFI Database (as of September 2017). These are listed in Annex 1. The Chilean Fiscal Council has not yet participated in our database although there are plans to include it in the future. New institutions are being added to the database on a rolling basis. Where possible, new data has been included for the Austrian PBO.

5 For an in-depth discussion of IFIs in the EU see Jankovics and Sherwood (2017). The new EU fiscal framework (fiscal compact, “six-pack”, “two-pack”) includes requirements for an independent body to monitor compliance with national fiscal policy rules and assess or produce macroeconomic and budgetary forecasts, However the ultimate design of these bodies is up to the countries themselves.

6 Interestingly, the CBO was preceded by the California Legislative Analyst’s Office which was established in 1941.

7 Prior to 1974, successive US Presidents had used a procedure known as impoundment to restrict spending to below the appropriations approved by the Congress. In 1973, when President Nixon refused to disburse nearly USD 12 billion of congressionally appropriated funds and challenged the congress to enact spending ceilings, tensions came to a head.
inspiration for several offices around the globe. Because the US CBO was born of a presidential system, observers have sometimes posited that a legislative budget office is most appropriate in a presidential system. And indeed the CBO was a model for Mexico and Korea, both of which are presidential systems, as discussed later in this paper. Where there is a clear separation of powers and where the legislature has considerable budgetary powers to challenge the fiscal power of the president, there is certainly an argument for the legislature to have specialized budgetary capacity. The US Congress’s budgetary powers are unparalleled among legislatures. Yet PBOs may be equally appropriate for weaker legislatures seeking to reassert their power of the purse. Many if not most of the new PBOs are being established in parliamentary systems, including Westminster model parliaments in Canada (2006) and Australia (2011) and a nascent PBO in Ireland (2017), as well as the parliaments of Austria (2012), Greece (2010/13) and Italy (2013). Even in a model where the legislature can only approve or reject the governments proposed budget, parliament has the fiduciary obligation to scrutinize the planned expenditures of the government. In their discussion of the Canadian Parliamentary Budget Office, Chohan and Jacobs (2016) argue that the PBO can be viewed as helping to recalibrate executive-legislative budgetary relations in a parliamentary regime undergoing presidentialisation (e.g. transition from a collective (parliamentary) to personalised government where the prime minister may exhibit key markers of presidentialisation such as power resources, autonomy, and personalisation). Regardless of whether a country is under a presidential or parliamentary system, incentives to establish a PBO may be weaker in countries where government maintains a strong majority and party discipline in the legislature, as the PBO may be viewed as more beneficial to the opposition. Interestingly the Australian, Canadian, and now Irish PBOs were set up by minority governments. The US CBO, Korean National Assembly Budget Office and the Mexican Centro de Estudios de las Finanzas Públicas (CEFP) also came about during periods of divided government.

Box 1. Potential Value of a Parliamentary Budget Office

While governments can always take advantage of complexity, information asymmetry, and a higher level of resources, a PBO can help put the legislature on a more equal footing. PBOs help to eliminate the executive’s monopoly in budget information. They can also point out where there is a lack of information, weaknesses in existing information, or issues with reliability of data. A PBO helps to:

- Simplify complexity, making complex budget information understandable to the legislature and other stakeholders (media, academia, and the public at large).
- Promote transparency.
- Enhance credibility.
- Improve the budget process.
- Serve both the majority and the minority parties.
- Provide rapid responses.

resulting in congress reforming its budgetary role. Among the reforms adopted were the establishment of a budget committee in each house and the CBO.

8 The first iteration of the Hellenic PBO was in 2010 but the Head and the Board resigned in 2011. The Hellenic PBO was restarted in 2013 and has continued successfully from that time.
Promote accountability.

When an effective, independent PBO provides a public check of the executive’s numbers, it may help civil servants to avoid inappropriate pressures from the political level to fudge numbers or present biased forecasts. As such, a PBO is more than just an instrument to assist the legislature in the budget process or to help check the executive’s budget power. It also serves the society at large and can help improve the budget process as a whole by promoting a budget process that is less prone to errors and deliberate misrepresentations, more straightforward and easier to understand and follow.

Adapted from Anderson (2009).

Overview of independent fiscal institutions in the OECD

Across the OECD independent fiscal institutions are characterized by their diversity, in terms of their governance provisions, mandate and functions, leadership and staff arrangements, and budgets. This underlines the importance of local needs and the local institutional environment to their design.

Two main models have emerged: independent parliamentary budget offices and fiscal councils. Some countries have both (e.g., Austria, Greece and Portugal), or another mix of several of institutions, that each play a role that could potentially be attributed to an IFI. Other rarer models include autonomous units connected to the national audit institution (e.g. France9 and Finland, although Finland is another example of a country with multiple institutions, having also established an Economic Policy Council in 2014). Several OECD IFIs also have links to the Central Bank as part of their institutional design. For example, Oesterreichische Nationalbank provides staff for Austria’s Fiscal Advisory Council and funding for the Slovak Republic’s Council for Budget Responsibility (CBR) is drawn from the National Bank of Slovakia.

Within the fiscal council model some countries have chosen small, largely academic councils (e.g. Sweden, Ireland). Others have followed more of a corporatist tradition in which a larger set of council members may be proposed by different stakeholders or interest groups (e.g. Austria, Belgium, Denmark, and France). Most fiscal councils also have collegiate leadership structures.

Within the PBO model it is most common to have a single head (although there are exceptions such as Italy). PBOs also tend to play a costing role which typically requires a higher number of staff (see figure 3). It should be noted that while the work of fiscal councils also benefits the parliamentary debate (all but one of the 18 institutions who participated in the first set of OECD case studies of IFIs reported sending their key reports to parliament and participating in parliamentary hearings even if there is no formal requirement to do so), PBOs clearly have a more explicit link to parliamentary oversight of the budget and supporting the work of the main budget committee.10 On the other hand, depending on their design, they may also be more subject to political pressures.

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9 The High Council for Public Finances (Haut Conseil des Finances Publiques, HCFP) in France was designed to benefit from the Court of Auditors well established reputation for independence and its high level of credibility with the French Parliament.

10 In a number of parliaments across the OECD, the emergence of specialised in-house budget research units has also been observed. Examples are provided by the Portuguese Parliamentary Technical Support Unit, the UK House of Commons Scrutiny Unit and Financial Scrutiny Units within the devolved legislatures across the UK (Wales, Northern Ireland and Scotland). While these units may have some similar functions to a parliamentary budget office, in terms of providing specialised support to Committees and individual parliamentarians, they are also likely to have lower levels
Ensuring independence and long-term viability

One of the lessons that newer institutions have taken on board, deriving particularly from the experience of the US CBO, is that independence and non-partisanship – real and perceived – are critical to an IFI’s success. Independence is underpinned by a clear legal framework which puts the IFI on a statutory footing. Legislation gives the institution legal separation from the executive or parliament (and other public institutions) and typically contains provisions relating to the leadership appointment and dismissal process, the institution’s resources, and rights to access information, among other things. The OECD Principles for Independent Fiscal Institutions identify several key design features for IFIs around independence and non-partisanship, transparency and communications. These are backed up by an IMF cross-country study (2013) which demonstrates that these features can enhance IFI effectiveness and are associated with improved fiscal performance. For example:

- Appointments of IFI leadership are made on the basis of merit and technical competence, with clearly defined term lengths (preferably independent of the electoral cycle), and clearly defined criteria and process for dismissal. It should be noted that it is not necessarily who appoints the head of the institution that is most important; rather it is the appointment process. For example, in the United Kingdom, members of the Budget Responsibility Committee are appointed by the Chancellor of the Exchequer, but are subject to the consent of the House of Commons Treasury Select Committee (see figure 1 below).
- IFI leadership have control over the hiring process and for their own staff (see table 1 below).
- IFI has ability to set own work programme within its mandate with the scope to produce reports and analysis at its own initiative.
- A separate budget line and multiannual funding commitments.
- Guarantee of access to information in legislation, if necessary reaffirmed through protocols or memoranda of understanding (see figure 2 below).
- Full transparency the IFI’s work and operations.

This last relates to the intrinsic goal of IFIs to bring transparency to fiscal policy and allows them to build credibility with the public (and the media and financial markets). A related factor for success is the strength of an IFI’s communications.

of operational independence (with their budget and hiring policy determined by parliament) and to lack legal underpinning.
Figure 1. Who makes IFI leadership appointment?

- A range of stakeholders, 24%
- Government only (31%)
- Parliament only (32%)
- Other institution (12%)

Source: OECD IFI Database (2017). More detail on appointment processes is available in the database. For PBO models all except Canada are “parliament only”.

Figure 2. IFIs and access to information

- Underpinned by both legislation and MoU: 40%
- Underpinned by legislation only: 28%
- Underpinned by MoU only: 12%
- No underpinning: 20%

Table 1. IFI control over hiring of own staff

<table>
<thead>
<tr>
<th>Total control over hiring process for staff</th>
<th>Control over hiring process is limited in some way$^1$</th>
<th>Staff provided by another institution$^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Greece</td>
<td>Austria (FISK)</td>
</tr>
<tr>
<td>Canada</td>
<td>Ireland</td>
<td>Belgium</td>
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<tr>
<td>Denmark</td>
<td>Korea</td>
<td>Estonia</td>
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<td>Finland</td>
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<td>Luxembourg</td>
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<td>France</td>
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<td>Germany</td>
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<td>Italy</td>
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<td>Latvia</td>
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<td>Mexico</td>
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<tr>
<td>Netherlands</td>
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<tr>
<td>Portugal</td>
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<tr>
<td>Slovak Republic</td>
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<td>Slovenia</td>
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<tr>
<td>Spain</td>
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<tr>
<td>Sweden</td>
<td></td>
<td></td>
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<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: OECD IFI Database (2017). Countries in bold indicate PBO institutional model. Notes: 1. “Control limited”: In Greece, staff are selected by the PBO but the final hiring decision is taken by Parliament. In addition, around half of the PBO’s staff are appointed for a fixed term (5 years) by the PBO’s leadership and the other half (permanent staff) are appointed by usual Parliamentary procedures. In Ireland, the budget provides the council with the flexibility to hire staff, although prior approval is needed from the government, which can be seen as a limit on its administrative
independence. In Korea, staff above Grade V (division chiefs) are appointed and dismissed by the Speaker of the National Assembly, whereas other NABO staff are appointed and dismissed by the NABO Chief. In Korea, staff above Grade V (division chiefs) are appointed and dismissed by the Speaker of the National Assembly, whereas other NABO staff are appointed and dismissed by the NABO Chief.

2. “Staff provided by another institution”: In Austria, the council’s staff are seconded from the Oesterreichische Nationalbank but FISK have discretion over who is seconded. In Belgium, the council’s staff is provided by the Ministry of Finance and appointed by the federal Minister of Finance. In Estonia, the Council’s staff is provided by the central bank. In Luxembourg, the council’s staff are seconded from the MoF but CNFP have discretion over who is seconded.

The OECD Principles also recommend that IFIs be precluded from making normative recommendations to avoid even the perception of partisanship. Among OECD IFIs, a normative role is rare or very limited in scope. Exceptionally in a few countries the IFI has an advisory function (Sweden) or recommends budgetary targets (Belgium), but always at the risk of forsaking its non-partisan reputation (Kopits, 2011).

While the legislature can provide certain protections to IFIs, it is important to recognise that true independence does not just mean independence from government but also from the legislature. A cautionary tale comes from the disbanding of the young Hungarian Fiscal Council after it took a critical stance of the public finances at a time when the government had a strong majority within parliament. It is easy for a government to be in favour of independent fiscal monitoring in principle. It is more difficult to stand criticism when it is actually delivered. Former President Hugo Chávez abolished the Venezuelan fiscal council. The Fiscal Policy Council in Sweden and the Canadian PBO have also faced threats to their budgets after releasing critical analysis.

Functions

IFIs may play a range of functions which depend on the local context and the issues they were set up to address. Certain core functions are common across IFI models, such as a role in macroeconomic or fiscal forecasting, monitoring compliance with fiscal rules, policy costing, long-term fiscal sustainability analysis, and supporting the legislature in budget analysis (see table 2 below). For those IFIs with a forecasting role, there are several options. Most assess and/or endorse the government’s forecasts (e.g. Austria, Estonia, Finland, France, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden). Some institutions produce alternative forecasts providing additional data points for debate (e.g. Canada, Denmark, Korea, Mexico, and the United States). More rarely, the Netherlands CPB and the UK OBR have been tasked with producing the official forecasts used by government. In some countries another independent institution prepares forecasts used by the IFI, such as the Austrian Institute of Economic Research (WIFO), the Belgian Federal Planning Bureau, and the Swedish National Institute of Economic Research.

Half of the institutions in OECD member countries have a costing role, with this function found across almost all parliamentary budget offices and a number of fiscal councils. However, there is notable diversity in the type of costing work undertaken. The US CBO costs virtually every bill reported by congressional committees (between 500 and 700 annually). Others, such as Australia and Mexico, cost legislation originating in the legislature. The Canadian PBO undertakes policy costings, but given its limited resources, is selective and prioritises requests based on
materiality\textsuperscript{11} and contribution potential. The Slovak CBR may publish opinions, particularly in terms of implications for the general government budget and long-term sustainability, on draft legislation submitted to the National Council at its own initiative or at the instigation of a parliamentary group but has rarely done so in practice. A number of institutions also have a role in scrutinising policy costings. For example, the UK OBR scrutinises and endorses as “reasonable”, or not, costings of budget measures produced by government departments. When the UK OBR disagrees with a government costing, it incorporates its own preferred costing in its published forecasts.

For many years, the Netherlands CPB was the only IFI tasked with the costing of election platforms. This task has generated considerable interest and debate within OECD member countries. The new Australian PBO, which was set up mainly to doing different types of costings, has joined the CPB in this task and Canada recently passed new legislation mandating the Canadian PBO to “at the request of an authorized representative or a member, estimate the financial cost of any election campaign proposal that the authorized representative’s party or the member is considering making.” According to the Dutch experience, this higher scrutiny has the advantage of making party manifestos more realistic over time.

In the European context, IFIs have been seen as an important tool in monitoring whether a country is complying with fiscal rules. It is rarer for those institutions outside of the EU and for those with a PBO model, although the Greek PBO does this as part of their analysis, the US CBO has done it at times, and it has been proposed for the Australian PBO. Canada currently does not have explicit fiscal rules in place; however nothing would preclude the Canadian PBO from doing this type of analysis if new fiscal rules were adopted.

Most IFIs undertake long-term fiscal sustainability analysis and thus play an important role in encouraging countries to take a more long term view on the public finances. Long-term fiscal sustainability analysis is useful to enhance the understanding of the future costs of current policy decisions, help manage risks, and increase support for sound macroeconomic policy. Ideally, such analysis should provide a comprehensive assessment of the state of public finances with the scope of analysis extending beyond long term demographics to examine unsustainable or time-variant revenues or expenditures. There is no firm consensus on the appropriate time horizon for long term fiscal sustainability analysis. However, practice across OECD countries suggests a minimum length of 30 years or more (Shaw, forthcoming).

Some IFIs directly support the legislature in budget analysis. For the most part, this function is found across parliamentary budget offices (Australia, Canada, Italy, Korea, Mexico and the United States), although the Netherlands CPB also provides this function. Support may include tasks such as providing comprehensive analysis of the government’s budget proposals (Canada, Korea, Mexico, Netherlands, and United States), supporting parliamentary committee inquiries (Australia, Canada, Italy, Korea, Mexico, United States) or undertaking confidential budget analysis for parliamentary groups and individual parliamentarians (Australia).

\textsuperscript{11} A project or request is considered material if it can reasonably be expected to have a substantive impact on the government’s finances, estimates or the Canadian economy.
Box 2: The Austrian Parliamentary Budget Office—
Enhancing Parliamentary Oversight of Performance Information

Performance budgeting frameworks are the norm across the OECD but legislatures often struggle to engage with performance information. The Austrian Parliamentary Budget Office (2012) was set up as part of a larger budgetary reform process that also introduced performance budgeting and a requirement that each ministry set five key goals that must be approved by the National Council. The role of the National Council shifted from scrutinising over 1000 detailed appropriations to 70 global budgets, and a greater focus on the medium-term expenditure framework and the new performance information (Austrian PBO, 2015). Budget approval at this more aggregate level has fundamentally altered the way the legislature can hold the government to account for budgetary decisions. One of the core elements of the PBO’s mandate is to consult with the Budget Committee on performance budgeting where there is new scope for the legislature to exercise influence and demand accountability.

The PBO helps address some of the challenges typically identified with parliamentary review of performance information. For example, the OECD Review of Budget Oversight in Ireland (Downes and Nicol, 2016) noted among other things “poor presentation of performance information” and “lack of dedicated resources to support scrutiny of performance” in the parliament. Specifically, as regards performance, the Austrian PBO:

- creates maps giving an overview on performance information (objectives, measures and indicators) to improve transparency;
- provides general information on key issues and questions in respect of performance budgeting (e.g. understanding outputs versus outcomes); and
- analyses the outcome orientation in the performance information (e.g. stronger harmonisation of targets between different line ministries) (Austrian PBO, 2016)

Apart from the performance focus, the Austrian PBO supports the Budget Committee in the form of written expertise, analysis and short studies on budgetary matters, for example, the draft fiscal framework and budget and in-year reports. The Austrian PBO also supports other committees with impact assessments of new legislation which may include evaluations of government costings. Finally, it also has a role in analysing the gender impacts of the budget. This last is linked to performance budgeting as all ministries must identify one key goal that is related to gender.

It should be noted that the PBO is a unit of the parliamentary administration within the Department of Legal, Legislative and Research Services and as such it is not fully independent. It does however in practice act quite independently and is the only unit with such a high level of specialisation and a specific mandate to support the Budget Committee. Indeed this is the first time that a parliamentary committee in the Austrian parliament has direct access to expert staff. There is some debate as to whether to increase the PBO’s independence and put it on a statutory footing as a fully independent organisation. Austria also provides an interesting case study in that it is a small country with a number of institutions that contribute to independent analysis and scrutiny. Austria’s much older Fiscal Advisory Council (or FISK for Fiskalrat) is mandated to assess the current fiscal situation and compliance with the national fiscal rules, as well as the sustainability of the public finances. The Austrian Institute of Economic Research (WIFO) provides independent short-term and medium term economic forecasts. To promote coordination, a representative from the PBO participates in the FISK’s meetings in an advisory capacity.

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[Austria is a parliamentary democracy with a bicameral legislature. The National Council, or lower house, has exclusive competence in budgetary matters.]
Table 2. PBO functions

<table>
<thead>
<tr>
<th>Country</th>
<th>System of governance</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pres.</td>
<td>Parl.</td>
</tr>
<tr>
<td>KOREA</td>
<td>●</td>
<td>○</td>
</tr>
<tr>
<td>MEXICO</td>
<td>●</td>
<td>○</td>
</tr>
<tr>
<td>UNITED STATES</td>
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<td>○</td>
</tr>
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<td>AUSTRALIA</td>
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<td>●</td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>CANADA</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>ITALY</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>GREECE</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>% of OECD PBOs</td>
<td>38%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Notes: 1. The Greek PBO and the Italian PBO undertake impact assessments of new legislation. 2. Although the Canadian PBO does not answer individual member inquiries relating to the budget, it may provide financial costings for individual members “of any proposal that relates to a matter over which Parliament has jurisdiction.”3. New legislation provides for the Canadian PBO to undertake this task ahead of the next Canadian elections scheduled for 2019.

Key: ● = Yes; ○ = No; = Other; = Assess forecasts only; = Prepare alternative forecasts
Figure 3. Functions and staffing levels

Source: OECD IFI Database (2017). Dark blue bars indicate PBO institutional model. Dark blue bars indicate PBO model. Light blue bars indicate fiscal council model.

* In this figure Austria refers to its Fiscal Advisory Council (or FISK for Fiskalrat)

** Italy also monitors compliance with fiscal rules and assesses forecasts

Table 3. Budget and staffing in select PBOs in the OECD

<table>
<thead>
<tr>
<th>Country</th>
<th>Institution name</th>
<th>Year</th>
<th>Budget (USD)</th>
<th>Staffing (full-time)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Parliamentary Budget Office (PBO)</td>
<td>2017</td>
<td>5.7 million</td>
<td>38</td>
</tr>
<tr>
<td>Austria</td>
<td>Parliamentary Budget Office (PBO)</td>
<td>2017</td>
<td>1.1 million</td>
<td>8</td>
</tr>
<tr>
<td>Canada</td>
<td>Parliamentary Budget Office (PBO)</td>
<td>2014</td>
<td>2.3 million</td>
<td>17</td>
</tr>
<tr>
<td>Greece</td>
<td>Parliamentary Budget Office (PBO)</td>
<td>2017</td>
<td>0.6 million</td>
<td>16</td>
</tr>
<tr>
<td>Italy</td>
<td>Parliamentary Budget Office (PBO)</td>
<td>2014</td>
<td>7.1 million</td>
<td>33</td>
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<tr>
<td>Korea</td>
<td>National Assembly Budget Office (NABO)</td>
<td>2017</td>
<td>13.1 million</td>
<td>138</td>
</tr>
<tr>
<td>Mexico</td>
<td>Center for Public Finance Studies (CEFP)</td>
<td>2016</td>
<td>2.7 million</td>
<td>60</td>
</tr>
<tr>
<td>US</td>
<td>Congressional Budget Office (CBO)</td>
<td>2016</td>
<td>46.5 million</td>
<td>235</td>
</tr>
</tbody>
</table>

### Box 3. PBOs and Legislative Research Services

While both provide objective and non-partisan advice to legislators, independent parliamentary budget offices tend to be distinguished from legislative research services by virtue of their specialisation, legal footing (ensuring independence) and mandate. Most parliaments have their own research services of differing sizes and levels of sophistication. These research services tend to be staffed by generalists who cover a wide range of topics, and provide timely and succinct synthesis and analysis of proposed legislation, policies or programmes being considered by a parliament. By contrast, independent PBOs require staff with highly specialised knowledge, providing in-depth analysis of highly technical information on the public finances.

Falling somewhere in-between are models of research services with their own specialist units. As noted earlier, several legislatures have established specialist units, such as the UK Parliament’s Scrutiny Unit, to assist the legislature in their budgetary work. Typically these units are part of the larger parliamentary research services and as such, while they can provide a more expert viewpoint, are less insulated from the political environment in which they sit and are subject to the administrative constraints of the parliamentary administration. In addition, while they may undertake similar analysis to some PBOs, they are unlikely to have a mandate spelled out in legislation as well as the special access to information typically granted to an independent fiscal institution.

IFIs that are integrated in the parliamentary administration may face particular challenges linked to independence. This was the lesson learned in Canada where the Office of the Parliamentary Budget Officer was established as part of the Library of Parliament. Early on, this limited the PBO’s administrative independence, including full control over the office’s financial and human resources (von Trapp et al, 2016). Tensions also arose around the PBO’s transparency model which, in line with best practice recommendations for IFIs, has meant that all of its products are published online unlike the Library’s services for parliamentarians which are more often undertaken on a confidential basis. In 2017 new legislation was passed that made the Canadian Parliamentary Budget Officer an Officer of Parliament (similar to the Auditor General), and separate from the Library.

The Australian PBO provides a slightly different approach. With the Canadian difficulties in mind, the Australian PBO was established as one of four parliamentary departments. It is not under the library and research services but its location within the parliament gives parliamentarians easy access and allows the PBO to take advantage of some of the parliament’s systems and services. The US CBO made a choice early on to have separate offices from the Congress to further underline their independent status.
Case Studies: Korea’s National Assembly Budget Office (NABO) and Mexico’s Centro de Estudios de las Finanzas Públicas (CEFP)

This section will review aspects of the legislative budget offices in Korea and Mexico. Established in 2003 and 1998 respectively, they are among the “older” generation of the rather young group of independent fiscal institutions in the OECD. Both operate in countries with presidential regimes, both took their inspiration from the US CBO, and both were established in the context of deepening democratisation. Yet they have developed their own specificities, shaped over the years by different local institutional environments and needs.

Korea’s National Assembly Budget Office (NABO)

Overview - Role of the Legislature in the budget process

Korea has a unicameral National Assembly with 245 seats elected by direct representation and 54 seats by proportional representation for a four-year term.

The Constitution (1948) requires the draft budget to be presented to the National Assembly 90 days before the start of the fiscal year and adopted 30 days before the new fiscal year begins. The National Assembly may amend the budget but it may not introduce amendments that increase any expenditure item or create a new expenditure item without the consent of the executive. By contrast, the National Assembly has unrestricted powers to amend revenue proposals. Recently, the role and powers of the National Assembly in the budget process registered in debates on changes to the Korean Constitution in the wake of the impeachment of Park Geun-hye, with some in the National Assembly keen to increase its powers along the lines of the US Congress.

The National Assembly Act 1948 established a Special Committee on Budget and Accounts, with 50 members, whose role is to review the draft annual budget, the draft fund management plan and all budget-related matters. Sectoral committees make recommendations to the Special Committee on Budget and Accounts, which accepts or rejects the recommendations after reviewing them, although this may change in future to reflect the National Assembly’s wish to institute a more “top-down” format. The Finance and Economy Committee examines tax proposals. The two budget-related committees are highly resourced. In addition to NABO, committees have 20 to 30 full-time staff working for them.

Context for establishment of NABO

NABO was established with broad cross-party consensus and continues to enjoy cross-party support today. The factors leading to NABO’s establishment were political and transparency related. Beginning in 1987, Korea underwent over a decade long democratisation process. In 1992, the country elected its first civilian President in 30 years. The parliament was strengthened and given new capacity including the National Assembly Legislative Budget Office, established in 1994 as part of the parliamentary service. In 2000, this office was reorganised into a Legislative Counselling Office and a Budget Policy Office. Then in 2003, NABO was formally established by law as an independent institution.
In December 2002 a candidate from the Democratic Party won the presidency for the first time. However, in the National Assembly, the Grand National Party still held the majority of seats. With divided government, the National Assembly majority had a strong interest in creating an independent budget office to scrutinise the new President’s draft budgets. The legislature also struggled with a lack of transparency in the government’s budgetary data. For example, while efforts had been made to broaden the coverage of the annual budget, in 2000 there was still a need to rationalise extra-budgetary funds and special accounts (which had been growing), to integrate all central government fiscal activities into the budget and to publish consolidated data for general government in a timely manner (IMF, 2001). There was also a debate at political level on the size of public debt.

Legal framework

NABO is underpinned by two pieces of legislation. First, the National Assembly Act 1948 was amended in July 2003 to provide for NABO’s autonomy within the National Assembly. The National Assembly Budget Office Act, also adopted in July 2003, elaborates on the duties and organisational arrangements for NABO (von Trapp et al, 2016).

Resources and staffing

In 2017 NABO has an operating budget of USD 13.1 million and 138 full time staff. NABO’s annual budget has increased significantly (by around USD 4 million). This mainly reflects a corresponding increase in full-time staff and increased demand for NABO’s services. The majority of NABO staff are part of the parliamentary service, although many staff are recruited on fixed-term contracts. Staff above Grade V (division chiefs) are appointed and dismissed by the Speaker of the National Assembly, whereas other NABO staff are appointed and dismissed by the NABO Chief (von Trapp et al., 2016).

NABO’s Chief is appointed and dismissed by the Speaker of the National Assembly with the consent of the House Steering Committee. The Speaker receives recommendations from a seven-member Recommendation Committee of respected public policy experts who are neither members or officials of the National Assembly and have “expertise concerning NABO’s duties, maintain political neutrality and make fair recommendations.” Apart from “being in political service”, “having expertise” and “maintaining neutrality”, there are no other written criteria or restrictions (e.g. minimum age, academic qualifications, years of prior experience in public finance, nationality) to guide the Recommendation Committee and the Speaker in making their choice (von Trapp et al. 2016).

There is also no defined term or term limit for the NABO Chief. However in practice the NABO Chief tenders his resignation every two years when the Speaker changes. A new House Speaker could reappoint the “resigning” NABO Chief but has not done so. The current practice has been identified as a weak point in NABO’s governance structure as it creates considerable

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12 This Act has been amended in 1991, 2005, 2011 and 2014.
13 The largest increase was in 2010 when two new units were created: a Tax Counsel and a Public Institutions Evaluation Unit. Subsequently in 2014 NABO’s costing role was increased.
14 NABO Act, Article 5
uncertainty for the institution. The House Speaker also has the power to dismiss the Chief. In practice this has happened only once.15

NABO’s budget is less protected than some other IFIs but does appear as a separate budget line in the National Assembly’s budget. NABO prepares its own draft budget which is submitted to the Secretary General of the National Assembly, who in turn submits it to the House Steering Committee for approval before it is included in the Assembly’s budget. The Special Committee on Budget and Accounts examines the National Assembly’s own budget during its budget deliberations, before the budget is approved by the National Assembly in plenary session. In general, the NABO budget is approved at its various stages with little modification (von Trapp et al, 2016).

Mandate and tasks

According to its enabling legislation, NABO has a broad mandate “to research, analyse and appraise matters concerning the settlement of the budget, and the management of funds and finances of the state as well as to support parliamentary activities”. The NABO Act 2003 further identifies five specific duties: budget analysis, costing, forecasting, evaluation, and research. In 2014, the National Assembly Act was amended to strengthen NABO’s costing role.

NABO prepares its own projections for revenues, expenditure (both discretionary and mandatory), the fiscal balance, and government debt. NABO’s medium-term projections cover the same five-year period and use the same conceptual framework as the government to facilitate direct comparison. NABO’s five-year revenue estimates serve as the basis for analysing tax reform bills that originate in the legislature. NABO also analyses the Ministry of Strategy and Finance’s long-term projections and, every two to three years, prepares its own long-term projections of up to 50 years.

Costing is one of NABO’s most important and demanding functions. Indeed between 2004 and 2016 the number of requests for costings has risen from around 60 to over 3,000 annually.16 In February 2014, the National Assembly Act was revised to give NABO sole authority to prepare cost estimates for bills introduced by members; to strengthen requirements for bills amended or replaced during committee deliberations to be submitted with revised cost estimates prepared by NABO; and to allow Members proposing legislation to seek opinions from NABO on the costs associated with enforcing that legislation. Previously Members had the option of having their offices prepare costings that were often of low quality and some chose to submit a “Statement of Reasons for No Cost Estimate Attached” when costs were deemed too technically challenging to estimate.

NABO’s legislation does not restrict it from making normative recommendations but in line with the CBO and most other IFIs, NABO has chosen not to – to avoid erroneously being painted with a partisan brush. In its macro-fiscal analysis, NABO limits itself to general suggestions on the overall fiscal stance, to changes in budget processes or to technical issues (von Trapp et al. 2016).

Special feature - NABO’s Programme Evaluation Function

15 To the first NABO Chief, when the Grand National Party lost its majority in the National Assembly during 2005 by-elections.

16 Presentation of NABO Chief Chunsoon Kim to OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network): “NABO Past, Present and Future”.
Every year NABO prepares a range of evaluations. This function, which until recently was carried out by a separate Program Evaluation Bureau is unique among peer IFIs. At the end of August 2017, NABO reformed its organisational structure and the programme evaluation function has now been integrated into NABO’s Budget Analysis Office, along with analysis of budget bills and settlement of accounts, in order to create a synergy effect of financial analysis.

Through its programme evaluation function, NABO seeks to improve the efficiency of resource allocation and promote longer-term fiscal sustainability. To some extent this function was modelled on the US Government Accountability Office’s (GAO) programme evaluation work. GAO is the nonpartisan audit agency which supports the US Congress to help improve the performance and ensure the accountability of the federal government.

Underlining the importance of this function to NABO, the Bureau almost doubled in size from 3 divisions with 19 staff in 2003 to 5 divisions with 30 staff in the first half of 2017. The five divisions have now been streamlined into three as shown in figure 4.

**Figure 4 Reorganisation of NABO’s Program Evaluation Bureau**

<table>
<thead>
<tr>
<th>Program Evaluation Bureau</th>
<th>Budget Analysis Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Economic Program Evaluation Division</td>
<td>– Economic Industrial Program Evaluation Division</td>
</tr>
<tr>
<td>– Social Program Evaluation Division</td>
<td>– Social Administrative Program Evaluation Division</td>
</tr>
<tr>
<td>– Industrial Program Evaluation Division</td>
<td>– Public Institution Evaluation Division</td>
</tr>
<tr>
<td>– Administrative program evaluation Division</td>
<td></td>
</tr>
<tr>
<td>– Public Institution Division</td>
<td></td>
</tr>
</tbody>
</table>

*NABO website and comparison of old and new organisational charts.*

NABO’s Program Evaluation divisions perform analysis and evaluation of major national programmes; monitor and evaluate programme implementation; analyse and estimate medium-long term fiscal demand for major national programmes; analyses and evaluates cases of budget waste; develops and systemizes policy and programme evaluation methods; and analyses and evaluates the budgets of public institutions as well as their accounts, performance and management.

The evaluation reports typically cover a broad policy area, such as jobs or healthcare, giving a high level view of smaller sub-units of programmes/projects, although sometimes NABO will evaluate specific individual programmes, if they believe such attention is warranted.

The evaluations reports often make (non-binding) recommendations for improving a programme’s operations and effectiveness. Very rarely, they might also include audit or compliance type findings. Some evaluations have led to handbooks on a specific issue to assist the National Assembly in its future budget deliberations. For example, in 2010 NABO published handbooks on the Government Grants Programme, the Government Loans Programme, the Government Investment Programme (in specific ministries), Public-Private Partnerships in Infrastructure, Programme Budget Projects, Government Subsidies to Local Government, and Finance Programmes in Standing Committees. The evaluation divisions have also attempted to provide evaluations of comprehensive programme groups which they believe will have greater impact on the National Assembly debates.
Information for the evaluations mainly comes from public sources, although NABO may ask line ministries and agencies to provide additional information or data. As such, they are more likely to provide high level analysis which is considered a good starting point to understand a particular programme in the parliamentary debate.

Table 4. Number of products produced by the Program Evaluation Bureau 2013-2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of Social Programs</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Evaluation of Industrial Programs</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Economic Program Evaluations</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Evaluation of Administrative Programs</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Evaluation of Public Institutions</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Other studies carried out by the Program Evaluation Bureau</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Unpublished OECD questionnaire sent to NABO as part of background research for this paper.

NABO uses the following criteria for deciding which topics will be covered in their evaluations: timeliness, importance to the lives of citizens or impact on corporate activities, and interest of the National Assembly and the public. As part of the decision-making process, NABO monitors the press, surveys Members of the National Assembly and tracks reports of other institutions and discussions between the government and expert groups.

There are many institutions in Korea that undertake some form of programme evaluation. The largest players are the Ministry of Strategy and Finance (MoSF) which maintains four programme evaluation divisions with around 20 staff and the Korean Institute for Public Finance’s (KIPF) Center for Program Evaluation with around 35 staff. MoSF and KIPF coordinate closely on evaluations. Other institutions that may undertake some form of evaluation are the Korea Development Institute (KDI), and the Korea Institute of Public Administration (KIPA), and private research institutes such as Samsung Economic Research Institute and the Hyundai Research Institute. They typically deal with programme evaluation in light of studies on economic and fiscal policy in the different policy areas. The audit institution, the Board of Audit and Inspection (BAI), which in Korea is under the President rather than the legislature, may also undertake evaluations. Some observers have recommended that the constitution be amended to transfer the Board of Audit and Inspection (BAI) from the executive branch to the National Assembly, in which case NABO’s programme evaluation function might become less relevant (RAND, 2012). NABO does not share their evaluation plans with these other institutions; however there is an active exchange between NABO and other institutions through various expert meetings, seminars and consultations.
Figure 5. Number of institutions conducting evaluations in OECD Member countries

![Bar chart showing the number of institutions conducting evaluations across OECD countries.](chart1.png)

Source: OECD Performance Budgeting Practices and Procedures database

Figure 6. Institutions which most often conduct evaluations across the OECD

![Bar chart showing the number of OECD countries where each institution plays an important role in conducting evaluations.](chart2.png)

**Relationship with the executive and the legislature**

NABO exclusively serves the National Assembly and is entirely independent of the executive, although its legislation does provide for access to government information. NABO’s Chief is appointed by the House Speaker, and NABO’s budget is included in the budget of the National Assembly. NABO has its own offices. NABO prepares reports for committees and members of the National Assembly. Although it mainly communicates with the legislature through written documents, NABO’s chief provides evidence before the two budget-related committees several times a year.

As mentioned above, in Korea there are also autonomous think tanks set up by the government that publish studies on budget-related issues and whose reports are complementary to those of NABO. Examples include: the Korea Institute of Public Finance, which analyses tax and expenditure policies and publishes various fiscal studies; and the Korea Development Institute, which researches economic and social issues, and may provide analysis of the public finance issues (e.g. medium-term expenditure frameworks) and undertake independent forecasts.

**Mexico’s Centro de Estudios de las Finanzas Públicas (CEFP)**

**Overview - Role of the Legislature**

Mexico has a bicameral Congress with a 500-member Chamber of Deputies elected every three years, and a 128 member Senate elected every six years. Only the Chamber approves the expenditure budget, giving it primacy in budgetary matters.

The 2006 Budget and Fiscal Responsibility Law (BFRL) sets out the budgetary role of the Congress and the timetable for legislative approval. Before submitting the budget the government presents two reports to the Congress: the first in April contains the macroeconomic projections for the next fiscal year, the second in June outlines the programme structure of the budget including proposed new programmes. The government presents its expenditure and revenue budgets to the congress by 8 September. The latter must be approved by the Chamber by 20 October and the Senate by 31 October. The expenditure budget must be approved by the Chamber by 15 November, well before the start of the new fiscal year on 1 January (von Trapp et al, 2016).
Table 5. CEFP Analysis during key phases of the Congressional budget timetable*

<table>
<thead>
<tr>
<th>Budget phase/date</th>
<th>Government</th>
<th>CEFP analysis prepared</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April</td>
<td>Presents macroeconomic projections for the next fiscal year</td>
<td>– Analysis of the document prepared by the Ministry of Finance and Public Credit in compliance with article 42 of the Federal Budget and Fiscal Responsibility Law.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Analysis of the quarterly reports on the economy, public finances, public debt, monetary policy and inflation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Projections of macroeconomic and sectoral indicators (February, May, August and November).</td>
</tr>
<tr>
<td>2 June</td>
<td>Outlines programme structure of the budget including proposed new programmes</td>
<td>– Analysis of the document on the programme structure of the budget.</td>
</tr>
<tr>
<td>8 September</td>
<td>Presents expenditure and revenue budgets</td>
<td>– Analysis of the proposed General Criteria for Economic Policy (macroeconomic framework).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Analysis of proposed revenue budget</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Analysis of proposed expenditure budget</td>
</tr>
</tbody>
</table>

* On 20 October and 15 November, when the revenue and expenditure budgets are approved in the Chamber, the CEFP also provides analysis of the final bills.

Source: Unpublished OECD questionnaire sent to CEFP as part of background research for this paper.

The Chamber has the power to amend the draft budget but it cannot change the programmatic structure submitted by the executive or deny funding for expenditures that the executive is legally or constitutionally obliged to make (e.g. mandatory expenditures such as federal transfers or entitlement spending). The Chamber may increase expenditure only if it identifies additional sources of revenue, for example, by increasing revenue estimates and the oil price assumption (within limits defined in law). In addition, all amendments must also be consistent with the balanced budget fiscal rule.17

The Chamber’s Budget and Public Accounts Committee holds hearings on the expenditure budget and hears evidence from representatives from the Ministry of Finance. It plays a coordinating role with sectoral committees submitting their proposals for amendments to be voted on by the Budget and Public Accounts Committee before it sends the budget with its final recommendations to the plenary for approval.

Typically, committee membership allows parliamentarians to develop areas of expertise which may then be negotiated into positions of leadership within the legislature and greater public visibility (NDI, 1996). Until just recently, one of the unusual features of the Mexican Congress was that members could not serve consecutive terms, meaning membership was completely renewed at each election. This had potential implications in terms of the incentive structure for legislators to

17 The fiscal rule at federal level pertains to the financial balance, which includes interest payments but excludes the cost of the banking sector rescue package, public-private partnership schemes, PIDIREGAS and the long-term investment schemes of PEMEX, the national oil company. There are also two fiscal rules that apply at sub-national level. OECD (2009) discusses the three fiscal rules.
engage in the budget process and their capacity to build up budgetary expertise and it created a source of potential instability for the CEFP. However, observers have also noted that the fact that legislators could not stay in the legislature consecutively meant that members of the Budget and Public Accounts Committee often gained experience in federal or state government giving them a certain authority in budget negotiations with government officials (OECD, 2009, Gazmuri, 2012). The rules have now changed and legislators will have the opportunity to be re-elected as of 2018.

Compared to many of its peers in Latin American legislatures, the Budget and Public Accounts Committee has significant analytical resources at its disposal through the CEFP. In addition to the support provided by the CEFP, the Budget and Public Accounts Committee also has its own staff to assist it, although they do not tend to have the same level of technical expertise. Each parliamentary group has advisors, and in some cases their own institutions which provide their deputies with budgetary analysis. For example the Partido Acción Nacional (PAN) established the Miguel Estrada Iturbide Foundation to provide technical assistance to its legislators including on budgetary matters (IBP, 2015 and Gazmuri, 2012). It should also be noted that the Senate receives support on budget issues from the Instituto Belisario Domínguez (IBD).

Box 4. The Instituto Belisario Domínguez

While the Mexican Senate’s role in the budget process is limited, it also receives additional support on issues related to the public finances from its own technical support body, the Instituto Belisario Domínguez (IBD) which conducts strategic research on national development and analysis related to legislative proposals for the Senate’s activities. The IBD has a total budget of around 20.3 million MXN and a staff of 75, around 11 of whom work for the IBD’s Directorate General for Finance.

The work of the IBD’s Directorate General for Finance is divided into four areas: Fiscal Feasibility Analysis of Legislative Decisions; Prospective and Budgetary Analysis of Legislative Decisions; Federal Public Finance Analysis; State and Municipal Public Finance Analysis Powers. The IBD’s Directorate General for Finance examines the feasibility of constitutional and legal reforms, estimates of outlay and investment needs of said reforms, revenue and financing sources rendering reforms feasible, as well as analyzing budgetary planning and programming that should accompany the reforms.

Source: http://www.senado.gob.mx/ibd

Context for the establishment of the CEFP

The Centro de Estudios de las Finanzas Públicas was set up in 1998 with broad cross-party support. Political reforms to level the electoral playing field in 1996 marked a transition to a competitive multiparty system, ending the traditional domination of the Partido Revolucionario Institucional (PRI) which lost control of the Chamber of Deputies following the 1997 elections. A period of divided government ushered in a more active role for the Congress in the budget process and demand for increased technical capacity (von Trapp et al, 2016). Since its establishment the CEFP has gone through several phases of consolidation, including an expansion of its role under the 2006 Budget and Fiscal Responsibility Law (Robles, 2010).
Legal framework

Established by a congressional agreement in April 1998, the Organic Law of Congress formally recognised the CEFP in September 1999 as one of the five study centres serving the Congress.\textsuperscript{18} The 2006 Budget and Fiscal Responsibility Law acknowledged and expanded its role with a new requirement that CEFP assess the budgetary impact of legislation proposed by the congress. The BFRL also gave the CEFP greater access to budgetary information, although the CEFP has reported some difficulties in getting information in a timely manner (von Trapp et al, 2016).

Relationship with the Executive and the Legislature

As noted earlier, the CEFP is embedded in the Congress. The Congress is responsible for the appointment of the Director of the CEFP; the CEFP budget is a component of the administrative budget of the Congress; and CEFP offices are located within the Chamber of Deputies. Although modelled in part on the United States CBO, the CEFP does not have the same autonomy granted to the CBO and cannot claim to be fully independent. The CEFP is overseen by the Chamber of Deputies’ Committee on the CEFP. Typically members of this committee may also serve on the Finance Committee or the Budget and Public Accounts Committee. The CEFP provides quarterly results reports in meetings with its oversight Committee. These meetings highlight aspects such as technical improvements in methodologies and improvements in quality and timeliness of CEFP analysis.

The Finance Committee, the Budget and Public Accounts Committee, other committees, individual members of Congress and the Senate Finance Committee can all request reports and analysis from the CEFP. Priority is given to time sensitive requests from the Chamber of Deputies’ Finance Committee and Budget and Public Accounts Committee, or to any committee with pending legislation that requires budget impact analysis. CEFP reports that they normally answer their requests within 30 to 45 days. Other committee or individual member requests may take longer to respond to, especially if the request is received during the September-November budget cycle when CEFP is on a tight deadline to provide analysis of the revenue and spending bills.

The CEFP operates entirely independently of the executive. However, the CEFP does have agreements with several public bodies such as: an agreement to exchange information and methodologies for assessing poverty and social policies with the National Council for the Evaluation of the Social Policy (CONEVAL); an agreement to access information and training databases with the National Institute of Geography and Statistics (INEGI); and a partnership with the National Institute of Public Administration to promote research on public finances (von Trapp et al, 2016).

There are several non-governmental and academic organisations within Mexico that also provide analysis on the budget and public finances and related economic or social issues. For example, the Centre for Analysis and Research (Fundar), the Centro de Estudios y Docencia Económicas (CIDE), the Centro de Estudios Espinosa Yglesias and the relatively new Centro de

\textsuperscript{18} In addition to the CEFP there are four study centres specialising in agriculture, social, gender and constitutional issues.
Investigación Económica y Presupuestaria (CIEP) headed by a former CEFP Director (von Trapp et al, 2016).

**Resources and staffing**

In 2016 the CEFP was operating with a budget of MXN 51.2 million (approximately USD 2.8 million) and 60 full time staff. These numbers have remained relatively stable over the past decade, despite the additional demands placed on the centre in terms of costing legislation, although there was a dip in the budget of about 12% between 2008 and 2009 as Congress sought to show that it too was cutting spending in response to the economic crisis. Just over half of the staff make up the CEFP’s core analytical divisions, while the remaining staff include the CEFP leadership and those providing administrative and technical support (von Trapp et al, 2016).

The CEFP Director General is chosen through an open competition overseen by a jury of academics and well-known professionals in the field of public finance. The jury is appointed by the Chamber’s Junta de coordinación política. The Junta votes on its preferred candidate on the Jury’s shortlist and the candidate must then be approved by the Chamber plenary. CEFP Directors have come from a variety of academic and professional backgrounds in economics, audit, accounting, business and politics (former Members of Congress, political advisers). CEFP staff are also hired through open competition and are typically drawn from graduate school programmes in Mexico’s leading universities.

In looking at the CEFP’s resources, it is clear that the CEFP does not enjoy all of the protections recommended in the OECD Principles for Independent Fiscal Institutions. First, its budget is not independent; rather it is a component of the administrative budget of the Chamber of Deputies and as such is not managed by CEFP directly. Second, while the CEFP legal framework provides for the Director General to serve a 5 year renewable term experience indicates that changes in incumbents are often related to the electoral cycle. This has led some critics to question whether the choice of Director General has become politicised. Third, CEFP staff are hired by the Congress and not by the CEFP directly and are subject to the same rules and conditions (pay scale, code of conduct, etc.) as other congressional staff. The Congress also sets the number of CEFP staff. Unlike in many other independent fiscal institutions, it would be unusual for a government civil servant with experience in the Ministry of Finance and Public Credit, to transfer to the CEFP, in part because of lower pay scales.

**Mandate and tasks**

The CEFP has a broad mandate to provide objective, non-partisan and timely analysis on the public finances to the Congress. To maintain its non-partisan status the CEFP does not make normative policy recommendations. Its main tasks are:

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19 For more information see, [http://www5.diputados.gob.mx/index.php/camara/Transparencia/Informacion-Obligada-de-Transparencia/Facultades/05-Junta-de-Coordinacion-Politica](http://www5.diputados.gob.mx/index.php/camara/Transparencia/Informacion-Obligada-de-Transparencia/Facultades/05-Junta-de-Coordinacion-Politica)

20 According to the 1998 resolution (Article 11), candidates for Director General must be a Mexican citizen in full exercise of their rights; be at least 30 years of age when appointed; hold a bachelor’s degree in economics, public administration, or a discipline related to public finance from a recognised academic institution; have at least five years of professional experience in the field of public finance; and be of good reputation with no criminal convictions.
• Analysis of the government’s quarterly reports on the state of the economy, public finances and debt; the proposed budget (revenue law and expenditure decree); the annual report on the National Development Plan Changes; and the report on foreign trade and tariffs. While the CEFP does not have an explicit mandate to assess compliance with the fiscal rules as is the case for many independent fiscal institutions, it does related analysis as part of its quarterly reports.\(^{21}\)
• Cost assessments of legislation originating in the congress. CEFP reported to the OECD that this is its most time-consuming task with about 65% of staff time devoted to it (von Trapp et al, 2016).
• Analyse the government’s short-term and medium-term projections and produce their own (covering one and five years ahead).
• Briefing notes and/or longer studies on topics related to the public finances.

The CEFP also works to enrich the public debate on the public finances through its Journal of Public Finance, an annual prize for the best piece of new research on the public finances, and activities such as conferences or seminars.

The CEFP may also undertake research projects on its own initiative, subject to approval from the Committee on the CEFP. Indeed the CEFP must get approval of its work programme from the Chamber of Deputies’ Committee on the CEFP. While it is of course useful to discuss legislators’ priorities and thus ensure the relevance of the CEFP work programme to its main clients, this is another potential limit on CEFP’s independence. Similarly the Congress must give permission to publish certain information on its website. While the CEFP seeks to promote transparency of its work, publishing a wide range of CEFP products, there have been times when key products, such as CEFP projections, for example, were not published.

Table 6. Types and number of analysis completed by CEFP 2013-2016\(^{22}\)

<table>
<thead>
<tr>
<th>Key CEFP Analysis</th>
<th>2013(^{1})</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td>Costing of proposed legislation (at request of committee)(^2)</td>
<td>376</td>
<td>177</td>
<td>183</td>
<td>617</td>
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<tr>
<td>Costing of proposed legislation (at request of individual members)</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>49</td>
</tr>
<tr>
<td>Studies on public finances (at request of committee)</td>
<td>168</td>
<td>95</td>
<td>94</td>
<td>115</td>
</tr>
<tr>
<td>Studies on public finances (at request of individual members)</td>
<td>43</td>
<td>8</td>
<td>4</td>
<td>226</td>
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<tr>
<td>Notas informativas (cortas)(^3)</td>
<td>146</td>
<td>123</td>
<td>80</td>
<td>82</td>
</tr>
</tbody>
</table>

\(^{21}\) Information provided by CEFP.

\(^{22}\) Data from the CEFP also shows that in 2016 they published on their website 48 reports on indicators for the public finances and the economy, 32 economic bulletins on indicators and economic variables, 39 infographics, 52 notes, 35 special studies and 10 presentations on a variety of topics.
One area that CEFP has yet to develop is long-term analysis that can help illustrate the allocative trade-offs legislators may face in pursuit of sustainable public finances. The *OECD Principles of Budgetary Governance* recommend that governments publish “a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject, with the presentation and consideration of its policy messages – both near-term and longer-term – in the budgetary context.” An independent fiscal institution may analyse the government’s report, or in the absence of such a report, develop its own. This may be particularly useful for legislatures in illustrating risks to the public finances around population ageing.

**Box 5. CONEVAL**

Similarly to the CEFP, the National Council for the Evaluation of Social Policy (CONEVAL) was set up in 2004 during the period following Mexico’s transition to a competitive multiparty system. Scepticism about the government’s poverty measure, particularly from the opposition, led Congress to decide that poverty should be measured autonomously from the government in an independent and multidimensional manner. The Social Development Law mandated CONEVAL to measure poverty reduction results nationally and co-ordinate evaluation of social programmes by the federal government.

CONEVAL is credited with advancing the development of the social sector monitoring and evaluation system (Castro et al, 2009). It should be noted however that its social sector focus has sometimes limited CONEVAL from evaluating programmes in certain areas, such as infrastructure, which may still impact social outcomes.

Unlike the CEFP, CONEVAL was established under the executive branch with its executive director appointed by the federal government. A 2014 constitutional reform established CONEVAL as an autonomous constitutional body. It’s governing body, or Steering Committee, comprises the head of the Ministry of Social Development, six academic researchers and representatives of the Ministry of Finance and Public Credit. This Committee is responsible for the administration of CONEVAL, in addition to approving agreements on substantive issues. CONEVAL’s Executive Committee of six academic researchers defines and reviews evaluation projects and methodologies for poverty measurement.

CONEVAL’s independent status, reinforced by the participation of academics and specialised staff, has contributed to its reputation as a technically reliable and credible institution for a range of stakeholders. Although some critics have noted that CONEVAL’s separation from government decision-making processes has sometimes limited its ability to ensure that its analysis was used to directly influence policy and budget decisions, CONEVAL has had considerable influence on Mexico’s performance budgeting system and CONEVAL’s performance evaluations of programmes are used by the Ministry of Finance in the preparation and negotiation of the budget (Castro et al, 2009). CONEVAL prepares an annual report on the draft expenditure budget which makes specific recommendations regarding priority programmes that have the greatest impact on poverty reduction and social welfare. This report is given to the executive (and specifically the Ministry of Finance and Public Credit), and the Congress, and is publicly available.

23 See [http://www.coneval.org.mx/Evaluacion/IEPSM/Paginas/IPP.aspx](http://www.coneval.org.mx/Evaluacion/IEPSM/Paginas/IPP.aspx)
Despite the role of the Congress in establishing CONEVAL, and the fact that Congress has been the primary recipient of evaluation reports, the uptake of CONEVAL’s analysis by Congress has traditionally been weak. This is a common challenge. A review of Mexico’s budgeting system posited that the CFP could play an important role in making performance and evaluation information more accessible to members of Congress during budget deliberations, thus helping to support and sustain the results culture CONEVAL promotes (OECD, 2009). More recently the IMF and some legislators have suggested that a new independent fiscal institution be established and mandated with reviewing reports that the Banco de México, INEGI and CONEVAL send to Congress, in addition to oversight of the budget and public finances. Currently CFP exchanges information and methodologies for assessing poverty and social policies with CONEVAL and may include analysis of CONEVAL reports as part of its working material for the Budget and Public Account Commissions and the Treasury and Public Credit Commissions.

Impact of NABO and CFP

Overall, NABO and the CFP have significantly enhanced capacities within the legislature for independent budget analysis. Their work has been widely reported in the media and has contributed to the public debate on the budget and public finances.

Work is just beginning to demonstrate the impact of IFIs. As a largely young group of institutions, with a small absolute number and considerable heterogeneity, any empirical assessment is complicated. Nevertheless research indicates several key features of effective fiscal councils, for example, strict operational independence, a strong presence in the public debate, and a role in fiscal rule monitoring and production or assessment of forecasts (e.g. OECD 2012; IMF, 2013; Debrun, X. and Kinda, T., 2014). The principle of local ownership was also identified as a potentially important factor in explaining the extent to which EU IFIs have sufficient resources to deliver effective oversight (Horvath, 2017). A few IFIs have conducted external evaluations, which have been useful in terms establishing the types of data institutions should begin collecting.

There is some evidence of penetration in the media or (broadly defined) the public debate available from both NABO and CFP. NABO notes several thousand media mentions each year. Data collected by the CFP on social media impact shows that from the fourth quarter of 2014 to the fourth quarter of 2016 visits to the CFP website increased from 20,295 to 64,901. In 2016 their twitter feed, on which they published 815 tweets, was viewed 170,889 times and had 2000 followers at year’s end. Similarly the CFP Facebook page was visited 57,735 times and the page has over 3000 “likes”.

There is also strong evidence for demand of NABO and CFP products. As shown in table 6 there is a significant number of requests for CFP analysis from both committees and individual legislators. The number of economic and fiscal reports produced by NABO has increased five-fold from around 26 reports in 2004 to 129 in 2016. The number of costings produced by NABO has risen 50 fold (a combination of increased demand and new responsibilities given to it by the National Assembly in 2014) from around 60 in 2004 to over 3,000 in 2016 (Kim, 2017).

NABO has tracked client satisfaction since 2007. NABO’s most recent 2016 survey of Members, showed for example that they scored highest in terms of the procedure for making

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24 See for example, “Diputados quieren un ‘big brother’ para la Secretaría de Hacienda”, http://expansion.mx/economia/2017/04/05/diputados-quieren-un-big-brother-para-la-secretaria-de-hacienda

requests for cost estimates of legislation and revenue estimates (73/100). Their work on cost estimates and revenue estimates, analysis of the budget bill and on settlement of accounts, and programme evaluation reports all received scores of around 70/100. In March 2017 the CEFP implemented its first satisfaction survey of legislators, with a focus on those who have requested budgetary impact analysis and other requests for information. Overall, users rated CEFP’s services as good or excellent. NABO has also tracked other information demonstrating impact on decisions taken by the National Assembly. For example, the chart below shows NABO’s influence on the budget.

**Figure 7. Influence of NABO’s analysis on annual budget cuts by the National Assembly**

![Graph showing influence of NABO's analysis on budget cuts](image)

*Source: NABO answers to OECD questionnaire*

**Conclusions**

Within the OECD there is a marked trend for countries to establish an IFI, with an increasing number of countries with multiple institutions. A number of these institutions specifically support the parliament and its relevant committees, underlining a renewed appreciation of the legislature’s budgetary role. Even in those countries with a fiscal council model, the relevance of their analysis to the legislative debate is seen as an important indicator of the institution’s impact on the public debate.

Despite their apparent recent popularity, IFIs across the OECD often face similar challenges, particularly in their early years. Governments may be tempted to constrain the actions of an IFI to avoid criticism in the short term. In order to gain respectability and protection from threats to its existence, the institution’s non-partisanship may need to be tested over at two or more electoral cycles, ideally covering governments of different political orientation (Kopits, 2011). On a positive note however, the experience of countries with more long-standing institutions demonstrates that – even if they do not always agree – IFIs are viewed in the longer term as important partners for finance ministries and legislative budget committees in promoting credible fiscal policies.

NABO has emerged as a particularly strong PBO, highly resourced, and clearly positioning itself as “the watchdog of national finance”. Reviewed by Korea’s most-circulated magazine on the economy, NABO was ranked 10th (out of 100 think tanks) in 2014 in terms of impact, quality of research, expertise. Even where its legislation falls short, in practice NABO acts extremely
independently and continues to model many aspects of its functioning on the US CBO. In fact, in 2016 NABO and the CBO established a MoU to facilitate exchange on matters of common interest and to exchange knowledge and experience. Although there have been discussions on whether the government should establish a fiscal council to play a role in forecasting as part of the proposed fiscal responsibility bill, a new institution was ultimately deemed unnecessary. There remains one aspect of NABO’s arrangements – the term of service of the Chief – that could be strengthened to meet the *OECD Principles for Independent Fiscal Institutions*.

Although modelled in part on the United States CBO, the CEFP does not have the same autonomy and cannot claim to be fully independent. It also does not have the explicit role of “budget watchdog”. Civil society organisations have put forward proposals to reform the CEFP to enhance its political independence and technical capacity, for example, that the appointment process and rules around tenure for the CEFP Director be reformed and that there be a board comprised of academics (along the lines of CONEVAL’s Executive Committee). González (2013) further recommends that CEFP’s work be more aligned with the performance assessment system (Sistema de Evaluación de Desempeño, SED) and the Auditoría Superior de la Federación’s technical framework. A recent paper by COPARMEX, the Mexican employers association, supports the creation of a new more independent fiscal council that would integrate and build on CEFP and IBD’s budgetary analysis units. Several legislators (mainly from opposition parties), the International Monetary Fund (IMF), as well as civil society organisations and the Federal Audit Office (ASF) have also the creation of a completely new independent fiscal institution or fiscal council with the independence and technical capacity they believe the CEFP lacks and a mandate to monitor the public finances. So far these proposals have been rejected by the Ministry of Finance and Public Credit. Whatever emerges, given the difficulties that any non-partisan institution faces when working in a highly partisan environment, Congress, the CEFP and other relevant stakeholders should explore proposals to enhance the CEFP’s autonomy and to protect it from political interference or perceptions of political interference and to bolster its technical reputation. One useful tool that NABO and several other institutions (Netherlands, Slovak Republic, Spain, UK and US) use to ensure the quality of their work is by setting up an external advisory panel of well-respected experts that may make suggestions on the work programme and topics for consideration, or provide methodological advice.

**Chile and IFIs**

The trend to establish an IFI is also observed regionally with an increasing number of Latin American countries setting up PBOs and fiscal councils – Argentina (PBO serving both Chambers), Brazil (PBO attached to the Senate) and Peru (fiscal council) being recent examples. In 2013 Chile established an Advisory Fiscal Council. While it performs an important task in terms of evaluating

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26 For example, proposals have been made by the Colectivo por un Presupuesto Sostenible (which includes the Centro de Estudios Económicos del Sector Privado (CEESP), the Centro de Investigación Económica y Presupuestaria (CIEP), la Comunidad Mexicana de Gestión para Resultados, Ethos Laboratorio de Políticas Públicas, Fundar – Centro de Análisis e Investigación, Gestión Social y Cooperación, A.C. (GESOC AC), the Instituto Mexicano para la Competitividad (IMCO, which also released a separate report), Instituto de Políticas para Transporte y el Desarrollo (acronym in English, ITDP) y México Evalúa). Red por la Rendición de Cuentas (RRC) and the Centro de Investigación y Docencia Económica (CIDE) also released a report entitled “Fortalecimiento de las Capacidades Técnicas del Congreso para la Rendición de Cuentas”.
compliance with Chile’s fiscal rule, to date the Council has a quite narrow mandate, limited institutional independence and lacks sufficient staff and budget as compared to peers (Schmidt-Hebbel, 2014). It also has limited interaction with Congress. This is unfortunate given that the Congress, while well-staffed, currently has limited specialist analytical capacity to draw upon to play its budgetary role. The 2011 Corbo Commission has put forward several proposals to strengthen Chile’s Fiscal Advisory Council which would bring it more in line with peers in the OECD. In light of the experiences of OECD countries which have established PBOs, Chile might also wish to explore setting up a second institution, independent of but serving Congress, which would provide Congress with independent budgetary analysis.

The OECD Principles for Independent Fiscal Institutions provide an important starting point in terms of institutional design for any PBO. The mandate of such an institution should be carefully debated to ensure that it meets specific needs and is appropriate and complementary to the existing institutional landscape – in the case of Chile taking into consideration the mandate of the Fiscal Advisory Council. In line with peer institutions, such an institution might focus on, for example, analysis of the government’s budget proposal or of the cost of legislation with a significant budgetary impact, as well as long-term sustainability analysis. Korea and Mexico provide illustrations of the types of analysis that such an institution might undertake, as well as the challenges involved in ensuring institutional independence and relevance.
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Annex 1: Institutions included in OECD IFI Database

27 As of September 2017. As noted earlier, the database is being updated on a rolling basis to include new institutions. The Chilean Fiscal Council is not yet included.

<table>
<thead>
<tr>
<th>Country</th>
<th>Institution name</th>
<th>Acronym</th>
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</thead>
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<td>Australia</td>
<td>Parliamentary Budget Office</td>
<td>PBO</td>
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<tr>
<td>Austria</td>
<td>Fiscal Advisory Council</td>
<td>FISK</td>
</tr>
<tr>
<td>Belgium</td>
<td>High Council of Finance</td>
<td>HCF</td>
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<td>FC</td>
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<td>Germany</td>
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