Independent Fiscal Institutions Review

OECD Review of Finland's Independent Fiscal Institution

OECD

Foreword

Independent fiscal institutions (IFIs) are publicly funded, independent bodies that provide non-partisan oversight and analysis of fiscal policy. They have grown in number following the global financial crisis as a cornerstone of budget scrutiny and oversight frameworks in OECD countries.

Finland's IFI was established in 2013 within the National Audit Office of Finland. In 2020, the National Audit Office asked the OECD to undertake an independent review of the performance of its Team for Fiscal Policy Monitoring, which serves as Finland's independent fiscal institution (IFI). This report evaluates Finland's IFI on the basis of the OECD Recommendation of the Council on Principles for Independent Fiscal Institutions.

The OECD would like to express its sincere thanks to the staff of the National Audit Office, the IFI Team and the stakeholders consulted for the preparation of this review, which included members of the Parliament of Finland, staff of the Ministry of Finance, the Bank of Finland, the Economic Policy Council, and other stakeholders in the public and private sector (a complete list of interviewees is provided in Annex A).

The OECD reviewers were Scott Cameron and Scherie Nichol from the OECD Secretariat's Public Management and Budgeting Division in the Directorate for Public Governance; Helmut Berger, Head of the Austrian Parliamentary Budget Office and previously Director at the Austrian Court of Audit; Eddie Casey, Chief Economist and Head of Secretariat for the Irish Fiscal Advisory Council; Peter Fontaine, former Head of the U.S. Congressional Budget Office's Budget Analysis Division; and Niku Määttänen, professor of macroeconomics at the Helsinki Graduate School of Economics and the University of Helsinki.

The review also benefitted from feedback from staff of the OECD Secretariat, in particular Jón Blöndal, Head of the Public Management and Budgeting Division.

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Abbreviations and acronyms

CAM	EU Commonly Agreed Methodology
CBR	Slovak Council for Budget Responsibility
CFP	Public Finance Council (Portugal)
EPC	Economic Policy Council (Finland)
EU	European Union
EU-IFIs	EU Independent Fiscal Institutions (autonomous network initiated by European IFIs)
EUNIFI	EU Network for Independent Fiscal Institutions (initiated by the European Commission)
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
IFI	Independent Fiscal Institution
NAOF	National Audit Office of Finland
OBR	Office for Budget Responsibility (UK)
PBO Network	OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions
UK	United Kingdom

Executive summary and recommendations

The Independent Monitoring and Fiscal Policy Evaluation Function was established in the National Audit Office of Finland (NAOF) in January 2013 and later renamed the Team for Fiscal Policy Monitoring (hereafter “the IFI Team”). It serves as Finland’s independent fiscal institution (IFI) and, together with the Economics Department of the Ministry of Finance, fulfils Finland’s domestic institutional requirements for fiscal governance in the euro area. The IFI Team is tasked with monitoring national fiscal rules under EU treaties and the fiscal management objectives set out in the General Government Fiscal Plan.

The IFI Team has had a positive impact on the fiscal framework in Finland and is poised to have more influence in the years ahead, particularly as the government confronts the fiscal consequences of the COVID-19 pandemic. To maximise its effectiveness in the future, the NAOF and its IFI Team should address the following three key issues:

- **Institutional arrangements**. It is rare among OECD countries to place the responsibilities of an IFI under the governance structure of an audit institution. Although the NAOF has carved out a special status for the IFI Team under its Rules of Procedure, the IFI Team’s management does not have explicit final say on analytical conclusions. Combining two different focuses of independent scrutiny – an IFI on plans before money is spent, and an audit authority on financial statements and value after it is spent – carries operational and reputational risks. For example, an IFI must comment publicly on policy issues that are more subjective and controversial than the work of a traditional national audit authority. Further, the project-based team structure of the NAOF divides the IFI Team’s analysts between IFI work and other audit activities. Fiscal monitoring is a full-time activity. A divided focus carries the risk of missing important developments.
- **Depth of analytical work**. Stakeholders reported that the quality of the IFI Team’s work has improved over time; however, they would like to see the IFI Team deepen its analysis on EU methodologies and develop more of its own analytical tools to produce independent benchmarks. Staff turnover and a high data collection burden hindered such depth in the past, but now that those challenges have largely been overcome, the IFI Team is positioned to invest more in its analytical capacity.
- **Visibility**. Placing the IFI responsibilities within a project team of the NAOF without a clear identity or control of its communications also limits the function’s public visibility, which is crucial to an IFI’s influence. Stakeholders are unsure precisely what to call the IFI Team and often confuse its work with the NAOF’s traditional audit functions. The IFI Team’s performance measurements, such as parliamentary mentions and website traffic, are difficult to separate from the rest of the NAOF. A greater distinction between the IFI Team’s work and the NAOF’s other impact areas is essential, as an IFI requires different communications strategies to effectively engage policymakers and the public.

This report expands on these key issues and others raised by stakeholders. Overall, the review found that the IFI Team is playing a successful role in the NAOF as the body responsible for independent monitoring of fiscal policy within Finland. In particular, the IFI Team is regarded as credible, independent, and technically focused.

While the review found that the IFI Team generally aligns with the OECD Principles for Independent Fiscal Institutions, the report makes the following key recommendations for the IFI Team to increase its effectiveness:

1. **Stronger walls should be established to safeguard the IFI Team's analytical independence within the NAOF.** Although stakeholders unanimously felt that the IFI Team should not be split off entirely from the NAOF, they acknowledged that the arrangement is out of step with international peers and carries limitations and risks. An appropriate compromise that reflects Finland's institutional environment would be for the IFI Team to mirror the arrangement of the Economics Department of the Ministry of Finance, which Finland designated as the independent producer of macroeconomic forecasts for the domestic implementation of the EU fiscal surveillance framework. Under the Economics Department's arrangement, it has sole discretion over its forecasts and reports, which are released under the signature of the Director General of the Economics Department. The department's analysis cannot be influenced or overruled by other senior public servants in the Ministry of Finance or its political office. This independence is prescribed under statutory law. The same operating model for the IFI Team in the NAOF should be prescribed in the NAOF's Rules of Procedure in its next renewal and eventually should be enshrined in legislation.
2. **Given that the IFI Team's work overlaps with projects delivered by other fiscal policy audit teams, these activities should be merged under the more independent IFI Team to increase its full-time capacity.** Projects worked on by other fiscal policy audit teams in the NAOF have the purpose of "[determining] whether a true and fair view has been given of the central government finances and the sustainability of general government finances." These projects include, for example, evaluating how the government presents the impact of new employment measures on the public finances and evaluating the effectiveness of local government expenditure limits in achieving national fiscal targets. As these projects match the typical work areas of an IFI, it would make strategic sense to assign the fiscal policy audit projects to the IFI Team. This extension of the IFI Team and the merging of fiscal policy audit resources would then merit a full-time director who can dedicate full attention to the IFI Team's staff and its work, in line with the OECD Principles.
3. **Most IFI Team members should focus full time on IFI work.** The part-time assignment of several IFI Team members to other audit projects divides the focus of staff, posing a risk to the IFI's effectiveness. Monitoring the public finances requires year-round vigilance and technical knowledge, model capacity, and professional connections that can only be built and maintained in the time outside of the busy reporting cycles. While some flexibility for part-time assignments within the NAOF could be kept for professional development, morale and retention, most staff should devote full time attention to IFI research. This can largely be accomplished by consolidating other fiscal policy audit projects into the IFI Team's responsibilities.
4. **The NAOF should establish more concrete multi-year commitments to the IFI Team's funding.** The IFI Team does not have its own dedicated line within the national budget, but rather receives its funding under the discretion of the Auditor General out of the NAOF's annual appropriation from Parliament. Although the NAOF has a multi-year planning provision for the IFI Team in its internal management documents, it should also publish specific medium-term commitments to the IFI Team's financial and staff resources, either in a standalone document or in the NAOF's regularly published five-year strategies.
5. **The IFI Team's analytical work should be deepened by expanding its in-house modelling capacity to produce independent fiscal and economic benchmarks.** Stakeholders reported that the IFI Team's initial focus was weighted too heavily toward mechanical assessments of the fiscal rules and comparisons to forecasts of other institutions and not enough toward its own independent analysis. The IFI Team should deepen its analysis in areas that will add maximum value to the policy debate in Finland, for example by expanding its scrutiny of fiscal rules to include assessing the merit

of those rules and the methodological appropriateness by which they are calculated against the IFI Team's own in-house revenue elasticity estimates and forecasts.

6. **The IFI Team should be free to develop new analytical areas, provided it does not compromise its core responsibility to assess compliance with the *Fiscal Policy Act*.** The IFI Team should have the flexibility to expand its coverage of areas of interest to stakeholders such as long-term fiscal sustainability. However, it should be mindful that building such capacity may require considerable time and effort. The IFI Team should also consider coordinating with other independent institutions in Finland, where appropriate, to avoid encroaching on other mandates and duplicating effort.
7. **The IFI Team should have** a **unique brand identity, including its own web section under the NAOF's site and a distinct report template and logo.** IFIs are most influential when they have an independent public voice. Presently, many stakeholders do not draw a distinction between the IFI Team's work and the NAOF's other reports. Distinctive branding of the IFI Team's reports and web presence could help address that lack of visibility.
8. T**he IFI Team should take greater ownership of monitoring the impact of its communications.** The IFI Team benefits from the support of the NAOF's communications team and should continue to take advantage of those resources, given its small size. But to be most effective in its communications, the IFI Team should track its web and media activities and other performance indicators such as parliamentary mentions separately from the NAOF's other impact areas.
9. **The IFI Team should increase its outreach to Members of Parliament, offering individual or group briefings on its work and products.** All relevant stakeholders – parliamentary committees, individual legislators, and the IFI Team members – reported the desire to interact more to improve the legislature's understanding and oversight of fiscal policy. Engaging parliamentarians is one of the most direct avenues for policy influence and the IFI Team should build greater relationships with parliamentary members and staff to promote its research, for example, through one-on-one briefings. The IFI Team should do so transparently and with efforts to provide equal opportunities to members to preserve its reputation for non-partisanship.
10. **To strengthen its identity and leverage its networks, the IFI Team should collaborate more with other Finnish institutions working on fiscal policy and with external experts.** The IFI Team could also do more to engage with other experts in the Finnish economic and fiscal community, building networks and organising peer reviews of its work. As a step toward doing so, the IFI Team could take greater advantage of the NAOF's Scientific Council, using it more regularly for peer review of its work and for guiding its vision and work programme. Another option with international precedence is to have regular conferences or workshops organised by the IFI Team to allow economists from different institutions to share and discuss their work.

Chapter 1. Adherence to OECD Principles

1.1. Introduction

This review of Finland's *Team for Fiscal Policy Monitoring* (hereafter the "IFI Team") within the National Audit Office of Finland (NAOF) uses an evaluation framework anchored in the OECD Recommendation on Principles for Independent Fiscal Institutions, adopted by the OECD Council on 13 February 2014 (OECD, 2014[1]).

The OECD Recommendation provides a set of Principles to assist Member countries in designing independent fiscal institution (IFIs) that are effective and viable over the long run. There are 22 Principles across nine headings:

1. Local ownership
2. Independence and non-partisanship
3. Mandate
4. Resources
5. Relationship with the legislature
6. Access to information
7. Transparency
8. Communications
9. External evaluation

1.2. Results

Overall, the IFI Team's design and operations satisfy the OECD Principles and its analysis meets international standards. On **local ownership**, its role and structure reflect the historical role the NAOF has played in monitoring national rules and procedures for fiscal policy. However, it is rare among OECD countries to place an IFI under the governance structure of an audit institution, which may not always have the same objectives and strategies as the IFI for influencing government policies and procedures.

On i**ndependence and non-partisanship**, stakeholders universally reported that the IFI Team's work is impartial, nonpartisan, and of high quality. The director in charge of the IFI Team is chosen on merit and is required to have a minimum level of education and experience defined under the NAOF's Rules of Procedure (National Audit Office of Finland, 2019[2]). The Rules of Procedure are the detailed provisions on internal administration that the NAOF is required to prepare and adopt under the *Act on the National Audit Office*. The director's three-year term lengths are independent of the political cycle; however, there are no term limits, in contrast to the recommendation of the OECD Principles. The director is full time and remunerated, but divides attention between the IFI Team and other teams in the NAOF. The director in charge of the IFI Team makes recruitment decisions in practice; however, the IFI Team is staffed by members of the NAOF and their assignments are ultimately decided by the Auditor General.

On **mandate,** very few of the IFI Team's responsibilities, reports, and timelines are specified in legislation. The *Fiscal Policy Act*, Finland's domestic law implementing fiscal rules under EU treaties and other national budget management objectives, simply names the NAOF as the monitoring body for the Act.[1] However, the Act clearly prescribes the government's fiscal management obligations and so the NAOF's monitoring responsibilities and their relation to the budget cycle can be inferred. The director in charge of the IFI Team

[1] The full name of the *Fiscal Policy Act* is the *Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and on multi-annual budgetary frameworks (869/2012)*. The NAOF's responsibility to monitor compliance with the Act is stated in Subsection 7.

is given the independence to determine the IFI team's work programme under the NAOF's Rules of Procedure. There is a risk that an Auditor General could override the director's autonomy; however, in practice, the IFI Team has no concerns over its freedom to work at its own initiative.

On **resources**, the IFI Team's expenditure is planned and monitored separately within the NAOF budget. The NAOF's budget is part of the annual appropriation to parliament and is a parliamentary decision. Although it is set annually, in practice there is medium-term planning within the NAOF and allocations for salaries, the main expense, automatically increase each year along with the rest of the NAOF's salaries. If the IFI Team needs more resources or additional staff, the director in charge is entitled to make proposals that will be addressed in one of the management forums. But the final decision is up to the Auditor General.

On **relationship with the legislature**, the IFI Team's work is overseen by the Audit Committee of Parliament under the NAOF's channels of accountability prescribed in the *Act on the National Audit Office;* however, there is no specific responsibility of the NAOF or IFI Team in relation to committees under the *Fiscal Policy Act*. The IFI Team reported that it has sufficient time during the budget cycle to complete its analysis and report to the legislature. Parliamentarians reported that they have sufficient time under the calendar to debate the IFI Team's reports and call upon IFI Team members to provide evidence.

On **access to information**, the IFI Team is able to leverage the NAOF's rights to information and its rights to inspect all public bodies. These rights are clearly defined in legislation, including the restrictions under which they do not apply. Staff reported that they have not had any issues securing the data they need to fulfil the team's mandate.

On **transparency**, the NAOF's annual corporate governance reports are submitted to the legislature and published online; however, they cover the IFI Team's activities only at a high level. There is no standalone annual activities report for the IFI Team. A regular analytical reporting cycle has been established, although timelines are not specified in legislation. Reports are not released in the IFI Team's name, but rather are published under the NAOF's banner. The IFI Team publishes many details of its methods, particularly for its macroeconomic error assessments and cyclical indicators, but some peer EU IFIs are more proactive in publishing spreadsheets for fiscal rule calculations.

On **communications,** the IFI Team relies heavily on the NAOF's communications team and policies; it is difficult to disentangle the IFI Team's activities from the rest of the NAOF's activities to gauge the effectiveness of its communications.

On **external evaluation**, the IFI Team has initiated this external OECD review. The team's reports are also reviewed by the Scientific Council of the NAOF, which consists of experts primarily from Finnish universities, and the Advisory Board of the NAOF, which includes permanent subject-matter experts and temporary representatives from all political parties.

A detailed assessment of the IFI Team's adherence to the OECD Principles is given in Table 1.1. The remainder of this report expands on these discussions and provides recommendations for bringing the IFI Team into greater alignment with the OECD Principles and the best practices of peers. The recommendations are grouped into four areas:

- **Mandate and governance**: The IFI Team's responsibilities, organisation and rights to information.
- **Reports and influence:** The IFI Team's reports and how it communicates them to engage stakeholders and influence fiscal management practices.
- **Methods**: The IFI Team's approaches, workflows and models for producing its reports.
- **Financial and human resources**: How the IFI Team has been empowered with the budget and staff to achieve its mandate.

Table 1.1. Does Finland's IFI Team adhere to the OECD Principles for Independent Fiscal Institutions?

1. LOCAL OWNERSHIP	Key: ● = yes; ◖ = partially; ○ = no
1.1 Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed. Finland has a long history of fiscal rules monitored by an independent body (the NAOF). Although the designation of an IFI was in large part because of EU treaties, it was embraced by the consensus of stakeholders and was largely a continuation of existing practices under a new name.	●
1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI. The model was chosen because the NAOF was already playing a role in monitoring national rules and procedures for fiscal policy such as the spending limit system. The placement of an IFI in an audit office is rare among OECD countries. Additional effort should be made to solidify the IFI Team as a separate identity within the NAOF.	●
2. INDEPENDENCE AND NON-PARTISANSHIP	
2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, while serving all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship. Stakeholders universally reported that the IFI Team's work is impartial, nonpartisan, and of high quality. While it is required to perform some normative guidance on the appropriateness of both the broad fiscal stance and individual programs to return to balance, the proposals are initiated by the executive government and the IFI Team's commentary avoids politics.	●
2.2 The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit. Under the Rules of Procedure of the NAOF, the director of fiscal policy monitoring must hold an applicable master's degree and have knowledge of audit, evaluation activities, public finances, central government and fiscal policy, as well as proven leadership skills and management experience.	●
2.3 Term lengths and number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria and process. The director for the IFI Team is appointed for a 3-year term. However, no limit is specified in legislation. The director for fiscal policy monitoring is subject to the dismissal procedures of public servants regulated in law, such as performance hearings.	◖
2.3 The leadership's term should optimally be independent of the electoral cycle. The director for the IFI Team is currently appointed for a 3-year term. Parliamentary elections are held every four years (presidential elections every six years).	●
2.4 The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards should be applied. The director for the IFI Team is remunerated but only devotes roughly 50% of his time to the IFI Team. As monitoring is a full-time activity, not simply during the preparation of reports, the IFI Team's director should devote all of their attention to the IFI work.	◖
2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws. The IFI Team is staffed by members of the NAOF, but the director has influence over recruitment decisions. The Auditor General ultimately decides on the allocation of staff to the IFI Team. Many IFI Team members are currently assigned to both IFI activities and other audit functions, particularly fiscal policy auditing.	●
2.6 Staff should be selected through open competition based on merit and technical competence, without reference to political affiliation, in line with civil service conditions. The IFI's staff are hired under open competition based on merit, in line with recruitment process of the NAOF and civil service hiring procedures.	●

3. MANDATE	Key: ● = yes; ◖ = partially; ○ = no
3.1 The mandate should be defined in legislation, including types of reports and analysis they are to produce, who may request them and timelines for release. Very few of the IFI Team's responsibilities, reports, and timelines are specified in legislation. Subsection 7 of the *Fiscal Policy Act* (869/2012) merely names the NAOF as the monitoring body of the Act, although it is clear in the Act what this entails. The *Act on the National Audit Office* (676/2000) empowers the NAOF to create its own Rules of Procedure for delivering its responsibilities.	◖
3.2 IFIs should have the scope to produce reports and analysis at their own initiative and autonomy to determine their own work programme within their mandate. The activities of the IFI Team are determined by its director (that is, the director of the impact area for Sustainable General Government Finances) but are ultimately approved by the Auditor General. There is a risk that an Auditor General could override the workplan and autonomy of the IFI Team.	●
3.3. Clear links to the budget process should be established within the mandate. Strictly speaking, there are no mandatory reports. However, it is clear in the *Fiscal Policy Act* which reports would be required to fulfil the NAOF's responsibilities for monitoring the government's compliance with the Act and when they would be required within the budget cycle.	◖
4. RESOURCES	
4.1 The resources allocated to IFIs must be commensurate with their mandate. The IFI Team's resources are sufficient to fulfil the NAOF's minimum requirements under the *Fiscal Policy Act*. However, monitoring the public finances is a full time role, and currently many members of the IFI team's staff divide their attention between monitoring and other NAOF projects.	●
4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies. The IFI Team does not have budget autonomy within the NAOF, although its expenditures are planned and monitored separately. The NAOF budget is part of the decision on Parliament's budget and is funded solely from the appropriation for Parliament.	◖
4.1 Multiannual funding commitments may further enhance the IFI's independence and provide additional protection from political pressure. The IFI Team's budget is set annually, based on its expected staff requirements and other costs. In practice, there is medium-term planning under the NAOF and an understanding that the IFI Team's resources will be maintained and increased with expected increases in salary expenses.	◖
5. RELATIONSHIP WITH LEGISLATURE	
5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature. The NAOF is overseen by the Audit Committee of Parliament. The committee consults stakeholders for feedback on the IFI Team's reports. The IFI Team's leadership appears an average of three times a year before parliamentary committees.	●
5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. The IFI Team reports that it has sufficient time to complete its analysis and is not overburdened in meeting the demands of its reporting cycle. Parliament has sufficient time under the calendar to debate the IFI Team's reports and call IFI Team members to expert hearings when necessary.	●
5.2 The role of the IFI vis-a-vis the Parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. The NAOF's general responsibilities toward committees are clearly laid out in the *Act on the National Audit Office*, but the specific role of the NAOF or IFI Team in relation to committees under the *Fiscal Policy Act* is not.	◖

6. ACCESS TO INFORMATION	Key: ● = yes; ◖ = partially; ○ = no
6.1 IFIs should have full access to all relevant information in a timely manner. The IFI Team is able to leverage the strong legislated powers of the NAOF to request information and inspect public bodies. The relationship-based culture of Finland also helps the IFI Team secure its data. The IFI Team reports no issues securing data.	●
6.2 Any restrictions on access to government information should be clearly defined in legislation. The *Act on the National Audit Office* granting the NAOF's access to data specifies restrictions on its access, which relate mostly to the investigation of private individuals.	●
7. TRANSPARENCY	
7.1 The IFI should act as transparently as possible, including full transparency in their work and operations. The NAOF's annual corporate governance reports are published online but include descriptions of the IFI Team's work and operations only at a very level. More transparency could be provided by publishing an annual activities report.	◖
7.2 The IFI's reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to Parliament. All of the IFI Team's reports are submitted to the legislature and published online.	●
7.3 The release dates of major reports and analysis should be formally established, especially in order to coordinate them with the release of relevant government reports and analysis. A regular reporting cycle has been established, although timelines are not specified in legislation.	●
7.4 IFIs should release their reports and analysis, on matters relating to their core mandate on economic and fiscal issues, in their own name. Reports are released in the NAOF's name, which is the only body defined in legislation. However, in promoting its identity and activities, the IFI Team should build an independent identity for its reports.	◖
8. COMMUNICATIONS	
8.1 IFIs should develop effective communication channels from the outset. The NAOF's communications channels and policies are used; the IFI Team does not have ownership of its own communications. It is difficult to disentangle the IFI Team's activities from the rest of the NAOF's activities for performance monitoring.	◖
9. EXTERNAL EVALUATION	
9.1 IFIs should develop a mechanism for external evaluation of their work. The IFI Team initiated an OECD external review in 2020-2021. The Scientific Council of the NAOF intermittently reviews the NAOF's work. The Audit Committee of Parliament occasionally requests feedback on the IFI Team's report from stakeholders.	●

Chapter 2. Mandate and governance

Chapter findings

The OECD Principles recognise that there is no one-size-fits-all design for a country's IFI. An IFI's mandate and structure should reflect the country's local needs and institutional environment. Finnish stakeholders reported that the existing mandate and placement of the IFI Team within the NAOF is appropriate given its history of doing similar analysis, and that the relationship is working well.

That said, stakeholders acknowledged that the institutional arrangement is out of step with international peers, that fiscal policy monitoring is fundamentally different than financial statement and performance audits, and that the arrangement carries limitations and reputational risks.

The NAOF has mitigated some of these limitations and risks by granting the IFI Team special status in the formal Rules of Procedure it sets itself under the *Act on the National Audit Office*; however, further adjustments could improve the IFI Team's alignment to international peers, including:

- The NAOF should establish strong walls to secure the IFI Team's analytical independence from other sections of the audit office in a public memorandum and in its next renewal of the Rules of Procedure. Eventually this independence should be enshrined in legislation. The operating model should mirror the independence of the Economics Department of the Ministry of Finance (Finland's independent producer of forecasts). Statutory law prescribes that the Director General of the Economics Department has sole discretion for the department's outputs, which are issued under the Director General's signature and cannot be influenced or overruled by others in the ministry. Such a wall would require the IFI Team to be established as a standalone unit, separate from the NAOF's other impact areas.
- Given the similarity between the IFI Team's mandate and fiscal policy audit projects carried out by other teams under the Sustainable General Government Finances impact area, the IFI Team's scope should be expanded to include fiscal policy audit projects. This broader and more independent IFI Team should have a full-time director who can dedicate all their attention to the IFI Team members and IFI work.
- The director in charge of the standalone IFI Team should be given clear final say on analytical and communications decisions related to the IFI Team.

2.1. Introduction

This chapter assesses the mandate that the IFI Team has been given under legislation and other governance documents, the institutional arrangement that has been created to deliver the mandate, and the access to information that empowers the IFI Team to carry out the mandate.

As a member state of the European Union and the euro area, Finland is bound by the Fiscal Compact in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The Fiscal Compact and other EU legislation on economic policy coordination brought the need for Finland to nominate an independent institution to monitor the domestic implementation of the EU fiscal rules and other national fiscal policy guidance. The National Audit Office of Finland (NAOF) was named in the *Fiscal Policy Act* as that monitoring body.

The NAOF is under the authority of the Parliament of Finland, making it independent of the government and the Ministry of Finance. Section 90 of Finland's Constitution guarantees the independence of the NAOF and the *Act on the National Audit Office of Finland* provides further protections for the position of Auditor General. The Auditor General is appointed by Parliament through a secret vote for a six-year renewable term.

2.2. Mandate

The NAOF created the IFI Team under its Rules of Procedure (described in Section 2.3) to fulfil the NAOF's legislated mandate to conduct fiscal policy monitoring. The IFI Team does not therefore have a legislated mandate in its own name, but rather its responsibilities stem from the NAOF's mandate. These responsibilities primarily include monitoring compliance with the following national laws implementing the EU fiscal surveillance framework requirements:

- The *Fiscal Policy Act* passed by Finland's parliament in 2012 requires the government to set medium-term structural budget objectives as specified under the EU's Fiscal Compact. The Act also creates requirements for the government to follow the Fiscal Compact's corrective mechanisms and definitions of exceptional circumstances. Section 7 of the Act names the NAOF as the body responsible for monitoring the government's compliance with the Act's provisions. By naming the NAOF as the monitoring body, Finland fulfils the requirements for independent monitoring laid out in EU Regulation No 473/2013 of the European Parliament and of the European Council.
- The Decree on the General Government Fiscal Plan (120/2014), issued under the *Fiscal Policy Act*, fulfils the EU's requirement under the EU Budgetary Frameworks Directive (2011/85/EU) that governments lay out their targets for public financial management. The NAOF's responsibility, as recognised by the Ministry of Finance, is to support Article 4(6) of the EU Directive on establishing safeguards for the reliability of macroeconomic and budgetary forecasts. The IFI Team assesses the credibility of the macroeconomic forecasts, rather than formally endorsing them, because the official macroeconomic forecasts are produced by the Economics Department of the Ministry of Finance under institutional walls and legal protections that ensure that the department fulfils the EU's criteria for an independent body. Finland is the only euro member state that has designated a Ministry of Finance department as the independent forecast producer to comply with EU regulations (European Commission, 2020[3]).

In practice, the NAOF and its stakeholders have interpreted the body of EU legislation and national legislation as requiring the IFI Team to perform **five assessment tasks**.

Task 1. Assessing compliance with the Stability and Growth Pact, including:[2]

- Adherence to a medium-term objective, set in structural terms, and a medium-term benchmark, that are consistent with a deficit limit of 3% of GDP, or 1% in structural terms, and a debt rule of 60%, including implicit liabilities.
- Adherence to the Expenditure benchmark (expenditure net of discretionary revenue, interest payments, EU funded programmes, cyclical unemployment benefits, and smoothed national-financed investment), which has a ceiling of the medium-term rate of potential growth if at the medium-term objective.
- Compliance with stability/corrective arm deficit and debt criteria.

[2] The assessment of compliance is based on Articles 5 and 9 of Regulation (EC) 1466/97 requiring an *ex post* assessment for year *t-1*, an in-year assessment for year *t*, an *ex ante* assessment of plans in year *t+1*, and qualitative assessments for years t+2 and t+3.

Task 2. Assessing the preparation and implementation of the General Government Fiscal Plan, including:

- Compliance with legislation for minimum contents in the budget plan.
- Monitoring sector-specific fiscal balance and debt objectives and the prerequisites for achieving them, including long-term sustainability.

Task 3. Assessing the economic forecasts issued by the Ministry of Finance, including:

- *Ex ante* reasonability of the forecasts.
- *Ex post* forecast error and bias assessments of the forecasts.

Task 4. Assessing compliance with central government spending limits, including:

- Adherence to the domestic spending limits system, which is different than the Stability and Growth Pact framework. The Finnish government must set limits for its expenditure in real terms for the parliamentary term on about 80% of expenditure (excluding automatic stabilisers, interest, and financial investments). Reallocations between departments are permitted. Price and cost level adjustments are made annually.

Task 5. Assessing the fiscal policy stance, including:

- Whether fiscal policy has been contractionary or expansionary, and whether it is likely to be so in future years.

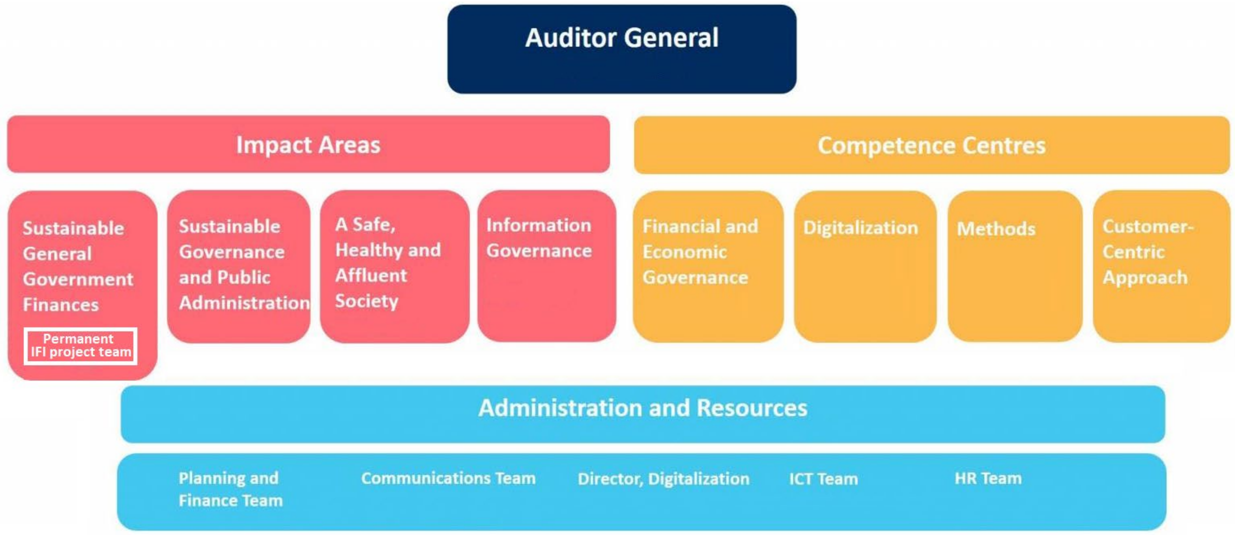
2.3. Internal organisation and autonomy

The NAOF is required under Section 20 of the *Act on the National Audit Office of Finland* to establish its own Rules of Procedure to specify its decision-making processes, the handling of administrative matters, and other matters related to internal administration. In January 2013, the NAOF used this power to create the Independent Monitoring and Evaluation of Fiscal Policy Function as a team within its organisation to fulfil the IFI role. Following a reorganisation of the NAOF in 2019, the most recent update of the Rules of Procedure creates four impact areas, under which teams are formed to work on individual audit projects as needed. In recognition of the importance of the NAOF's IFI responsibilities, a special exception to the project-based workflow was carved out in the Rules of Procedure to make the IFI Team a permanent project team known as the "team in charge of fiscal policy monitoring" within the Sustainable General Governance Finances impact area (Figure 2.1).

The Director of Sustainable General Government Finances is appointed by the Auditor General for a three-year term and also acts as first Deputy Auditor General. The IFI Team is managed day-to-day by a Principal Fiscal Policy Auditor.

Other teams under the Sustainable General Government Finances Impact Area are devoted to a wide range of projects assessing the management of central government assets, liabilities, and investments; financial risks; and ownership steering of state-owned companies, among others. All staff, including those on the permanent IFI Team, divide their time at least partly between teams. The NAOF director in charge of the Sustainable General Government Finances impact area is responsible for both the permanent IFI Team and the other teams.

Figure 2.1. Organisational chart of the National Audit Office



The placement of an IFI within a national audit office is rare, although not unprecedented (see Box 2.1). A key reason why the Finnish IFI was set up within the NAOF is that the audit institution was already playing a role in monitoring national rules and procedures for fiscal policy such as the spending limits system that requires new governments to commit to a ceiling for central government budget expenditure for the four-year parliamentary term.

Placing an IFI within the audit office comes with two significant risks. First, a country's supreme audit authority and IFI may not always have the same objectives in their analysis. An auditor looks into the past, while an IFI looks into the future. Budget planning and financial reporting have different goals. The former aims to help decision makers take action under conditions of uncertainty. The latter aims to provide oversight bodies and the public with objective facts of the consequences of past decisions. Box 2.2 describes a case study from Canada where these aims were at odds and an auditor's recommendations sparked controversy. Because the IFI was a separate institution, it was able to provide independent analysis that went against the auditor's position.

Second, IFIs must engage publicly on issues that are more subjective and political than the traditional auditing of financial statements and performance. While the IFI Team benefits from the history, reputation, and visibility of the NAOF, the public does not generally have a nuanced understanding of the IFI Team's unique role in Finland's economic and fiscal ecosystem. This lack of a distinction in public perceptions poses risks to the reputation of the NAOF's traditionally policy-agnostic audit activities. For example, it is likely that the IFI Team will be more active in the coming years of the pandemic in commenting on the appropriateness of individual policy actions for returning to strategic medium-term objectives. This part of its mandate has required only a light touch in the past. The choices a government makes to consolidate the public finances tend to be subjective and controversial, which is why nearly all EU countries created a standalone fiscal council of experts to shoulder the burden. A stronger wall of independence, heavily promoted to the public, would prove valuable in sheltering the NAOF's traditional activities from the reputational risk of these coming policy disputes.

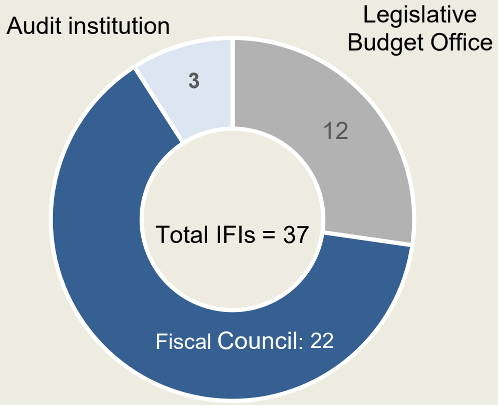
Box 2.1. Audit Institution models within the OECD PBO Network

Only three OECD member countries have placed the IFI Team within the supreme audit institution: Finland, Lithuania, and France.

The Finnish IFI Team is most similar to the Lithuanian IFI. The Lithuanian Budget Policy Monitoring Department was established within the Lithuanian National Audit Office in 2015. It is headed by the Auditor General, who has overall responsibility for decisions and hiring of IFI activity staff. Day-to-day management of up to 10 staff is carried out by the team's director. Reports are signed by the Auditor General after consultation with deputy auditors general. The National Audit Office is accountable to parliament.

The French High Council of Public Finances has stronger walls to protect its independence from the Court of Auditors than the Finnish IFI Team. It was established in 2012 as an independent body attached to the Court of Auditors. It is fully independent from both the government and the parliament and has a special separate status from the Court of Auditors. The IFI is presided over by the First President (Premier président) of the Court of Auditors, and the Chief of Staff (Rapporteur général) is also a magistrate of the Court. However, legislation contains several provisions to guarantee the independence of the members of the IFI from the Court of Auditors. For example, members of the Council are appointed by six different authorities, including the National Assembly, Senate, and their finance committees and representatives from opposition parties.

Institutional models in the OECD PBO Network



Source: OECD IFI Database 2019

In recognition of these two concerns, the NAOF has strengthened the autonomy of the IFI Team in several ways:

1. The Rules of Procedure recognise the special status of the IFI Team and specify its responsibility for the independent fiscal policy monitoring and evaluation tasks laid down in the *Fiscal Policy Act*. The Rules of Procedure give the director in charge of the IFI Team (that is, the Director for Sustainable General Government Finances) the responsibility for decisions related to the team's reports, memoranda, opinions, hearings, and international cooperation with the European Commission and other international organisations and peers.
2. Beginning in 2020, only the director in charge of the IFI team signs the IFI Team's reports. The reports are no longer co-signed by the Auditor General.
3. The IFI Team's work programme is distinguished separately within the NAOF's four-year workplan, which must be presented once a year to the Parliament. The workplan is updated twice a year and is flexible enough to allow quick integration of new developments.

Box 2.2. When auditors and IFIs clash

A case study from the Province of Ontario, Canada

In 2015-16 and 2016-17, the Auditor General of the Province of Ontario published adverse audit opinions that the provincial government's financial statements were not a reasonable presentation of Ontario's finances. The Auditor General questioned the government's recognition of public pension plan assets in the determination of net debt. The government argued that the Auditor General's advice did not reflect emerging international accounting standards and would not be as valuable for budget planning. An independent third-party Pension Asset Expert Advisory Panel was established to resolve the dispute. The findings would have significant political implications for the governing party's promises to balance the budget.

While the panel was being set up and conducting its investigation, the Financial Accountability Office, Ontario's IFI, used its independence to proactively prepare and publish two scenarios of fiscal plans and outturns – one under the Auditor General's assumptions and one under the government's assumptions (Financial Accountability Office of Ontario, 2017[3]). The scenarios provided the Ontario legislature, the independent review panel and the public with the complete range of information while the dispute was being resolved.

Eventually, the independent advisory panel determined that the government's preferred accounting method presented the picture of the public finances that was most useful for budget planning and that was in greatest alignment with international standards (Province of Ontario, 2017[3]). Had the Financial Accountability Office been institutionalised within the Auditor General, it may not have been granted the freedom to continue publishing alternative fiscal plans and budget implementation data under the government's assumptions, given the heated tensions at the time.

Despite these protections, the Auditor General formally has authority over the entire NAOF and could significantly influence the IFI Team's capabilities. That influence extends to setting the workplan, hiring staff, allocating staff time, and allocating resources for publications and other communications. The IFI Team has been fortunate to have auditor generals well-versed in fiscal policy issues that recognise the unique work of IFIs. There is a risk that a future Auditor General could limit the autonomy, resources, and work programme of the IFI Team.

With that in mind, the NAOF should enhance the autonomy of the IFI Team. As the EU requirements are fulfilled by two independent bodies, the IFI Team and the independent Economics Department in the Ministry of Finance, it would be institutionally symmetric if the IFI Team mirrored the arrangements of the Economics Department. Under the Economics Department's arrangement, its Director General has sole discretion over forecasts and reports, which are released under the signature of the Director General. The department's analysis cannot be influenced or overruled by other senior public servants in the Ministry of Finance or its political office. This independence is prescribed under statutory law, but is also a convention in Finnish government going back several decades. The same operating model for the IFI Team in the NAOF should be defined in the NAOF's Rules of Procedure in its next renewal and eventually in statutory legislation.

Other fiscal policy audit teams in the NAOF have the purpose to "determine whether a true and fair view has been given of the central government finances and the sustainability of general government finances." For example, fiscal policy audit teams publish reports that evaluate how the government presents the impact of new employment measures on the public finances, and reports on the effectiveness of local government expenditure limits in achieving national fiscal targets. As these projects match the typical work areas of an IFI, it would make strategic sense to assign the fiscal policy audit projects to the IFI Team.

These combined activities should be operationally autonomous from the NAOF's traditional audit activities (for example, financial reporting and performance audits). The staff that currently divide attention between these policy activities and other traditional audit work could then focus their attention on the consolidated IFI work and it would then be justifiable to have a full-time director for the IFI workstream, in line with the OECD Principles. To fill the position of this director, it is worth considering an appointment process that is separate from the NAOF's general staffing procedure. For example, the IFI Team's director could be recruited through an open selection process and attend a hearing by a parliamentary committee before being appointed by the Auditor General.

2.4. Access to information

One of the main benefits of the IFI's attachment to the NAOF is the legal powers it enjoys for accessing information from the government administration. The NAOF's right to access to information is enshrined in both the Constitution of Finland, which prescribes generally that that the NAOF has "the right to obtain the information required for the performance of their duties from public authorities and other entities that are subject to their control (Section 90)," and in the *Act on the National Audit* Office, which prescribes specifically that the NAOF has:

- The right to inspect a ride range of public bodies listed as state authorities, institutions, business enterprises, enterprise groups and state funds, among others.
- The right to receive without delay reports, records and other information that are necessary for the Audit Office to perform the task prescribed. The information is to be provided for free, whether hard copy or electronic.

The Act also sets out limitations on the NAOF's access to information. The restrictions relate principally to individuals who have received funds or other financial support for personal needs.

Together, these constitutional and statutory provisions for access to information compare very favourably to peer IFIs, and staff reported having everything they require to perform their role. Further, Finland's public service has a culture of informal openness to collaborating to provide information toward common goals of better policy and fiscal management.

That said, the IFI Team's close association with the NAOF was also reported to hamper some informal channels of discussion with government departments and economic research institutions. Potential collaborators tend to view the IFI Team as part of the overall auditing framework, which can hold back informal economic and fiscal discourse. Counterparties at departments can be reluctant to disclose problems or have frank discussions with staff of the IFI Team out of concern that the IFI Team may have an audit agenda. This reluctance is not as prominent for IFIs that are composed of academic economists. This disadvantage may be addressed by reinforcing the IFI Team's independent identity as recommended elsewhere in this review.

Chapter 3. Reports and influence

Chapter findings

The IFI Team's reports are comprehensive for delivering its mandate. Managers and staff have made an effort to make reports more concise and readable. Empirical assessments and stakeholder feedback show that they have achieved this goal. Due in part to this effort, reports have been influential in the public debate, featuring regularly in parliamentary committees, the media and the decisions of policymakers.

The IFI Team benefits from the services of the communications team at the NAOF; however, the relationship means that the IFI Team has less direct responsibility and ownership for promoting its research and monitoring its impact than other IFIs.

To strengthen the IFI Team's influence, there are several areas related to the IFI Team's reports and communications that are worth developing further:

- The IFI Team should deepen the coverage of its reports on long-term fiscal sustainability to assist stakeholders in tackling Finland's challenges from population ageing. However, it should be mindful that it may require considerable time to build the capacity to do so. When expanding analytical scope, the IFI Team should also consider coordinating with other independent institutions in Finland, where appropriate, to avoid encroaching on other mandates and duplicating effort. While the IFI Team should retain the flexibility to engage in new areas, this should not compromise its core responsibility to assess compliance with the *Fiscal Policy Act*.
- Other IFIs have found that one-on-one briefings to interested Members of Parliament are an effective channel for increasing take-up of fiscal analysis. The IFI Team should develop such relationships but ensure that opportunities are equal and transparent to avoid accusations of political interference.
- The IFI Team should develop a distinct branding in its communications to help distinguish its function from the rest of the NAOF by using a unique template and heading formats, colours, and an IFI Team logo. Having a unique identity will emphasise the team's independence and help staff communicate and engage stakeholders with the same standing as international peers. This will have the added benefit of increasing visibility and awareness among the public of the unique work of the team and its importance to Finland's public financial management framework.
- The NAOF should also enhance the IFI Team's visibility as a distinct function on the homepage of the NAOF's website. It should create a separate web section under the NAOF's site that goes beyond the current overview page, presenting all the IFI Team's publications in one archive.
- The IFI Team should develop methods to track its web and media activities and other performance indicators such as mentions in parliament separately from the rest of the NAOF. This will be easier following other actions to emphasise the team's work as a distinct brand.
- The IFI Team should build upon its new unique identity by collaborating more with other Finnish institutions working on fiscal policy and doing more to engage national economists, build networks and professional skills, and organise peer reviews of its work. One option with international precedence is to have regular conferences or workshops organised (or sponsored) by the IFI Team to allow economists from different institutions to share and discuss their work.

3.1. Introduction

IFIs do not generally have legal tools or formal levers to compel their government to change its fiscal management. An IFI Team's foremost tool is persuasion. Achieving an impact through persuasion means developing quality reports and strong communication channels, especially with the media. Easily accessible reports and widespread coverage of an IFI's work in the media foster an informed legislature and electorate that can exert timely pressure on a government to manage fiscal matters transparently and responsibly.

Like many of its peers, the IFI Team of the NAOF is a relatively young service and some of its activities are new. Further, the NAOF underwent a reorganisation and relaunched its website and tracking methods in recent years. The lack of long time series for performance measurements makes impact evaluation difficult. Nevertheless, stakeholders were clear that the IFI Team has improved the public's understanding of fiscal issues through its reports, participation in legislative debates, leveraging of the media, and online footprint. In doing so, the IFI Team has achieved a positive impact in several key areas, improving the government's transparency and official forecasting practices (Box 3.1).

Box 3.1. The IFI team has made an impact

Stakeholders noted several specific areas where the IFI Team has strengthened analysis of fiscal policy issues through its work:

- The IFI Team's review of macroeconomic and fiscal forecasts has improved transparency around forecasting at the Ministry of Finance and has helped improve the analytical rigour underpinning forecasts.
- The IFI Team's debt sustainability calculations have prompted interesting policy debates and have been particularly appreciated by stakeholders.
- The IFI Team's economic heatmap and corresponding index present new information to help assess the economic cycle and provide another data point against which to compare the EU's output gap calculations. The IFI Team makes a convincing case that the new index is more stable and has greater predictive power for the ultimate fiscal gap calculation than the EU's metric, which for Finland is very volatile in successive rounds of preliminary national accounts data until final revisions are published.
- In 2018, the IFI Team pointed out that the Ministry of Finance did not provide enough information on the medium-term budget framework and that it was missing important elements. In the subsequent Ministry of Finance report, that additional information was provided.
- In spring 2020, the IFI Team expressed concerns that the Ministry of Finance was optimistic in its forecasts for Finnish exports. The forecasts were subsequently revised down in the summer.

While examples of confrontations may not be as frequent or dramatic as in some countries, the overall picture reported by stakeholders is that this is because the monitoring framework is successful and the IFI Team's greatest influence is in discouraging noncompliance in the first place.

3.3. Reports and their timing

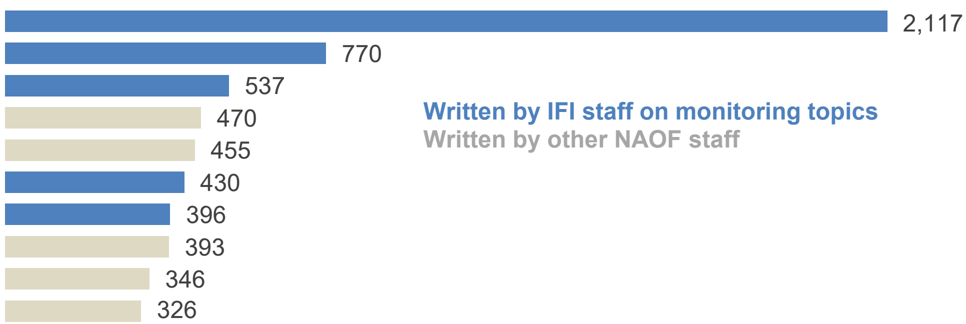
The IFI Team publishes two key reports each year that largely fulfil the tasks of its mandate. The main report is currently known as the *Fiscal Policy Monitoring Report.* This report is typically published and provided to parliament at the end of the year, although its timing varies at the discretion of the IFI Team. Earlier in the year, usually in the second quarter, the IFI Team produces an annual *Fiscal policy monitoring assessment on the management of general government finances*, which is a shorter publication.

For its role in monitoring the *ex post* performance of official forecasts, the IFI Team has also published regular reports on the *Reliability of Macroeconomic Forecasts* that assess the Ministry of Finance's current and one-year-ahead forecasts of GDP growth, unemployment rates, and inflation over history, must recently for the the 1976–2016 period (National Audit Office of Finland, 2018[8]).

The IFI Team contributes to other reports published by the broader NAOF impact area on Sustainable General Government Finances. For example, the NAOF publishes an electoral period report that comes at the end of the parliamentary term (every four years). This report summarises the main findings from the IFI Team and fiscal policy audit projects over the government's term. It includes assessments of the government's fiscal management and the effectiveness of the expenditure ceilings as a constraint. The IFI Team has also contributed to several one-off, in-depth audit reports on special fiscal topics in recent years such as a report on the *Contingent Liabilities of General Government*, the purpose of which was to assess how an increasing number of contingent liabilities were being managed by the state (National Audit Office of Finland, 2018[7]). The results developed in these publications are often used directly or indirectly in the IFI Team's core publications and have been well-received by stakeholders.

In additional to these formal reports, the IFI Team occasionally publishes shorter notes and blog posts. The NAOF has created a blogging platform for staff to draft faster responses on topical issues in their own voice and under their own opinion, with fewer official publication hurdles. The IFI Team's blog posts were prominent as five of the top 10 most popular blog posts on the NAOF's website in 2020 (Figure 3.1). A blog post written by the IFI Team's senior economists on the economic impacts of the coronavirus was by far the most-viewed publication on the NAOF website during 2020, with more than 2,000 views and an average of 16 minutes spent on the page, which is very long relative to other NAOF publications. Blog posts are an efficient use of the modest time and effort to create them and increase the visibility of the IFI Team, especially to those with a more casual interest in fiscal policy monitoring.

Figure 3.1. Page views of the NAOF's top ten blog posts in 2020, highlighting the IFI Team's contribution



Source: NAOF media monitoring and Google analytics.

3.4. Key issues for reports

Coverage

Overall, the number of core reports is appropriate for the IFI Team's mandate and resources. The IFI Team is not overstretched in meeting the demands of its regular reporting cycle. However, the IFI Team would like to do more ambitious analysis that it has felt constrained from doing in the past due to limited resources. For example, staff would like to produce more in-depth reports on the long-term sustainability of Finland's public finances to assist stakeholders in tackling Finland's challenges from population ageing; explore important new reforms to the fiscal rules; develop their analysis on public finances and debt evolution to match the same level of detail as the Ministry of Finance and Bank of Finland; develop their analysis of elasticities central to assessments of fiscal rules; and do more granular evaluations of specific policy measures and how these contribute to wider fiscal objectives.

The IFI Team has the flexibility in its mandate to develop this analysis at its own initiative. The constraint has been having staff available consistently for IFI-related work rather than other NAOF (non-IFI) work. If more staff are devoted full-time to the IFI responsibilities, they will have the capacity to support these ambitions, which have merit on their own but were also supported by stakeholder feedback. The expanded work programme could also be supported by cooperating with the Bank of Finland and other research institutions in Finland to build and maintain tools.

The IFI Team's plan to deepen its long-term fiscal sustainability reporting is well-supported by international precedent. Many peer IFIs – such as those in Canada, Denmark, the UK, Ireland, Portugal, and Slovakia – publish detailed long-term sustainability reports using the IFI's own in-house projections. The IFI Team could usefully contribute to the domestic debate by developing its own long-term fiscal sustainability analysis and reports.

Long-term sustainability assessments by nature do not change significantly on an annual basis, unless there are drastic structural policy changes. Many IFIs therefore publish long-term sustainability reports at less frequent intervals, for example, every two to three years. Given the IFI Team's small size, it would be sensible to publish a sustainability report at a similar frequency – every two to three years – while making annual incremental assessments on an as-needed basis if there are significant policy changes announced during interim years.

As in other IFIs, the capacity to report on long-term fiscal sustainability may require considerable time to develop. The work also overlaps to a degree with the mandate of the Economic Policy Council and analysis already published by the Bank of Finland. When expanding the coverage of its reports, the IFI Team must not compromise its core responsibilities and it should consider whether it would be appropriate to coordinate aspects of the analysis with other institutions like the EPC and the Bank of Finland to avoid encroaching on other mandates and duplicating effort.

Content

The focus of the IFI Team's main product, its *Fiscal Policy Monitoring Report*, is appropriately on the key parts of its mandate: monitoring fiscal rules, assessing the realism and reliability of official Ministry of Finance forecasts, and monitoring the government's fiscal plans.

Recent fiscal policy monitoring reports have expanded their focus to offer richer insights in addition to meeting core aspects of the NAOF's mandate. For example, the latest report included an assessment of the impacts of employment measures the government implemented to achieve its employment targets. The IFI Team also recently introduced its own heatmap and composite index of the cyclical position of the economy as alternative benchmarks to help gauge the reasonableness of the output gap estimated under the EU methodology. Stakeholders reported that the IFI Team is the only institution in Finland that provides an alternative to the EU's estimates.

Despite the richer breadth of analysis in recent reports, stakeholders reported a tendency for the IFI Team's reports to focus on *ex post* rather than *ex ante* assessments of the EU fiscal rules. The focus on *ex post* assessments of EU rules has not gained a lot of traction, as most stakeholders place greater weight on the domestic implementation of rules in the General Government Fiscal Plan. This focus also poses a risk to the IFI Team, should the EU fiscal rules change drastically in coming years following an expected review. Recognising this, the IFI Team has signalled its intention to broaden its analysis on medium-term objectives in future years. That plan is welcome but achieving it would require an appropriately sized staff with more time dedicated to IFI work rather than other NAOF work.

Accessibility

The IFI Team's reports are widely perceived to be highly readable, something which the IFI Team has worked on over time. As shown in Box 3.2, this view is also supported by a text analysis that compares its reports with peer institutions internationally.

The length of the IFI Team's Fiscal Policy Monitoring Report is appropriate, with few stakeholders reporting this as a concern. Further, the word count compares favourably in brevity with the main reports of other IFIs with similar resources and mandates (Figure 3.2). The *Fiscal Policy Monitoring Report* averages about 14,000 words with no clear increasing or decreasing trend over time. If additional areas of analysis are developed in future years, the IFI Team should be mindful to avoid an excessive lengthening of its reports.

Box 3.2. Readability of major reports

The readability of the IFI Team's main report – the Fiscal Policy Monitoring Report – fares relatively well in comparison to similar reports of peer institutions. An analysis of the summary texts of reports finds that the IFI Team's reports score well when assessed across a range of readability measures. It ranks closer to institutions such as the Portuguese Public Finance Council (CFP) and the Irish Fiscal Advisory Council than compared to the Slovak Council for Budget Responsibility (CBR), the UK Office for Budget Responsibility (OBR), or the Swedish Fiscal Policy Council, which are found to have relatively less readable reports.

Though difficult to define, a variety of readability measures have emerged as standards in the literature. These have been used to assess financial disclosures (Loughran and McDonald, 2014[9]) introductions to economics papers (McCannon, 2019[10]), and annual reports (Lo, Ramos and Rogo, 2017[11]). As McCannon (2019[10]) shows, there is an important relationship between a paper's readability and its citations, with the most unreadable papers experiencing relatively fewer citations.

To assess readability, we used text analysis software on approximately 1,000 words from the executive summaries or their equivalent sections in a variety of reports from the IFI Team's peer institutions. We focused on those reports that are similar to the IFI Team's flagship *Fiscal Policy Monitoring Report*. Care needs to be taken with these measures, particularly if analysing large texts as identifying sentence endings can be problematic. This is especially important in texts that contain lots of numbers. Focusing on executive summaries or their equivalents, as done here, avoids these complications.

The measures considered are:

1) The Gunning-Fog Index is a popular measure, first published in Gunning (1952[12]) and is marked by its ease of calculation. It is a function of average sentence length in words and complex words,

defined as the share of words with more than two syllables. Mathematically, it can be expressed as: $0.4 \times \left(\left(\frac{total\ words}{total\ sentences}\right) + 100 \times \left(\frac{complex\ words}{total\ words}\right)\right)$

2) The Flesch Kincaid Grade Level is another long-established readability measure. It attempts to approximate reading grade levels of texts, again based on sentence length and word complexity as measured by average syllables per word: $0.39 \times \left(\frac{total\ words}{total\ sentences}\right) + 11.8 \times \left(\frac{total\ syllables}{total\ words}\right) - 15.59$

3) The FORCAST readability formula is designed to analyse more technical documents and is given as: $20 - (N/10)$ where N is the number of single-syllable words in 150-word samples. Unlike other formulas, it does not rely on complete sentences, but instead focuses on vocabulary.

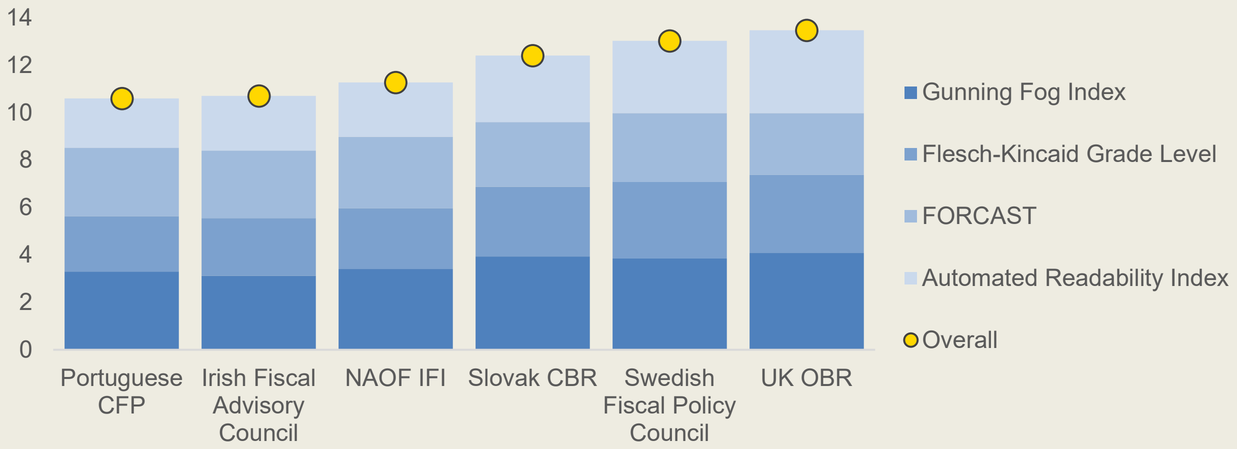
4) The Automated Readability Index differs slightly from other measures in that it counts characters as opposed to syllables, with more characters implying harder-to-read words. This makes it suitable for technical writing. It is given as: $4.71 \times \left(\frac{characters}{words}\right) + 0.5 \times \left(\frac{words}{sentences}\right) - 21.43$

In each case, a *higher* index score indicates report summaries that are *more difficult* to understand. By standardising the scores, we can combine the readability scores. Giving the four measures equal (1/4) weightings to derive an "Overall" readability score, Figure B1 shows the results for each of the IFIs' executive summaries considered.

The results indicate that the Finnish IFI Team fares relatively well for readability. It ranks close to institutions such as the Portuguese CFP and the Irish Fiscal Advisory Council, which both have moderately low scores (good readability), while other IFI's texts had higher scores (relatively less-readable reports). Institutions assessed that tend to fare worse on readability scores as measured here typically do so because they tend to use more difficult language – using more multi-syllable words – or because they tend to be more verbose, with lengthier sentences on average.

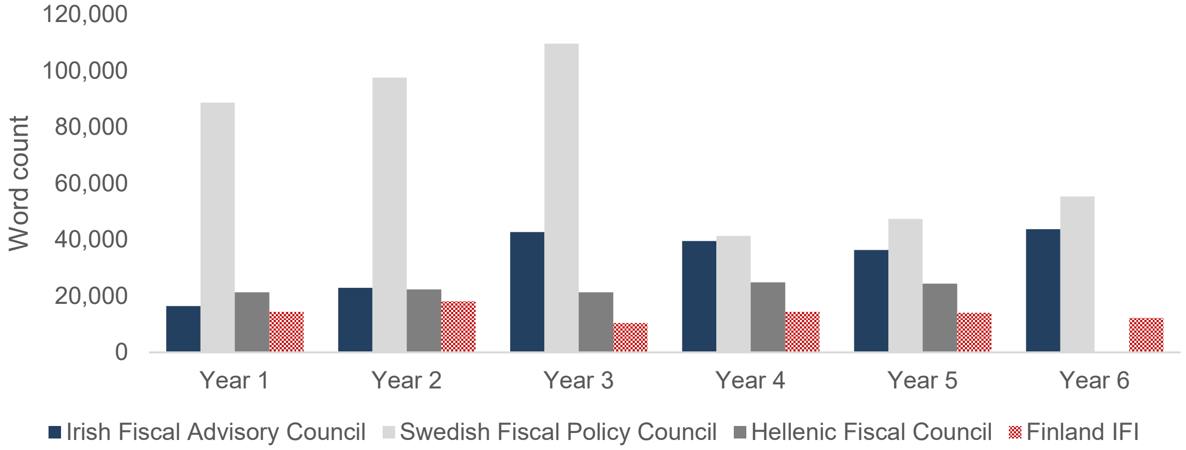
Figure B1. The NAOF IFI Team fares well in terms of the relative readability of major reports

Measure of readability (higher = less readable)



Note: This assesses the "Main Content" section of the IFI Team's *Fiscal Policy Monitoring Report,* 2020, in terms of four readability measures that are given equal weighting so as to derive an overall readability score. It also assesses the Executive Summary of the OBR's *Economic and Fiscal Outlook,* March 2021; the Overall Review of the Portuguese Public Finance Council's *Analysis of the State Budget Proposal for 2020*; the Non-Technical Summary of the Irish Fiscal Advisory Council's December 2020 *Fiscal Assessment Report*; the Slovak CBR's *Summary of the Evaluation of the General Government Budget Proposal for 2021-2023*; and the Summary of the Swedish Policy Council's *Swedish Fiscal Policy 2020* report.

Figure 3.2. The main reports of Finland's IFI Team are more concise than peers and have resisted expansion over comparable institutional maturity (years since establishment)



Note: The Hellenic Fiscal Council publishes in Greek; differences in average word count per language were controlled for using European Commission document translation averages.
Source: Main annual analytical reports of each IFI in the comparison.

3.5. Influence on the public debate

Engagement with parliament

Perhaps the most important channel through which an IFI can strengthen fiscal outcomes is by directly supporting the legislature's ability to hold the government to account – that is, by empowering the representatives of the public who have been elected for the full-time job of scrutinising the executive with quality information to do so. This can be accomplished by submitting reports to the legislature, participating in committee hearings, and providing background briefings to parliamentarians and their staff.

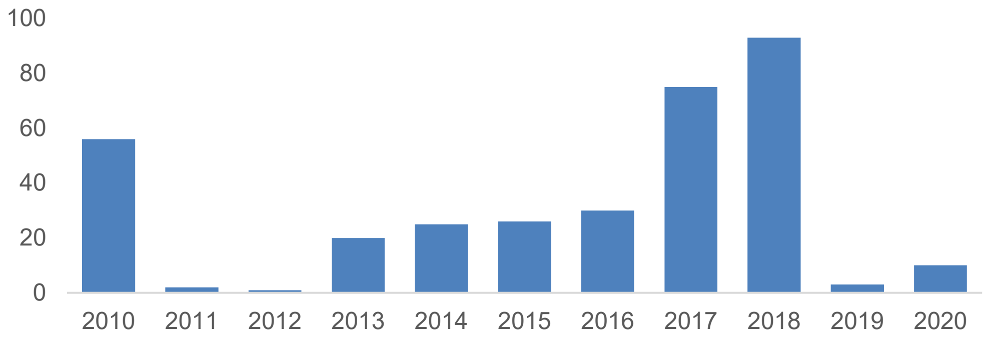
The IFI Team's reports are officially introduced to the plenary agenda by Members of Parliament. While there are no mandatory reports (it is up to the NAOF to decide how findings are reported), the IFI Team's annual *Fiscal Policy Monitoring Report* is submitted officially to Parliament once a year and there are two debates on it – one for its introduction and one for adopting its conclusions. Sometimes the debates in the plenary session are long and comprehensive and other times they are short. The mentions of the IFI Team in Parliament are difficult to track separately from the rest of the NAOF's activities, but mentions of the NAOF in the context of fiscal policy debates grew following the IFI Team's creation in 2013 and peaked in 2018 when the government's reforms of health and social services were hotly debated (Figure 3.3). Mentions have fallen in recent years, but are on pace to more than double in 2021 compared to 2020.

The IFI Team's leadership appears an average of three times a year before parliamentary committees (Table 3.1). This is in-line with most OECD IFIs. Reports are submitted and discussed in the Audit Committee, which occasionally sends the report to the Finance Committee as well. The reports and conclusions of the committees have generally concurred with the IFI Team's views. The transcripts of committee sessions are not public (only very short minutes are published). The IFI Team could support transparency by themselves disclosing their attendances and the topics covered (to the extent permitted).

The IFI Team has not provided briefings to individual parliamentarians; however, fiscal policy issues are often discussed when the NAOF has informal meetings with Audit Committee members. In addition, the NAOF has started a regular practice of meeting with the secretariat of the Audit Committee, Finance Committee, and Commerce Committee to discuss topical issues, often related to the IFI Team's research.

An important forum for parliamentary engagement is the Advisory Board of the NAOF, which has representatives from all parliamentary parties. The IFI Team's work is often on the agenda of the Advisory Board meetings.

Figure 3.3. Mentions of the NAOF in relation to fiscal policy debates grew since the IFI Team's creation in 2013 but have fallen in recent years



Note: keywords "fiscal policy" and "VTV or Tarkastusvirasto" in Finnish.
Source: Scan of debate transcripts provided by the Eduskunta research service.

Table 3.1. Committee appearances

	2013	2014	2015	2016	2017	2018	2019	2020
Finance Committee	1	1		1	1	1	1	2
Audit Committee	1	2	2	2	2	3	2	1
Grand Committee				1				
Total (average = 2.75)	2	3	2	4	3	4	3	3

Note: Cases of multiple committee hearings on the same issue in the same committee have been counted as one and appearances of the IFI Team in connection with other audit activities have been excluded.

Engagement with government: comply or explain

As a participant in the EU surveillance framework, Finland is also encouraged to put in place comply or explain elements to increase the IFI Team's influence on the deliberations of fiscal policymakers. Comply or explain provisions in a fiscal framework create an obligation for a country's government to either immediately enact the advice of an IFI or publicly explain the reasons for deviating from it. Although the principle was not ultimately recognised in the EU's Two Pack (Regulation (EU) 473/2013), it is a core tenet of the common principles for fiscal councils that the Commission developed under the authorisation of the Fiscal Compact. The comply or explain principle was endorsed by finance ministers and incorporated into some domestic legal frameworks. In Finland, comply or explain elements are in place requiring the Ministry of Finance to respond to the IFI Team's reports.

In the view of the IFI Team's leadership, the IFI Team's recommendations have not fully tested the comply or explain provisions, having only indicated small shortcomings in adhering to the *Fiscal Policy Act*. The government has not objected to the findings, and the shortcomings were addressed in the subsequent Fiscal Plan.

Once established and accepted, the comply or explain principle ideally plays a pre-emptive role discouraging non-compliance, as decision-makers internalise the potential confrontation with the IFI in their proposals. Several stakeholders, including the government, suggested that the lack of real confrontations is a sign that the IFI Team's mere existence encourages rule adherence.

Engagement with media

OECD Principle 8.1 states that IFIs should develop effective communication channels from the outset, especially with the media. While the Finnish IFI Team does not have its own communications strategy, it follows the NAOF's general guidelines and relies largely on the NAOF's communications team. The IFI Team is continuing to work with the communications team to develop its strategy.

The IFI Team's reliance on the NAOF's communications policy is appropriate given the institutional relationship, the small staff devoted to IFI work, and the NAOF's experience wading into policy issues. However, communicating financial audits and fiscal policy monitoring require very different approaches. NAOF staff reported that this is recognised and largely accommodated in the working arrangements, with considerable flexibility given to the IFI Team members; however, the NAOF's communications team ultimately controls the process.

Journalists either contact the IFI Team leadership and analysts directly about their work or go through the communications team, with staff estimating about 70% of contact is direct and 30% is through the communications team. This informal relationship works but contributes to the lack of a distinct identity for IFI activities. In addition, there is a risk that the NAOF could tighten its external communications policies, preventing the IFI Team from having an independent voice separate from the NAOF's overall messaging.

The IFI Team's outreach to the media is largely confined to publishing press releases on the day of the publication of a report. Press releases are sent to a mailing list which has approximately 1,100 stakeholders for Finnish-language recipients. The mailing list is adjusted depending on the topic. Reports are sometimes released to journalists early under embargo. In the past, this was on an informal basis relying on personal relationships with no general announcement – possibly to the unintentional exclusion of some outlets. However, beginning in December 2020 the offer for an advanced copy of the report was announced equally to all journalists.

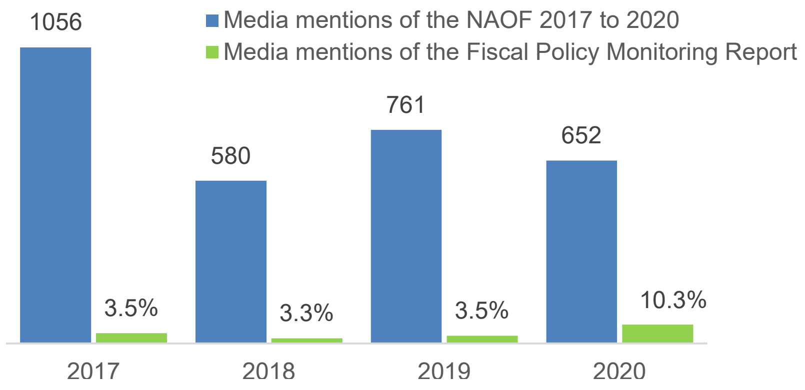
The IFI Team holds press conferences on occasion, but they are generally poorly attended and the IFI Team will continue to decide on their merit on a case-by-case basis. Of potentially more benefit to those in the media, the NAOF has organised briefings for individual outlets on topical issues including fiscal policy (not limited to reports), with experts visiting media outlets and providing a short briefing of issues with an opportunity to discuss the topics in depth.

The IFI Team rarely does TV or radio interviews. When it does, the person representing the IFI Team varies depending on the subject and the audience. It is typically the director in charge of the function or the fiscal policy team leader (Principal Fiscal Policy Auditor). In some cases, the author of a report has responded to media requests. For example, a senior economist was interviewed for an extensive article in the online media *Mustread* in May 2020 following a blog post on the economic impact of the COVID-19 pandemic on municipalities.

Mentions of the NAOF's distinct impact areas are not typically identified in media coverage, making it difficult to assess coverage of the IFI Team separately; however, the communications team does monitor mentions of specific reports. For example, the autumn 2017 report on the *Assessment on the Management of the General Government Finances* sparked a great deal of interest and was mentioned in approximately 50 different media articles. In addition, the Finance Minister and the Minister of Family Affairs and Social Services responded to the report and the IFI Team's director (the director of the broader Sustainable General Government Finances impact area) was interviewed for the main Finnish TV news program.

Coverage of the NAOF overall has been roughly stable over the past three years at between 600 and 700 mentions (2017 was an exceptional year, owing to several national strategic reforms for which the NAOF played a prominent role). The spring 2020 *Fiscal policy monitoring assessment on the management of general government finances* was mentioned by six different online press outlets. Interest in the *Fiscal Policy Monitoring Report* was roughly stable as a share of total NAOF mentions in the media but tripled in 2020 with interest in the IFI Team's COVID-19 analysis and its assessment of the government's employment measures (Figure 3.4).

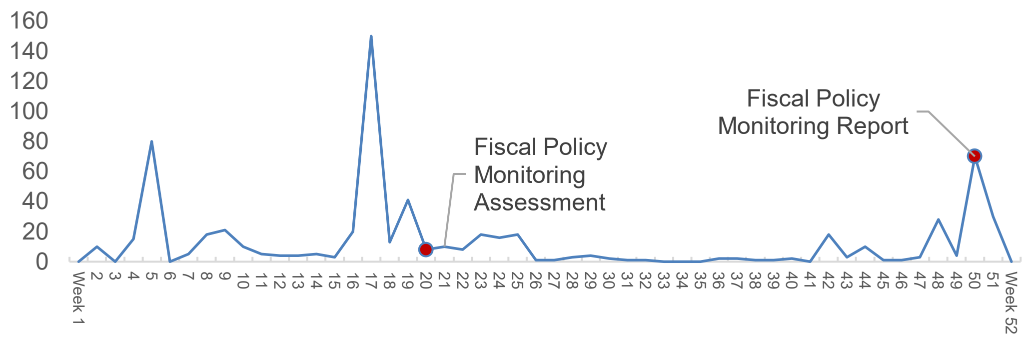
Figure 3.4. Trends in media mentions of the NAOF versus the Fiscal Policy Monitoring Report



Source: NAOF media monitoring.

The *Fiscal Policy Monitoring Report* receives some of the most attention of any NAOF reports, with coverage in the press for the NAOF as a whole peaking during its release (Figure 3.5). The spring *Fiscal Policy Monitoring Assessment* is not widely covered. The attention in week 5 was related to NAOF audit reports on a basic income reform and the funding of EU parliamentary election campaigns. The attention in weeks 17-19 was related to the NAOF's research on COVID-19 issues such as business subsidies.

Figure 3.5. Weekly media coverage, 2020



Source: NAOF media monitoring.

Online presence, web traffic and social media

The IFI Team does not have its own website, but rather has an overview page under the NAOF's website, which is managed and monitored by the NAOF's communications team but not actively developed or promoted. The new NAOF website (VTV.fi) was launched in the summer of 2018. The communications team uses Google Analytics for monitoring web traffic on the site. In 2020, the overall NAOF website received around 200,000 page views, while the overview page for the IFI Team received just over 500 page views (Table 3.2).

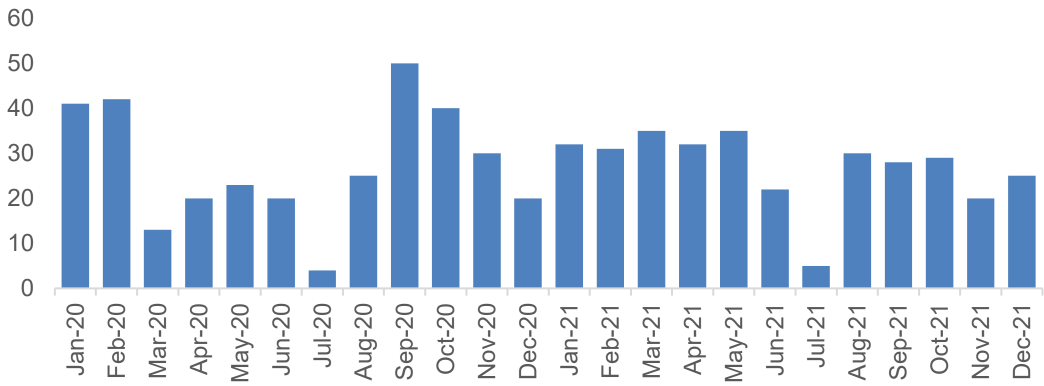
There were no obvious peaks in monthly traffic to the IFI Team's overview page with the release of the *Fiscal Policy Monitoring Report* or the spring 2020 *Fiscal policy monitoring assessment* (Figure 3.6). The NOAF's communications team reported that it is normal to have no observable peaks when other NAOF teams publish reports on the website, speculating that it is because the NAOF publishes reports so frequently that page views maintain a stable level. Overall, traffic is primarily to the IFI Team's Finnish language website.

Table 3.2. The IFI Team receives few views of its overview page

	2019	2020	Change
NAOF			
Page views	200,067	197,973	-1%
Visitors	4,3306	55,104	27%
IFI Team			
Page views	533	464	-13%
of which:			
Finnish	364	309	-15%
English	148	122	-18%
Swedish	21	33	57%

Source: NAOF media monitoring and Google analytics.

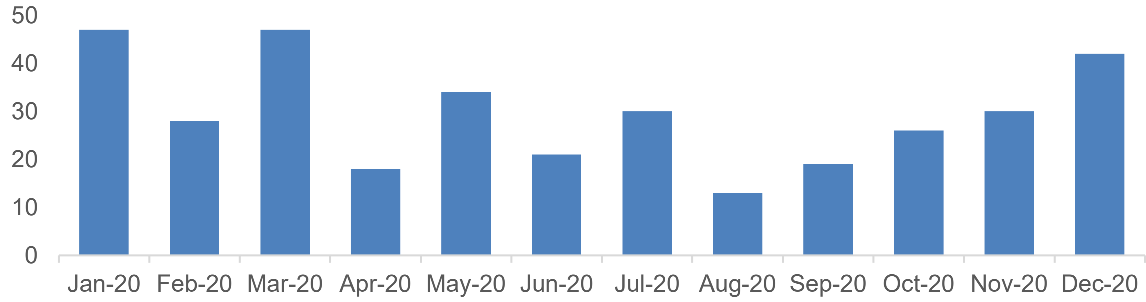
Figure 3.6. Monthly visits to the IFI Team overview page



Source: NAOF media monitoring and Google analytics.

The NAOF also has a Twitter presence, where the communications team tweets on fiscal policy and auditing issues. The account highlights the IFI Team's reports when relevant. The communications team monitors mentions, likes, and retweets. As in the case of the website, it is difficult to measure engagement with tweets concerning the IFI Team versus other audit activities, and the two are not tracked separately. In Finland there are only about 150,000 active Twitter users and the NAOF account has about 2,100 followers. The account sees an average of 30 new followers a month (Figure 3.7).

Figure 3.7. Number of new NAOF Twitter followers in 2020, by month



Source: NAOF social media monitoring.

The IFI Team's staff frequently tweet on fiscal policy issues in their personal capacity. In general, the tweets made by staff in their personal capacity receive more engagement than the NAOF's tweets. For example, in 2019, the NAOF's most popular tweets were on the Building Trust seminar, which received around 25 total engagements on average. Given the low engagement with the NAOF's official account, the IFI Team should continue engaging in social media communications from staff accounts instead of establishing its own social media accounts separate from the NAOF. However, the NAOF's accounts should support and reinforce the IFI Team's independent branding when promoting the IFI Team's work.

Chapter 4. Methods

Chapter findings

The IFI Team's methods and workflows are appropriate for delivering its mandate. That said, stakeholders would like to see the IFI Team deepen its analytical work. There are several key areas for future development:

- The IFI Team should deepen its assessment of the Ministry of Finance's macroeconomic and fiscal forecasts and its understanding of the current macroeconomic environment by developing its own models to produce in-house benchmark projections.
- Stakeholders would like to see more work being done to assess the appropriateness of EU methodologies for applying fiscal rules, particularly to test whether they sufficiently consider domestic factors. The IFI Team could make large gains in informing the policy debate by testing refinements to the EU's methodologies, such as by independently estimating revenue elasticities and output gap budget balance semi-elasticities that adjust for historical policy changes and other domestic considerations. The IFI Team's fiscal rules analysis would also benefit from more detailed analysis of the finances of general government and its subsectors (state, local government, and social security funds).

4.1. Introduction

This chapter reviews the tools the IFI uses to carry out its mandate. The team's mandated tasks outlined in Chapter 2 include monitoring compliance with EU and domestic fiscal rules, assessing whether the macroeconomic forecasts underlying fiscal plans are realistic, assessing whether macroeconomic and fiscal forecasts were accurate after the fact, and monitoring the preparation and implementation of the General Government Fiscal Plan.

4.2. Assessing the IFI Team's overall approach and workflow

Overall, the NAOF has put in place a simple and comprehensive framework for carrying out its mandated tasks. To assess the preparation and implementation of the General Government Fiscal Plan, including the reasonableness of the macroeconomic forecasts and compliance with central government spending limits, the IFI Team scrutinises and replicates the government's calculations and compares results against external benchmark forecasts from commercial banks, research institutions, and international organisations – that is, it does not produce its own benchmark forecasts with in-house models.

This approach allows the IFI Team to assess whether the Ministry of Finance's forecasts are in line with general sentiment and helps pinpoint areas that the IFI team should discuss with the Ministry and explore further. This approach is appropriate for the IFI Team's level of resources and its access to Ministry data and methodologies and is comparable to approaches of the similarly resourced Swedish Fiscal Policy Council (Table 4.1).

That said, some stakeholders would like to see the IFI Team go further and produce in-house macroeconomic and fiscal forecasts of its own. The models to do so would not have to be sophisticated.

Even relatively simple internal benchmarks for some parts of the economy could help to paint a more complete picture of official forecasts and the uncertainty associated with those forecasts.

There would be several advantages to the IFI Team producing its own fiscal and macroeconomic forecasts:

- First, if forecast comparisons remain the only means of assessing the official forecasts, there is a risk that Ministry of Finance forecasters could be encouraged to "herd" their forecasts. That is, the Ministry might be encouraged to set their forecasts in line with other forecasters even if they have strong reasons to doubt the validity of other forecasts.
- Second, the existing approach might be problematic if like-for-like forecasts are not readily available from other institutions. For instance, in times of economic shocks, timing issues may mean that multiple forecasts are produced on a different basis, recognising very different states of the economy. This would limit the availability of forecasts that can be usefully compared to the Ministry's forecasts.
- Third, in developing its own forecasts, the IFI Team would have a useful starting point for thinking through key issues that might arise when it assesses the Ministry's forecasts (preferably, these would only be viewed after the benchmarks are prepared).
- Fourth, producing internal forecasts can force analysts to think through some of the key underlying aspects of how the economy is performing that might otherwise not be considered, including exploring the uncertainty over macroeconomic variables. Insights gained from this work can then help with assessing fiscal policy, contingent on the state of the economy.

To assess Finland's compliance with the domestic implementation of the EU fiscal rules and the fiscal stance, the IFI Team primarily uses the EU's official surveillance framework and commonly agreed methodology (Vade Mecum on the Stability and Growth Pact).[3] These methods are, by definition, comprehensive and appropriate.

That said, many EU IFIs such as the Irish Fiscal Advisory Council, Portuguese Public Finance Council and the Slovak Republic Council for Budget Responsibility have determined that the EU's generalised methodology does not fully capture domestic conditions. Such IFIs have developed their own tools for assessing the government's compliance with the Stability and Growth Pact that are more geared to domestic considerations than the EU's centralised methodology. These tools include most commonly independent estimates of fiscal semi-elasticities for determining the structural balance and alternate approaches to estimating and forecasting potential GDP.

Developing such novel tools from scratch, rather than simply double-checking the government's math or using pre-built tools developed by the European Commission, is resource-intensive. The IFI Team has few full-time analysts with spare time to devote to building model capacity. However, the team has increasingly automated some of the formerly labour-intensive tasks of retrieving and transforming data from Statistics Finland and government publications and performing the calculations required to fulfil the basic requirements of forecast scrutiny. In doing so, the IFI Team has freed time to explore alternative modelling options. In the first phase of such model development, the IFI Team has developed a business cycle heatmap and composite indicator that already shows signs of greater stability and less sensitivity to data revisions than the EU's output gap calculation for assessing the fiscal stance.

[3] The Vade Mecum is effectively the European Commission's playbook on the fiscal rules. The latest edition (European Commission, 2019) is available at: https://ec.europa.eu/info/publications/vade-mecum-stability-and-growth-pact-2019-edition_en.

Table 4.1. Comparison of methods to peer institutions

	Endorsing or assessing official macroeconomic forecasts	Assessing the government's fiscal forecasts	Assessing compliance with fiscal rules and fiscal stance	Assessing long-run sustainability
NAOF IFI Team	Largely qualitative, compares against external forecasts from other institutions and monitors of recent outturn data.	Mostly monitors recent outturn data and compares with external forecasts from other institutions.	Scrutinises government calculations and uses analysis from other institutions. Replicates EU methodologies and domestic calculations. Compares to an in-house heat map and composite indicator.	Not currently in work plan.
Swedish Fiscal Policy Council	Largely qualitative, compares to benchmark external forecasts from other institutions and monitors recent data.	Mostly monitors recent data and compares to benchmark external forecasts from other institutions.	Scrutinises government calculations and analysis from other institutions.	Relies on work of other research agencies such as the National Institute of Economic Research (NIER) and European Commission's scenarios and analysis.
Irish Fiscal Advisory Council	Produces in-house benchmarks with a suite of supply-side macro forecasting models and output gap models.	Produces in-house benchmark fiscal forecasts using high-level error-correction models for short- and long-run elasticities applied to tax bases. Fiscal and economic interaction (fiscal feedback) model. Suite of output gap models.	Replicates EU and methodology and domestic calculations and also using its own in-house "Principles-based approach" which uses alternative estimates of potential output rather than the commonly agree methodology potential output and budget elasticities used for EU fiscal surveillance.	In-house long-run projections (30 years), alternative scenarios, sensitivity analyses.
Portuguese Public Finance Council	Large-scale structural econometric model, error-correction equations with detailed fiscal block for interactions to produce in-house forecast benchmarks. Nowcasting model with MIDAS model.	Uses in-house forecast models, mostly bottom-up ordinary least squares estimated structural econometric equations for tax revenue components.	Replicates EU methodology and domestic calculations. Some in-house benchmarks for reasonableness.	In-house long-run projections, published every two years, assessing five areas: macroeconomic performance, public revenue and public expenditure, contingent liabilities, and public debt.
Slovak Republic Council for Budget Responsibility	Mandate only for ex-post forecast evaluations. However, prepares own macro forecasts. Large-scale structural macro model, error-correction equations. Nowcasting models for short-term. Dynamic stochastic general equilibrium model for simulations.	Produces in-house benchmarks with a mix of elasticity and structural econometric models, microsimulation bottom-up public finance revenue and expenditure projections for longer run. In-year estimates using seasonality. Traffic light system of risks.	Replicates EU methodology. Produces in-house output gap estimations, careful identification of one-offs, Expenditure Benchmark analysis.	In-house long-run projections, fiscal gap calculation over 50 years. Detailed scenarios. Published annually.

Following the pandemic, fiscal adjustment programs to return to Finland's medium-term budgetary objectives may feature more prominently in the IFI Team's work than in the past. To that end, staff have begun working with Statistics Finland's *SISU* microsimulation model, which will help fulfil the office's role in assessing and recommending whether the government's measures are sufficient to support the adjustment path. A natural extension of the microsimulation work would be for the IFI Team to also invest in additional in-house fiscal forecasting capacity. In fact, it may be necessary to do so, both for supplying the microsimulation model with alternative assumptions and for incorporating the results of the model back into the fiscal outlook.

It is appropriate for the NAOF to continue its efforts to develop more in-house tools and analytical capacity for independent benchmark forecasts in parallel with its current approach; however, it should be mindful of its resources and aim to supplement rather than replace current practices. Moving immediately toward in-house modelling would be a considerable investment and without an increase in full-time staff could disrupt the quality of the NAOF's work should there be staff turnover.

4.3. Individual model assessments

The OECD also assessed the appropriateness of each of the IFI Team's individual tools along six academic and practical considerations (Table 4.2). The framework provides a structure for assessing whether a tool would hold up to both scholarly peer review and whether it is fit to serve the practical considerations of an IFI's mandate and stakeholders. A detailed technical assessment was provided to the IFI Team.

Some criteria are complementary, while others conflict. When choosing a model, analysts must weigh the trade-offs between the criteria. For this reason, the assessment does not offer a total score or pronouncement on whether a model is the best tool for the analysis. Instead, it provides an opinion on whether the chosen tool is appropriate or inappropriate for delivering an IFI's mandate in the country's context.

Table 4.2. Summary of OECD model assessment criteria

Theory	Does peer-reviewed literature support (or not provide a strong argument against) this tool for the analysis, given the context and available data?
Accuracy	Is this tool likely to give the most accurate results (or avoid the most systematic bias) if applied to this problem?
Communication	Can the tool's outputs provide a coherent and intuitive narrative to stakeholders?
Transparency	Can the tool's methodology and assumptions be provided to the IFI's stakeholders in a manner that will satisfy its requirements for transparency and accountability?
Resources and business continuity	Does the tool require a level of resources and expertise that is appropriate to expect from the IFI's analysts to avoid analytical disruptions from staff turnover?
Precedent	Is the approach used widely at other IFIs and public finance institutions?

The technical assessment concluded that each of the IFI Team's tools that were reviewed in detail by the OECD are appropriate for its analysis (Table 4.3).

On **theoretical merit**, the EU's Vade Mecum and the CAM that the IFI Team uses to assess compliance with fiscal rules, specifically Program GAP 5.0, is grounded in peer-reviewed literature, supported by the experts of the EU's Output Gap Working Group, and uses approaches that have gone through considerable debate and scrutiny (although remain controversial). The IFI Team's detailed fiscal forecast error and bias assessments for *ex post* scrutiny of macroeconomic assumptions includes common statistics such as the root mean squared forecast error and Ljung-Box tests, which are well-supported for this application by peer-reviewed literature. The IFI Team provides ample justification and performance testing in its documentation for the statistical error analysis. The NAOF's techniques to estimate the fiscal stance, such as the change in the structural (primary) balance and change in discretionary fiscal effort, follow recommendations that are the product of considerable research and discussion at the European Commission.

Table 4.3. Assessment of individual models - summary results

Model	Description	Opinion
Program GAP 5.0	Program GAP 5.0 implements the EU's Commonly Agreed Methodology (CAM) with a production function approach to derive the output gap from the cyclical deviations of labour and total factor productivity from their potential.	Appropriate
Heatmap and business cycle composite indicator	Used as second-opinion benchmark against the output gap calculations and for fiscal space. Time series economic data is detrended, seasonality is removed, and indices are calculated to form the heatmap. A business cycle composite indicator is calculated based on the heatmap.	Appropriate
Fiscal stance model suite	Micro accounting model using the output of other models including output-gap, composite indicator, structural primary balance and discretionary fiscal effort. The calculation of the latter two follows recommendations of the Commission as does the calculation of the output gap. The fiscal stance model uses a large variety of macro time series data.	Appropriate
Forecast assessment for realism (ex-ante)	Collection of different statistical and econometric models (mainly OLS) for calculating key figures (forecast trend, prediction interval, etc.) to perform the assessment. Check of internal consistency based on key macro equations of national accounting, debt dynamics, etc. Data is collected from forecasters for the Finnish economy, at present partly via Macrobond.	Appropriate
Forecast assessment for reliability (ex-post)	Forecast error calculation and testing, forecast encompassing test, information efficiency test, regression analysis. Data covers the main forecasters for the Finnish economy from which forecast data is available over a long span (from 1976 onwards).	Appropriate
Policy costing microsimulation model	Large-scale microsimulation model covering the vast majority of benefit and tax regulation of individuals.	Appropriate

Note: The scope of the assessment covers the IFI Team's main tools it identified for delivering its mandate but is not an exhaustive review of the IFI Team's complete analytical capacity.

On **accuracy**, the IFI Team's current models are not generally used to make predictions, but those that do have demonstrated greater accuracy than official models, according to the IFI Team's error assessments. For example, the IFI Team demonstrated that the EU's CAM estimate for the output gap missed the economic upturn from 2017 to 2019 (that is, actual GDP overshot potential output) and that its in-house composite indicator captured a more accurate picture in real time. The EU's CAM estimate was revised over time and eventually converged with the earlier estimate provided by the IFI Team's composite indicator.

On **communication**, the IFI Team's in-house business-cycle heatmap and cyclical indicators provide an intuitive story of economic sectors that are departing from their long run mean and warn policymakers of industries that are potentially overheating or facing a downturn. The IFI Team's fiscal forecast reliability assessments tool provides intuitive and useful descriptive statistics and visuals to easily communicate the government's forecast performance The EU's commonly agreed methodology has communications challenges related to its complexity and legal foundation; however, these challenges are common across all IFIs in the EU IFI community.

On **transparency**, the IFI Team's approach relies on replicating the government's approach and the EU's methods, most of which have working papers or descriptions that are publicly available to stakeholders. The IFI Team relies on spreadsheets and R software, making its tools mostly open-source and readily accessible to the public, on occasions when they are provided. The workflow uses some licensed software but license fees are not restrictive if members of the public were to request the analysis to recreate the results at home. The fiscal stance model suite uses simple equations and spreadsheets, and all equations and parameters could be published for easy replication as the team's documentation and workflows mature. The IFI Team publishes detailed descriptions of methods and evidence for its forecast reliability assessments and for many of its replications and benchmark comparisons in methodology sections of main reports or standalone methodology papers. The judgment applied to EU methodologies, such as for determining the output gap, can be large and opaque; the IFI Team's heatmap and composite index, on the other hand, has little room for judgment.

Despite the IFI Team's efforts to show their work, other IFI peers tend to proactively publish more detailed methodological working papers and underlying data and calculations to accompany analysis. There is therefore scope for the IFI Team to further develop the transparency of its work, such as:

- Publishing background data and spreadsheets of the IFI Team's analysis alongside the relevant reports to allow the public to use the data and review the calculations for themselves. This is something that is done regularly by the UK OBR, the Irish Fiscal Advisory Council, the Portuguese Public Finance Council, the Slovak CBR, and others. Importantly, these often include open-access spreadsheets of assessments of budgetary rules, with the formulas preserved.
- Providing model code for more detailed analytical work. This is a step that few IFIs undertake, but many are pursuing in the future as a best-practice transparency initiative.

On **resources and continuity**, the IFI Team has done well to match its models with its analytical capacity, ensuring that its core approaches are simple and straightforward to fulfil its mandate, even if shorthanded or with staff turnover. The IFI Team's management has also provided opportunities for staff to pursue sophisticated and intellectually rewarding model development on the side, which helps attract and retain PhD-trained analysts. Several of these side projects will soon be coming online to support the team's work in the coming years.

On **precedent**, all EU IFIs rely on the Vade Mecum at least in part for assessing their government's legal fulfilment of the fiscal rules. The NAOF's in-house heatmap and composite indicator is also widely used by other IFIs such as Ireland, Latvia, and Estonia. That said, many other EU IFIs have gone further in exploring in-house alternative elasticity estimates and output gap methodologies after finding that they could improve upon the Commission's general approaches with domestic expertise.

Chapter 5. Financial and human resources

Chapter findings

Since 2013, resources and staff assigned to the IFI Team have increased steadily and are currently sufficient to fulfil the minimum activities to deliver the NAOF's legal mandate. However, the IFI Team's reliance on the Auditor General for its budget allocation poses some uncertainty for its future resources. Also, the division of the IFI Team's time between IFI activities and other audit projects means IFI activities do not receive the same full-time attention for continuous monitoring and model improvements as they do within international peer institutions.

The office should consider the following measures to give the IFI Team more financial certainty and full-time resources to devote to IFI work:

- The NAOF should publish a multi-year budget plan and public commitment to the IFI Team's funding.
- Most IFI Team members should devote their full attention to the IFI Team's work. By bringing certain fiscal policy audit projects into the IFI's scope (see Chapter 2 recommendations), two to three staff under the Sustainable General Government Finances impact area who are currently working part-time for the IFI Team can be redirected to more full-time positions under the standalone IFI Team. Some flexibility for part-time assignments within the NAOF could be retained for professional development, morale and retention.

5.1. Introduction

This chapter examines the financial and human resources of the IFI Team within the NAOF, assessing their independence, sufficiency, and sustainability. The OECD Principles state that an IFI must have sufficient financial resources to fulfil its mandate and successfully perform its tasks (Principle 4.1) and that its leaders and staff must be independently selected based on merit and must be independent in their operations (Principles 2.1 to 2.6).

5.2. Financial resources

There are no distinct resources for the IFI Team included in the national budget. Instead, the funding allocated to the team is included in the NAOF's global budget, which the NAOF proposes each year to Parliament and then receives from the general appropriation for Parliament.

The NAOF sets the IFI Team's budget annually, based on expected staff needs and other costs. However, the NAOF has an internal strategic medium-term plan to provide some forward guidance and certainty for the IFI Team's continuing operations.

Table 5.1 shows that the annual expenditures of the IFI Team have increased steadily, with one exception in 2015. For direct personnel expenses, the IFI Team received an allocation of 257,000 euros in 2020. The remaining expenditures are mostly for general overhead costs of the NAOF that are allocated to IFI activities. The NAOF covers all in-house functions related to human resources, planning, budgeting, general IT support, and communications services. Excluding one-time special funding for the OECD review, the IFI Team's budget reached 552,000 euros in 2020 – an average annual increase of 13.3% since 2013.

Table 5.1. NAOF IFI Team expenditure 2013-2020 (euros, in thousands)

	2013	2014	2015	2016	2017	2018	2019	2020
Personnel expenditure	117	130	113	209	216	225	191	257
Overhead and other expenses	113	119	102	187	201	237	217	295
Total	230	249	215	396	417	462	408	*552

* Excludes one-time funding for the OECD review.

Although the IFI Team's expenditures are planned and monitored as a distinct team within the NAOF, the IFI Team does not have budget autonomy and cannot independently prioritise its resources. If the IFI Team needs more resources or additional staff, the director in charge of the IFI Team is entitled to make proposals but the final decision is up to the Auditor General.

In general, the IFI Team reports that it receives the resource support it needs and resources appear to be secure going forward; however, it does not have the certainty it would have if it were a distinct appropriations unit within the national budget. The IFI Team's budgetary independence is a consequence of the NAOF's budgetary independence and depends on the NAOF's ongoing goodwill. Although some internal medium-term planning is undertaken, the IFI Team's financing could be given greater security if the NAOF were to publish a multi-year budget plan for IFI activities in which it publicly commits to funding levels.

5.3. Human resources

The OECD Principles state that the leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws. The director in charge of the IFI Team (that is, the director of the broader Sustainable General Government Finances impact area) has considerable influence over the number of staff allocated to IFI activities within the NAOF; however, the Auditor General makes the final decision. In filling the positions, analysts are selected by the IFI team's director and team leader, either from internal NAOF candidates or new hires. New hires are recruited under the ordinary open competition procedures of the NAOF.

Many IFI Team members are currently working on both IFI activities and non-IFI activities within the Sustainable General Government Finances impact area. This ability to assign staff to different projects based on their competencies and work load provides the NAOF with flexibility in managing its resources. However, the split hinders the overall productivity of the IFI Team by limiting its ability to develop models and deepen its analysis during the time between reports.

As some staff members only work part-time on the IFI Team, the number of staff counted on the IFI Team is greater than the actual number of staff resources fully available for IFI work. Table 5.2 shows the number of working days attributed to IFI activity and converts those days to full-time equivalents (FTEs). The bottom half of the table shows the absolute number of staff allocated to the IFI Team since 2016.

The IFI Team started with a small team of two permanent full-time economists. The NAOF initially struggled to find qualified people for IFI work. Staff turnover was an issue for the IFI Team through the years, as analysts left to continue their careers in related institutions. This led to some loss of institutional memory within the IFI Team.

Table 5.2. IFI Team staff 2013-2020

	2013	2014	2015	2016	2017	2018	2019	2020
Days of IFI working time	326	361	314	581	599	624	530	716
Full-time equivalent (FTEs)	1.6	1.7	1.5	2.8	2.9	3.0	2.5	3.4
Direct personnel expenditure (1,000 euro)	117	130	113	209	216	225	191	257
Absolute number of IFI Team staff (approximation)								
Full-time				3	3	4	3	4
Part-time				2	2	2	2	3
Director				1	1	1	1	1
On leave of absence							1	2

Note: Assuming 8 weeks on holiday, training, and sick leave leads to 210 effective working days for 1 FTE. Figures for 2013 and 2014 reflect the combined total of the fiscal policy audit and the IFI Team. In the bottom part of the table, numbers for full-time and part-time personnel are approximations provided by the IFI Team and reflect the fact that some staff contribute very different shares of their time to IFI activities. Staff on leaves of absence are not reflected in FTEs shown in the upper part of the table. The working days of the director are not included in the working days or FTEs.

More recently, turnover has decreased. Staff on secondment are returning and the two senior economists that started in 2019 have remained. The current eight staff members who contribute to the IFI Team come from a range of academic backgrounds and bring professional experience from the Ministry of Finance, Bank of Finland and the European Commission. There is roughly equal gender balance (Table 5.3).

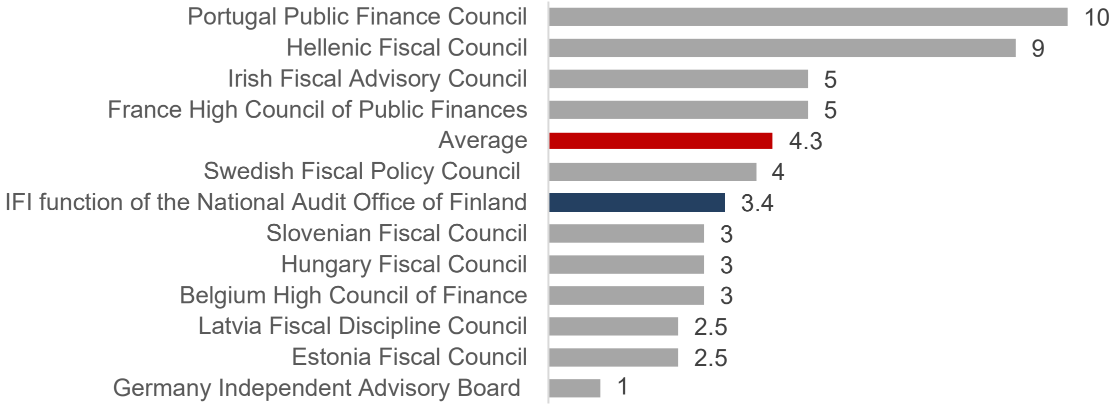
Table 5.3. IFI Team staff positions and gender balance

	2016	2017	2018	2019	2020
Director	1	1	1	1	1
Economist	2	2	3	2	3
Senior Auditor	1	1	1	1	1
Senior economist	1	1	1	1	2
Team leader	1	1	1	1	1
Total	6	6	7	6	8
Female	4	3	4	3	5
Male	2	3	3	3	3
Total	6	6	7	6	8

Note: Staff on leave of absence are not reflected in the position counts shown in the table.
Source: NAOF, IFI Team.

Compared to other EU IFIs with similar mandates, the number of staff that work for the IFI Team on a full-time equivalent basis is not far from the average (Figure 5.1). However, analysts at other IFIs generally do not divide their attention between mandated activities and other workstreams. IFI Team members reported that switching between IFI and audit activities can be cumbersome, and the hours worked in different roles must be carefully planned, recorded, and monitored. On occasion, working days planned for IFI activity have been reallocated from the IFI Team to other audit projects. Further, management roles are burdened by the multiplication of responsibilities that come with separate workstreams, such as coordinating staff time, organising team meetings, contacting stakeholders inside and outside of the NAOF, chairing working groups, and attending other organisational meetings.

Figure 5.1. Analytical staff in other similarly mandated EU IFIs (full-time equivalent)



Source: OECD Database 2021 (forthcoming).

Consistent with recommendations in Chapter 2, the IFI Team should have stronger walls to define its independence and some staff working part time on fiscal policy audits that overlap with the monitoring mandate should be brought into the IFI Team under a more clearly branded IFI Team with a concrete pool of IFI-dedicated resources. This expanded IFI Team would merit a full-time director who can dedicate all of their attention to those combined efforts. With the full-time attention of between five to seven staff, the IFI Team will be better placed to develop more in-house modelling capacity and perform continuous monitoring to deliver the NAOF's legal mandate. Some flexibility for part-time assignments within the NAOF could be retained for professional development, morale and retention.

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