

DESIGNING AN INDEPENDENT FISCAL INSTITUTION FOR POLAND

WARSZAWA
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EASTERN EUROPE AND CENTRAL ASIA REGION

WORLD BANK GROUP



WHAT THIS REPORT IS MEANT FOR

- 
- ✓ **Diagnostic** of the existing fiscal framework and institutions, based on a benchmarking exercise against international best practices and standards of EU IFIs.
 - ✓ **Recommendations** for the design of the IFI in Poland considering best practices and the local context.
 - ✓ Report goes beyond design; it includes **recommendations for operationalization** of the IFI.
 - ✓ Spur public **debate**

- ✗ Not intended to decide on behalf of the executive or legislative branches
- ✗ Not intended to draft legislation directly

AGENDA

Setting the stage.

01

» Recommendations for the design of Poland's first IFI:

02

✓ The RIGHT FORM

✓ The RIGHT PEOPLE

✓ The RIGHT BEHAVIOUR

Challenges and risks.

03




Setting the stage

01

Independent Fiscal Institutions emerged to improve fiscal transparency and accountability without having direct policymaking authority. They monitor and impact fiscal policies through analytical and advocacy roles to promote sustainable public finances and reduce economic volatility.

The role of IFIs is to focus on the transparency, credibility, and accountability of fiscal policies



Direct: their policy analyses and recommendations can have a direct impact by shaping policy decisions.

Indirect: IFIs can prompt governments to *proactively adjust their fiscal policies*, anticipating potential public criticism.

They can enhance scrutiny from existing checks and balances within the budgetary process, such as parliaments, constitutional courts, and supranational authorities.

The existence of IFIs is associated with higher forecasting accuracy as well as better compliance with the fiscal rules and reduction of fiscal deficits.
(Caldera Sánchez, A. et al. 2024).

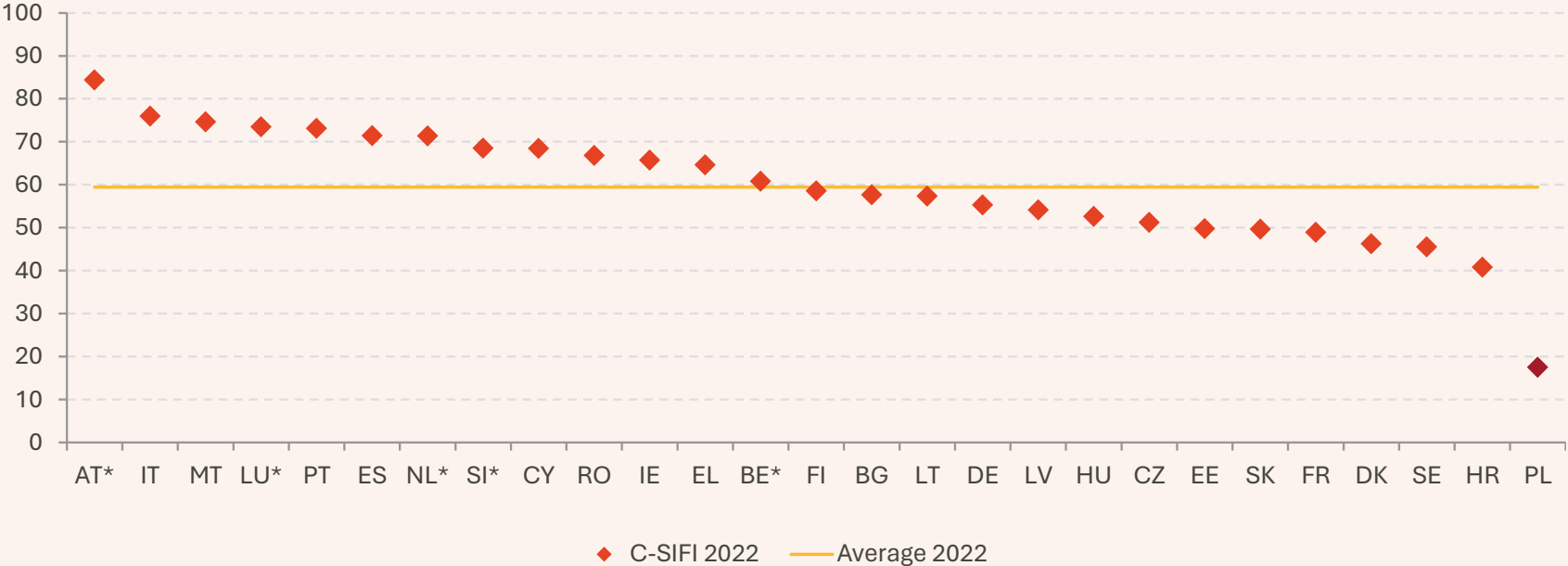
EU legislative efforts to enhance fiscal governance, with the 2024 Directive amendment, is set to further solidify the role and independence of IFIs

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- **Council Directive 2011/85/EU of November 8, 2011**, on requirements for budgetary frameworks of the Member States (MS): mandates effective and timely monitoring of compliance with fiscal rules by independent entities.

 - **Council Directive 2024/1265** enhances IFIs' role in shaping and monitoring fiscal policies, as well as ensures an even greater homogenization of solutions.
 - The Directive introduces specific provisions aiming at ensuring IFIs independence and the minimal common set of tasks that IFIs must undertake.

Poland intends to establish an IFI to enhance fiscal governance and align with EU standards.

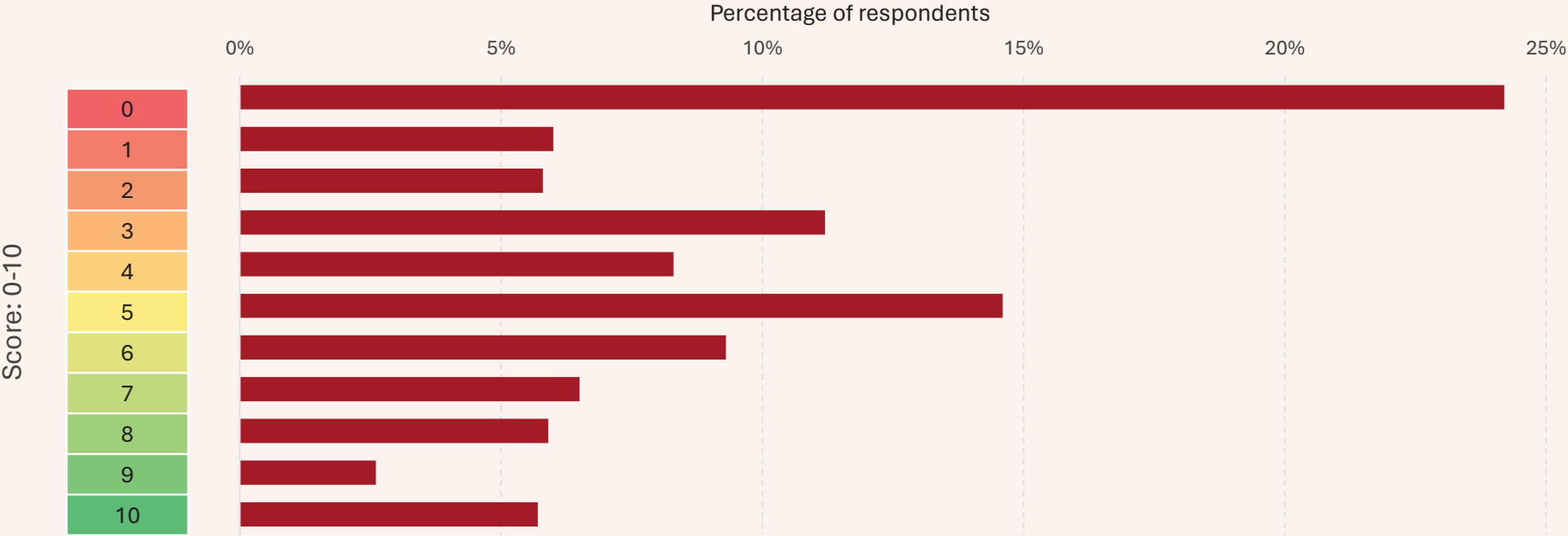
IFI functions are executed in Poland on a limited scale



N.B.: Countries marked with a * have two IFIs.
The Country-SIFI index (C-SIFI) is an aggregate index at country level, to account for those countries with two IFIs. This method sums together all IFI tasks of the institution-level SIFI index. For those tasks where both IFIs in the country are active, the highest score of the two institutions is taken.
Source: EU fiscal governance database

Society's assessment of transparency and social control over public finances is negative.

How do you assess the transparency and control of state finances; in your opinion, does the parliament, society currently have full information, full control over the state's finances?*



Source: SGH, 2023, „Badanie Kondycji Gospodarstw Domowych IRG SGH, III kw. 2023”,



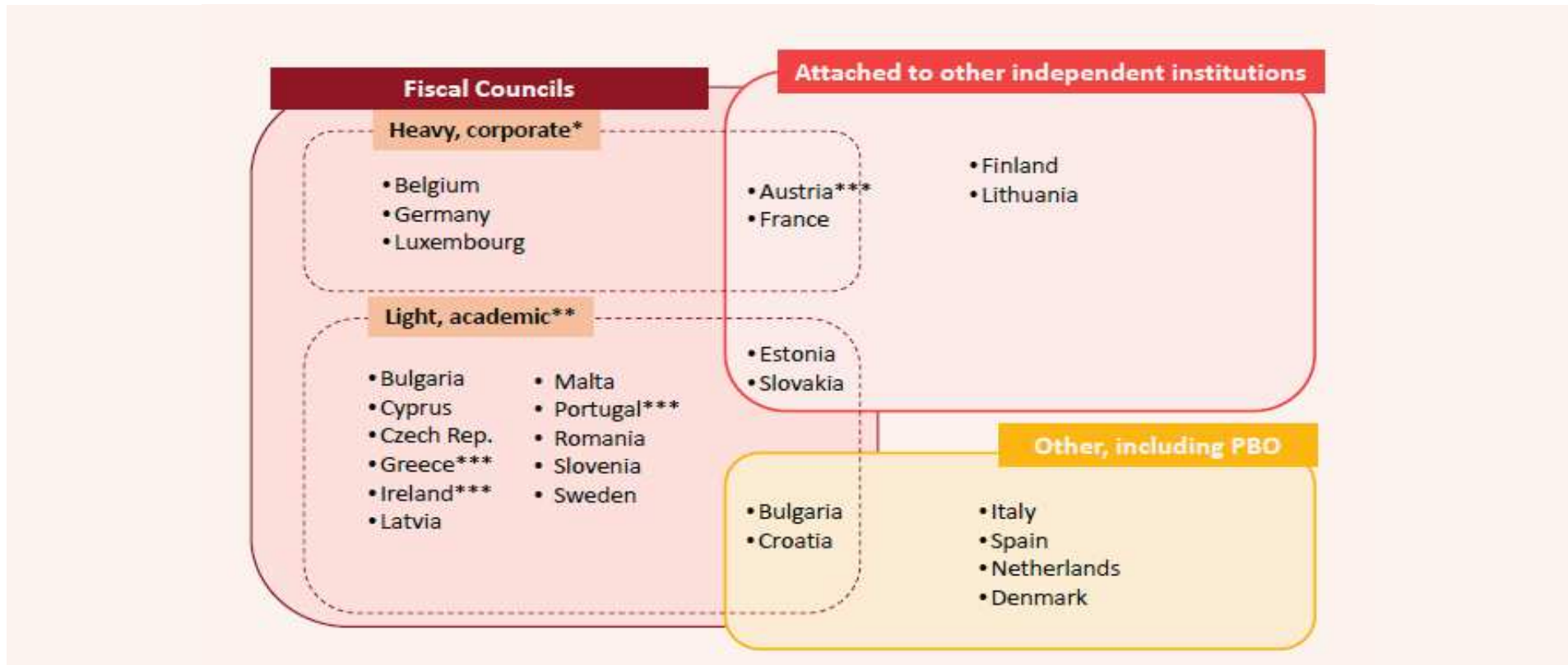
Recommendations for the design of Poland's first IFI

02

An Independent Fiscal Institution for Poland is required by the EU law and will improve the current fiscal system and institutions.

There is no one-size-fits-all solution.

Each model is designed to enhance fiscal transparency and governance, with variations to suit local contexts.



Note: * large set of the council members designated by different stakeholders/interest groups
** council consisting mainly of academia representatives
*** countries where parliamentary budget offices operate in parallel, but do not fulfill the role assigned to IFIs
Source: World Bank analysis based on EC and OECD sources (databases and publications)



The right Form

- Clear mandate, functions and role
- Independence from government and political parties.
- Professional, independent Leadership
- Professional Staff.
- Adequate Resources.
- Relation to Parliament.
- Reporting rights and duties
- Work planning autonomy.



The right People

- Leadership:
 - Merit based appointment
 - Appointment / dismissal criteria and procedure
 - Remuneration
 - Non-partisan
 - Time commitment, clearly defined term lengths
 - Control over hiring staff
- Support Staff



The right Behavior

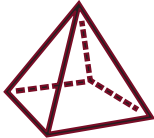
- Transparency
- Communication
- Accountability

INDEPENDENCE

These recommendations use a conceptual framework that focuses on three key aspects.

It is designed to assure the independence and effectiveness of IFIs and encompasses critical aspects of mandate, personnel, and operational conduct that align with international standards for non-partisan fiscal oversight.

Recommendations for the design of Poland's first IFI:



✓ **The RIGHT FORM**

✓ The RIGHT PEOPLE

✓ The RIGHT BEHAVIOUR

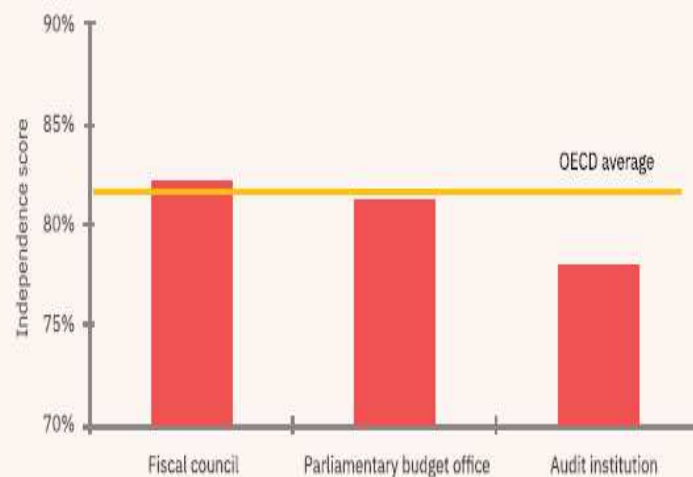
✓ The Right Form: a legal form for guaranteeing independence

An independent Fiscal Council (FC) established in the primary legislation as a State authority.

To build its reputation, the FC should also be located somewhere where it will not be affected by the “organizational culture” of another institution.


The EU directive requires IFIs to be established by national laws, regulations or binding administrative provisions (Art.8).

Fiscal Council show the greatest independence



✓ The Right Form: a mandate to build credibility and reputation

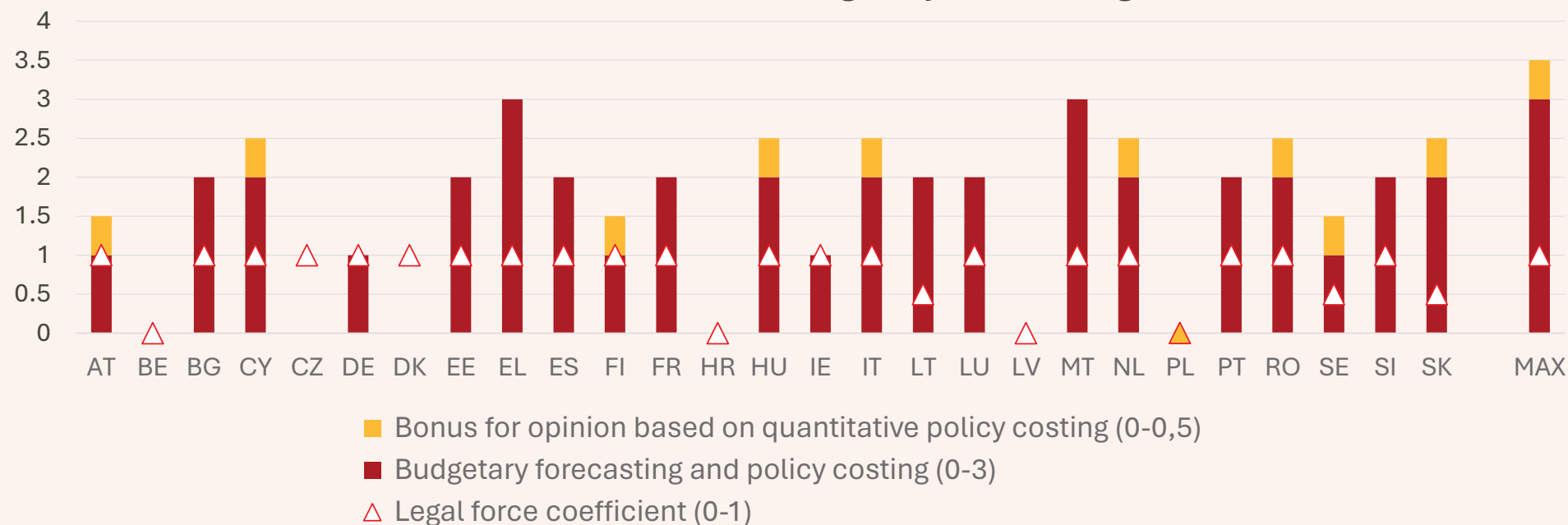
Within the EU, IFI minimum mandates are defined by the EU Directive and have been revised by its recent amendment.

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- 1 Producing, assessing or endorsing annual and multiannual macroeconomic forecasts coupled with a “comply-or-explain” type of rule in case the assessment is negative.
 - 2 Monitoring the compliance with the national and EU fiscal rules, such as the headline balance rule, the debt rule and the new expenditure rule.
 - 3 Assessing the coherence, consistency, and effectiveness of the national budgetary framework, including the budgetary procedures, rules, institutions, and transparency standards
 - 4 Participating in regular hearings and discussions at the national Parliament
 - 5 If requested undertaking tasks in accordance with relevant preventive and corrective arm of the Stability and Growth Pact (SGP)

✓ The Right Form: a mandate to build credibility and reputation

Poland's FC should **gradually expand its functions as the FC builds its reputation** and capacity: specifically, **the assessment of budgetary forecasts, long-term fiscal sustainability** and provide **normative recommendations on fiscal policies**.

SIFI INDEX 2022 - Budgetary forecasting



✓ The Right Form: a mandate to build credibility and reputation

The FC's mandate should also be aligned with the existing roles of other independent institutions involved in the budget process.

NIK: *Comprehensive, ex-post assessment of the budget execution, including macro forecasts and stabilizing expenditure rule.*

RPP (monetary council):
Ex-ante assessment of macroeconomic and budgetary forecasts, and control of fiscal compliance with the fiscal rules

RDS:
Ex-ante opinion on the macroeconomic projections. Focus on wage and pension growth.

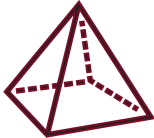
Potential risk:

Partial overlap with FC, which in case of their divergence of views can make it difficult for the Council to quickly build credibility.

Mitigation:

- ✓ Clear definition of the Council's competencies,
- ✓ Development of legal or “through practice” solutions that will lead to the complementarity of actions rather than overlapping.

Recommendations for the design of Poland's first IFI:



✓ **The RIGHT FORM**



✓ **The RIGHT PEOPLE**

✓ **The RIGHT BEHAVIOUR**

✓ The Right People: Accountability and transparency



Members and leaders should be selected **based on merit and competence** in public finances, macroeconomics or budgetary management, **without reference to political affiliation** (EU Directive).



A council of medium size, **of up to 7 members including a chair/president**, seems optimal to balance representation while ensuring independence.



Trade offs: A large number of members would ensure representation of crucial institutions involved in the fiscal and budgetary process. Quality should prevail in the appointment of members and larger FCs would require a larger pool of candidates.

✓ The Right People: Accountability and transparency

Example of criteria and expertise required across EU countries

Country	Requirements for Fiscal Council Members
Bulgaria	Master's degree in economics, minimum ten years of professional experience in macroeconomic analysis and/or public finance management
Cyprus	Long experience and significant academic background in public finances and the economy
Czech Republic	Recognized and experienced personality in finance or macroeconomics with at least 10 years of practice
Estonia	At least a master's degree in an economic specialization and the required experience for the Council's tasks
Greece	PhD in a field relevant to HFC's mandate, 15 years of relevant experience, fluent in a foreign language
Ireland	Competence and experience in domestic and international macroeconomic or fiscal matters
Portugal	Personalities of acknowledged merit, experience in economics and public finance areas
Romania	University degree, extensive professional experience in economic, budgetary or financial matters, outstanding reputation of at least ten years
Slovakia	Completed master's degree, at least five years of experience in public finance and macroeconomics
Sweden	Academic expertise and practical policy-making experience

Source: Authors based on OECD database of IFIs. Notes: (*) State before the amendment of the Directive.

✓ The Right People: Accountability and transparency

Minimum criteria for Poland's IFI

Position	Education	Experience	Political affiliation	Legal requirements	Gender balance and diversity
Chair	PhD or master's degree	At least 10 years in all three fields of public finances, macroeconomics, or budgetary management with PhD in economics or finance or law, or at least 15 years in all three fields with master's degree. She/He should also have a good knowledge of the Polish fiscal system and institutions, as well as the EU fiscal framework and rules	No political affiliation or engagement in the past 5 years (national or European Parliament or Government)		Meet formal and legal requirements stipulated in the Civil Service Law Respect gender balance and diversity principles if applicable at the national level
FC Members	Master's degree	At least 10 years in at least two fields of public finances, macroeconomics, or budgetary management. They should also have a good knowledge of the Polish fiscal system and institutions, as well as the EU fiscal framework and rules	No political affiliation or engagement in the past 5 years (national or European Parliament or Government)		Meet formal and legal requirements stipulated in the Civil Service Law Respect gender balance and diversity principles if applicable at the national level

Source: Authors based on OECD and other IFIs requirements, following discussions with Poland's Ministry of Finance.

✓ The Right People: Accountability and transparency

Poland's appointment method needs to balance representation and credibility.

One possible way to appoint Poland's FC members and Chair is to use a nomination and confirmation process **that involves both the executive and legislative branches**, as well as **the institutions involved in the fiscal and budgetary process**.

➤ Selection of Chair:


Following a screening of candidates' qualifications, the *chair of the FC* could be nominated by the MoF, by the MoF with confirmation by the Sejm or – similarly to some CEE countries – the MoF could propose several candidates (e.g. 3) and the final decision could be made by Sejm.

➤ Selection of members:

Members of the FC could be nominated by key actors involved in the budget process after the verification of the qualification, and as such can include: RDS employer associations and trade unions, the President, NIK, the Sejm's Public Finance Committee.
To be confirmed by executive or legislative.

✓ The Right People: Accountability and transparency

Appointment terms should ensure stability and continuity.


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- 1 FC members should be appointed **for a fixed term, renewable once** if the authorities deem it sufficiently long to ensure their continuity and stability.

 - 2 Terms **should be longer than the electoral cycle** (i.e., six years) to avoid political influence (beyond the term of Parliament, 4 years, and the President, 5 years).

 - 3 Best practice is for the term of office to be **staggered**, so that not all members are replaced at the same time, and some institutional memory and expertise are preserved.

✓ The Right People: autonomy for quality and independence

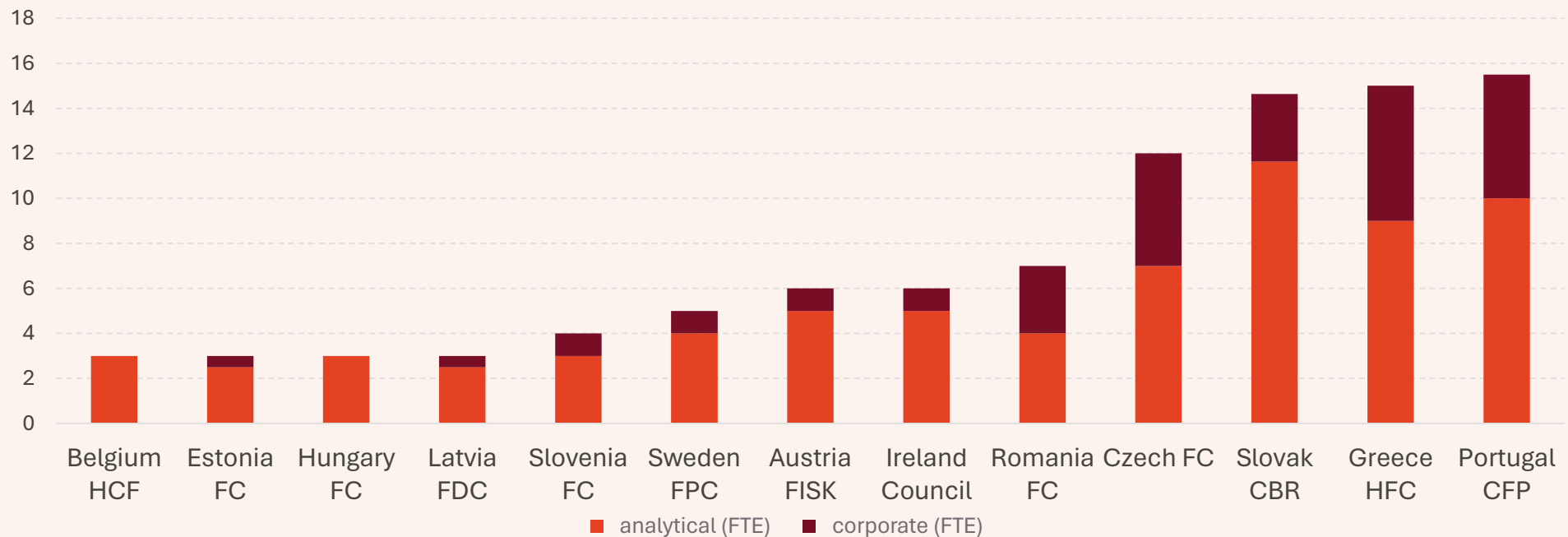
The remuneration of the chair and members should be transparent, autonomous and adequate to enhance the financial independence of the FC.

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- 1 **Remunerations should be paid from the FC's own budget**, which should be allocated as a lump sum in the state budget and transferred to a separate bank account managed by the FC. Multi-year financial plan is strongly advised.
 - 2 The level of remunerations **should be competitive and benchmarked to comparable positions in the country to attract qualified candidates** and provide an incentive for high standards and independence.
 - 3 Remuneration should be **commensurate with the mandate**, depending on whether the chair and members are part-time or full-time members

✓ The Right People: Autonomy through a secretariat

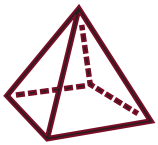
The Council should rely on a secretariat of qualified and independent staff who should support its mandate and functions

The size of the secretariats varies by IFI

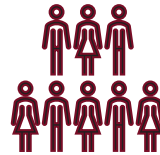


Source: OECD IFI database, EC IFI database; Notes: FTE = full time employees

Recommendations for the design of Poland's first IFI:



✓ **The RIGHT FORM**



✓ **The RIGHT PEOPLE**




✓ **The RIGHT BEHAVIOUR**

✓ The Right Behaviour: transparency and communication

IFIs influence policy-making mainly through persuasion, not direct control or policy levers.

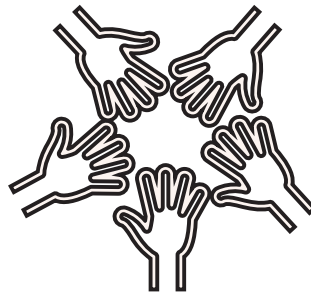
To ensure transparency and effective communication, IFIs should:

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- 1** IFI's reports and analysis (including underlying data and methodology) should be **published online**, making them freely available to all.
 - 2** **Communication** with the government should be through **official channels and be made public upon request**. The FC should establish clear and consistent rules and protocols for communicating with the government, both formally and informally.
 - 3** The release dates of major reports and analyses should be formally established, especially to coordinate them with the release of relevant government reports and analyses
 - 4** **The FC should also have a clear and effective communication strategy** that aims to enhance its visibility, credibility, and impact.
 - 5** Ensure that the FC has the right tools to perform its tasks, it is essential that it has access to necessary data and other information from the government and other sources.
 - 6** Another important aspect of the FC's work is to **collaborate and exchange views with other IFIs** at the national, regional, and international levels.
 - 7** The FC should also adopt and **implement internal policies that regulate its operations** and ensure its integrity and professionalism

✓ The Right Behaviour: Communication

Irrespective of the size, the Council should speak with one voice.


- **Divergent public opinions of individual members should be avoided** as the Council's capacity to shape the public debate would be severely undermined if various members of its board or senior staff were allowed to publicly voice divergent views or analyses as experience in other countries have shown (IMF 2013).



✓ The Right Behaviour: Accountability

Accountability is another key principle that the FC should adhere to ensure transparency and credibility.

To ensure accountability, IFIs should:

- 
- 1 Establish and follow an **external evaluation mechanism** that allows for regular and independent assessment of its performance, quality, and impact.
 - 2 Comply with the relevant legal and institutional frameworks that regulate its functioning and mandate.
 - 3 Adopt a proactive approach to external evaluation and seek feedback and input from various sources, such as the OECD, the European Commission, the NIK, other IFIs, academic experts, civil society organizations, and the media.
 - 4 Facilitate external reviews or audits that are conducted by these entities and provide them with the necessary information and data.
 - 5 Publish results of these external evaluations on its website and communicates them to the public and the Parliament.



Challenges

03

The Council should have autonomy from the executive branch, be flexible and adaptable, and its mandate expand as it gains capacity and expertise.

Pinch Points: Potential entry points for undue influence



Source: von Trapp and Scherie Nicol, Measuring IFI independence: A first pass using the OECD IFI database, 2018; OECD

The first term of the Fiscal Council will be crucial to set up its reputation.

- 
- 1 **Avoid the risk of the Council being perceived by the public as lacking autonomy from the executive branch**, which could undermine the credibility of its assessment.

 - 2 **Ensuring that the right regulatory setting is in place** from the beginning is important to safeguard independence and credibility, but it **should also allow the FC to evolve organically**.

 - 3 **Scope of mandate should growth as it builds capacity, and could be included in the Law**, particularly the production of an assessment of budgetary forecasts and normative recommendations, or options, for fiscal policy (long term fiscal sustainability).



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