



Independent Fiscal Institutions Review

OECD Review of the Slovak Council for Budget Responsibility (CBR)

Rada pre rozpočtovú zodpovednosť (RRZ)



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Foreword

Independent fiscal institutions (IFIs) represent a major innovation in public financial management.

In accordance with the European fiscal framework, IFIs have become an important feature of the oversight of public finances in the EU. The OECD has been bringing together IFIs through its Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network) since 2009. The PBO Network seeks to identify and share good practices and to set standards for IFIs across member countries. It developed the 2014 OECD Recommendation on Principles for Independent Fiscal Institutions, which includes a provision on the need for IFIs to undergo external evaluations. The logic behind this is simple – with independence comes accountability. Just as IFIs help hold governments accountable, they have a special duty to be accountable as well. The review presented here is part of a series of IFI reviews.

The Slovak Council for Budget Responsibility was set up in 2012 as an independent body to monitor and evaluate the fiscal performance of the Slovak Republic. Undertaken at the request of the Council, this Review provides options and recommendations in light of national developments and international experience. Recommendations build on the strengths of the existing arrangements for the Council and observed challenges.

The Council has become a credible source of fiscal policy analysis anchored in strong perceptions of independence, non-partisanship and technical expertise. At the same time, it faces challenges and pressures related to access to information, operating a comprehensive suite of state of the art models with limited capacity and increased demands in relation to policy costing.

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Abbreviations and acronyms

AIReF	Spanish Authority for Fiscal Responsibility
BTL	Budgetary Traffic Lights
CBO	US Congressional Budget Office
CBR	Slovak Council for Budget Responsibility
CFP	Conselho das Finanças Públicas (Portuguese Public Finance Council)
CPB	Netherlands Bureau for Economic Policy Analysis
CNFP	The National Council of Public Finance in Luxembourg
DGSE	Dynamic Stochastic General Equilibrium model
EDP	Excessive Deficit Procedure
EC	European Commission
EU	European Union
EU-IFIs	EU Independent Fiscal Institutions (autonomous network)
EUNIFI	EU Network for Independent Fiscal Institutions (network initiated by EC)
FC	Fiscal Council
FISK	Austrian Fiscal Advisory Council
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
HP-filter	Hodrick-Prescott (HP) filter
HR	Human Resources
IEP	Institute for Environmental Policy
IFI	Independent Fiscal Institution
IFP	Institute for Financial Policy
IMF	International Monetary Fund
INEKO	Institute for Economic and Social Reforms
INESS	Institute for Economic and Social Studies
IVP	Educational Policy Institute
IZP	The Institute of Health Policy
KI	The Milan Rastislav Štefánik Conservative Institute
MF SR	Ministry of Finance of the Slovak Republic
MoF	Ministry of Finance
MoU	Memorandum of Understanding

MTO	Medium Term Objective
NAO-FPF	Finland National Audit Office - Independent Monitoring and Evaluation of Fiscal Policy Function
OBR	United Kingdom Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
PBO	Parliamentary Budget Office
PBO Network	OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions
PCA	Principle Component Analysis
RRZ	Rada pre rozpočtovú zodpovednosť (Slovak CBR)
SGP	Stability and Growth Pact
SIMTASK	A microsimulation model of the Slovak tax and transfer system
SLOPEM	Slovak Pension Model
SVAR	Structural Vector Autoregressive
TSCG	Treaty on Stability, Coordination and Governance
UHP	Value for Money Unit - Ministry of Finance of the Slovak Republic
UK	United Kingdom
US	United States
VAT	Value Added Tax

Executive summary

The Slovak Council for Budget Responsibility was established post-crisis (2012) as a critical component of Slovakia's newly strengthened fiscal framework. It was introduced alongside a package of measures to address Slovakia's rising debt levels, including debt limits, automatic sanctions and correction mechanisms, tougher fiscal rules for local government and enhanced fiscal transparency. The Council was a national initiative and had strong cross-party backing; its legislation – a Constitutional Act – was adopted by a vast majority of parliamentarians. Its creation is also in accordance with requirements relating to the European fiscal framework.

The Council was set up to monitor the Government's compliance with fiscal and transparency rules, monitor public finances, assess fiscal sustainability and undertake costing activities. In particular, this latter strand of work is of growing interest to external stakeholders. The Council does not have a formal mandate to produce or endorse macroeconomic and fiscal forecasts, as is common among its EU peers. Two ad-hoc bodies in Slovakia that were set up before the Council already play this role: the Macroeconomic Forecasting Committee and the Committee on Tax Revenue Forecasts.

Stakeholders widely perceive the Council to be independent and non-partisan, and recent analysis by the think tank INEKO ranked it as the most independent public institution in Slovakia. Staff are regarded as having strong analytical skills, and the Council now has an impressive suite of economic models that it uses to deliver its eight annual reports. The Council has played a leading role in convening EU IFIs and is highly respected by its peers for the quality of its analysis.

As the Council matures as an institution, the following five key issues may effect its effectiveness:

- a) While the Council has had very good access to information via government systems and has enjoyed good relations with government in its early years, it has more recently experienced challenges in acquiring timely and comprehensive information from the Statistical Office and, to some extent, from the Ministry of Finance and other government institutions.
- b) The Council has developed a full suite of state-of-the-art analytical tools and models. While this comprehensive technical approach is well regarded, continued maintenance and development of these models puts a strain on the Council's limited human resources. This, together with a busy year-round work programme, means that the Council is constantly working to full capacity, exposing it to business continuity risks. It also makes it difficult for the Council to engage in proactive work, such as costings.
- c) Some stakeholders have expressed concerns about the accuracy of tax revenue forecasts in recent years. Although there are technically too few observations to indicate any systematic bias, there are larger questions about how effectively the Committee on Tax Revenue Forecasts is functioning, particularly since the Parliament and the Government have made adjustments to the tax forecast endorsed by the Committee in recent years. At present, the Ministry of Finance chairs the forecasting committees, with the Council having a more limited role.
- d) The Council has so far had a relatively conservative approach to communications and there is tentative evidence that its influence on the public debate does not typically

extend beyond niche stakeholders interested in public finances. It also has little interaction with Parliament.

e) The term of the Council's first Chair has already ended but the legal process to hire a new chair has not been followed and as yet a new chair has not been appointed. Furthermore, the legislation governing the Council does not prevent leadership candidates with political affiliation being appointed.

Summary of main recommendations

1. It is essential that the Council have access to relevant information to fulfil its statutory duties, in line with the OECD Principles for IFIs and the European Union Common Principles. To help resolve current challenges, the Council and the Ministry of Finance could develop a Memorandum of Understanding (MoU) including details of what can be expected in relation to State Treasury data. To monitor progress on access to information, the Council could also publish summary statistics on responses to its access to information requests. In addition, an MoU between the Statistics Office and the Council could be established to underpin arrangements for sharing data, including the underlying information for balance and debt notifications to the European Commission.

2. The Council is currently working at full capacity and lacks back-up across important work streams, such as macroeconomic forecasting. A modest increase in analytical staff would help address the risks associated with this. In addition, a review of options to streamline the Council's models, together with rearrangements to the workflow, could also help enable the Council to dedicate greater resources to proactive and new work.

3. The Council has so far undertaken proactive costings work using existing resources; however, costing can be a resource-intensive task and this approach will not be sustainable should demand increase. Given that there is widespread support for the Council to undertake more policy costings, the Council should seek to formally develop additional capacity in this regard, ensuring that new hires include staff with the necessary skills. As costings may be politicised, the Council could also develop and use clear and transparent criteria for selecting costings, similar to those used by a number of peer IFIs. The Council will also require additional staff resources to deliver new publications such as a Fiscal Space Review and a Welfare Report.

4. Given that the Council receives its funding directly from the National Bank of Slovakia, it is reliant on good relations with the Bank. Although this is viewed as a safer arrangement than the Council receiving funding directly from the Ministry of Finance, the funding process could be formalised and made more transparent, for example through the establishment of an MoU between the Council and the Bank and the publication of relevant letters between the two institutions.

5. The Slovak fiscal framework would benefit from the Council taking a more active role in the area of macroeconomic forecasting, by publishing its forecasts and becoming a full voting member of the Macroeconomic Forecasting Committee.

6. Tax revenues have been higher than forecast by all institutions in Slovakia in recent years, demonstrating that they are not immune from missing potential structural breaks in models. A valuable role for the Council could be to conduct *ex post* evaluations of the forecasts produced by the main forecasters. This work would position the Council well to become Chair of the Committee on Tax Revenue Forecasts, which would help boost the Committee's independence. In addition, the relevance of the Committee could be improved if it expands its scope to cover non-tax revenue forecasts and social transfers,

and if the final revenue forecast used by the Government is the one formally endorsed by the Committee.

7. As the Council grows and matures as an institution, it would be useful to formalise its approach and procedures in documents such as a strategic plan, annual work plan, staff regulations and a human resources policy, including details of wage bands for different roles and provisions to ensure gender-equal pay. Given the budget space available to the Council, appointing an Operations Manager to support the work of the Executive Director, or appointing team leaders below the Executive Director, would help create capacity for this more strategic approach.

8. Recent efforts to increase communications around the Council's publications have helped increase the impact of its work. Communication could be made more systematic by employing a dedicated communications expert to design and implement a communications strategy, in line with other IFIs of similar size across the OECD. This could include plans to increase engagement with parliamentary stakeholders and continued monitoring of impact through systematic data collection.

9. To further stakeholders confidence in the independent and non-partisan nature of leadership appointments, there should be restrictions precluding the nomination of a board member who is a member of a political party, or who has been a politically-appointed government official in recent years. The Council would also benefit from increased transparency around the leadership appointment process, e.g., through parliamentary hearings for proposed candidates. Going forward, the legal process for appointments should be adhered to, meaning all leadership appointments are made in advance of the current member's term expiring.

10. A renewed Advisory Panel could be made up of experts who are able to commit sufficient time to advising the Council. It could focus more on providing strategic guidance and aid the Council in implementing these recommendations.

Methodology

The methodology for this review is anchored in the OECD Principles for Independent Fiscal Institutions (OECD, 2014^[11]) and a subsequent evaluation framework elaborated within the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). Principle 9.1 of the OECD Principles for Independent Fiscal Institutions states that:

“IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.”

The Network of EU Independent Fiscal Institutions (EU-IFIs) reaffirmed this OECD Principle in their document *Defining and Enforcing Minimum Standards for Independent Fiscal Institutions* (2016).

The evaluation framework takes as a starting point internationally agreed standards (e.g. the OECD Principles). As such, the review assesses the Council against these standards, benchmarks it against peer institutions in OECD countries and, where possible, identifies the difference it has made. The framework covers four main elements:

- **Context**, the institutional setting and mandate of the Council
- **Inputs**, human and financial resources, access to information and independence
- **Outputs**, the Council’s core products, including effectiveness of the methodology
- **Impact**, of the Council’s work, including effectiveness of communications and stakeholder confidence

The evaluation framework follows a performance framework approach used by governments globally and leverages conventional evaluation tools such as stakeholder interviews and peer review. The OECD will publish the final report in English, and make it available electronically on the OECD’s website. The OECD PBO Network will discuss the findings of the review at a peer review session during its 2020 Annual Meeting.

The review team

The review team included two members of the OECD Secretariat’s Public Management and Budgeting Division in the Directorate for Public Governance, one international consultant, two international peers from Ireland and the Netherlands, one local expert and one technical reviewer from Canada. A staff member of the European Commission’s Directorate-General for Structural Reform Support also participated. The review also draws upon contributions from other relevant members of the OECD Secretariat and peers within the PBO Network. A mission to Bratislava, in the Slovak Republic, for stakeholder interviews was undertaken in July 2019 (see Annex B for more information). The review was also informed by a questionnaire issued to Council stakeholders.

Chapter 1: Context

1.1. Introduction

1. The idea for an independent fiscal council to check and monitor fiscal processes and rules in the Slovak Republic originated from a discussion paper by Michal Horváth at the Ministry of Finance and Ľudovít Ódor at the National Bank of Slovakia (Horvath and Odor, 2009^[2]). The paper noted that since the Slovak Republic became an independent country, it had had a fiscal deficit consistently above its long-term sustainable value. It also argued that substantial reform – including the establishment of an independent fiscal institution (IFI) - was necessary to help make public finances sustainable in the long-term.
2. The discussion paper gave rise to discussions with the various political parties prior to the elections scheduled for June 2010. A commitment to establish such an institution was subsequently included in the government programme of the centre-right coalition published in August 2010. During 2011, a cross-party parliamentary committee developed the draft legislation, which was presented in September 2011.
3. Negotiations leading up to the adoption of the legislation took place in the context of a deep economic crisis in Europe and acute sovereign debt stress in a number of countries. The Slovak Republic's fiscal position was affected by these developments, which led to rising gross public debt levels from 28.6% of GDP in 2008 to 43.5% of GDP in 2011. Moreover, Slovakia, like other countries in the region, faced problems with selling government bonds in November 2011.
4. The Council was created on the basis of a consensus that brought together all political parties represented in the parliament in support of its legal framework. The politicians hoped to use the approval of the Law as a signal to reassure financial markets that the government was serious about meeting its commitments. The Slovak Council for Budget Responsibility (Council, or CBR) was established on 27 June 2012. It was established through Constitutional Act 493/2011 on Budgetary Responsibility (the Act), which received parliamentary approval by a majority of 146 out of the 147 parliamentarians present (out of a total 150) at the National Council of the Slovak Republic (National Council, or Parliament).
5. The constitutional nature of Council's enabling legislation means that agreement of at least a three-fifths majority of all parliamentary members is required to make any amendment.

Box 1.1. The CBR's legislative framework

The Slovak CBR was established through the Constitutional Act No. 493/2011 on Budgetary Responsibility, which received approval on 8 December 2011. The Act defines the main tasks of the CBR across four areas:

1. Each year by April 30th and always within 30 days of the parliamentary debate on the Government Manifesto and the vote of confidence in the Government, the CBR prepares the **Report on the Long-Term Sustainability of Public Finances**,

pointing at potential issues which might induce excessive debt growth under the present budgetary policy setup.

2. Each year by 31st August, the CBR submits to parliament the **Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules**.
3. The CBR may, acting on its own initiative or if invited to do so by a parliamentary caucus, draw up its **own opinions on the legislative proposals submitted to parliament**.
4. The CBR also performs **other activities related to the monitoring and assessment of how public finances develop**.

As of 1st January 2014, the amended Act No. 523/2004 on General Government Budgetary Rules defined additional new tasks for the CBR. The Act implements the provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, i.e. a fiscal rule on the structural balance including a correction mechanism in case of non-compliance into national legislation. It states that the CBR will:

- a. Assess and publish **evaluations of activation of the correction mechanism** in case of significant deviation from the medium-term budgetary objective or the path towards it;
- b. Assess and publish **evaluations of circumstances for triggering and exiting escape clauses** that suspend the correction mechanism.

Should the need arise, the CBR may also perform other activities stipulated in the Act.

Source: (CBR, 2011^[3]) and (CBR, 2013^[4])

6. The process of designing the Council benefitted from input from two experts Michal Horváth (at the Ministry of Finance) and Ľudovít Ódor (at the National Bank), who studied existing models and experiences in other countries. The main comparative reference during the drafting of the provisions on the Council was the experience of Hungary's Fiscal Council (Porubský, 2011^[5]). The initial idea was to create a fiscal watchdog under the Parliament, which was thought to protect its independence. However, this idea changed when the Hungarian government replaced its original Fiscal Council, which had been under the authority of the Hungarian parliament, with a much weaker body in 2011. It was felt in the Slovak Republic that institutional independence along with financing from the National Bank might offer greater protection from potential political interference. The latter arrangement resembles the institutional set-up of Austria's Fiscal Advisory Council (FISK) and to some degree the Portuguese Public Finance Council (CFP), although these examples did not play a major role in the discussions leading up to the creation of the Council.

7. As a result, the Council was set up as an independent organisation that is funded by the National Bank of Slovakia. The Council is also located within the premises of the National Bank. It was thought that the Bank would arguably suffer higher reputational costs than the Government from any attempt to eliminate the Council since fiscal responsibility is a prerequisite for monetary stability. The European Central Bank would also likely question such an attempt and thus exert peer pressure.

8. When the initial proposals were being discussed, the European Central Bank objected that direct central bank funding for the Council constituted monetary financing. As a result, the provision was inserted to allow the National Bank of Slovakia to

immediately reclaim the money from the state budget provided that it asks for this from the Ministry of Finance of the Slovak Republic (Ministry of Finance).

9. The Council was formed as an independent body set up to monitor and evaluate the fiscal performance of the Slovak Republic. Through its expertise and the use of analytical tools, the Council is expected to hold a mirror up to the Government of the Slovak Republic, improve public awareness in the area of public finances, and facilitate better decision-making in Parliament.

10. Besides creation of the Council, the Act introduced a wider package of measures aimed to control the growth of public debt, including debt limits, automatic sanctions and correction mechanisms, strengthened fiscal rules for local government and enhanced fiscal transparency. The Council is seen as the watchdog that works to enforce this fiscal framework (see Box 1.2).

Box 1.2. Slovakia's fiscal framework

Slovakia's fiscal framework is set out in Act No. 523/2004 on Budget Rules of the General Government and was significantly enhanced by the Constitutional Act No. 493/2011 on Budgetary Responsibility. The main feature of the enhanced framework is the focus on long term fiscal sustainability and transparency. The main tool to obtain long term fiscal sustainability is a debt limit.

The basis of the fiscal framework is a constitutional gross public debt limit, which was set at 60% of GDP and relates to the requirement of the European Stability and Growth Pact (SGP). From 2018, the debt limit shall gradually decrease by 1 percentage point every year until it reaches 50% of GDP from 2027 onwards. Automatic sanction mechanisms are triggered at different levels below the limit:

- First level (10-7 percentage points below debt limit): The Ministry of Finance shall submit to the National Council a written justification of the debt amount, including the proposed measures for debt reduction.
- Second level (7-5 percentage points below debt limit): The Government shall submit to the National Council draft measures it proposes to reduce the debt, and the salaries of Government members shall be reduced to their previous fiscal year's level.
- Third level (5-3 percentage points below debt limit): The Ministry of Finance shall block the state-budget expenditures in the amount of 3% of the total state-budget expenditures (with clearly specified exceptions); no funds shall be released from the reserve of the prime minister and the reserve of the Government; the Government may not submit to the National Council any general government budget proposal entailing a nominal year-on-year increase in consolidated general government expenditures (with clearly specified exceptions); municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year with expenditures not exceeding their previous fiscal year's level (with clearly specified exceptions).
- Fourth level (3-0 percentage points below debt limit): The Government may not submit to the National Council a general government budget proposal with budgeted

deficit; municipalities and self-governing regions shall be obliged to approve their budgets for the following fiscal year as balanced budgets or surplus budgets.

- Fifth level (surpassing debt limit): In addition to previously applied procedures the Government shall ask the National Council for a vote of confidence.

The automatic sanctions play a crucial role in ensuring fiscally responsible behaviour on the part of the Government. According to an April 2014 Eurostat notification, the gross public debt was at 55.4% of GDP as of the end of 2013 and surpassed the third level of 55% of GDP triggering respective sanctions. The October 2014 Eurostat notification decreased the 2013 debt level to 54.7% bringing some relief. However, this lesson was well remembered by politicians and helped to encourage reductions in public debt in the following years. With the combined effect of the new fiscal framework and a growing economy, the gross public debt decreased from its peak at 54.7% of GDP in 2013 to 49.4% of GDP in 2018 (i.e. above the first sanction level). In the same period, the interest rates on government bonds decreased to record low levels.

According to the Act, the debt limits are subject to escape clauses relating to major recessions, banking system bailouts, natural disasters, commitments arising from international treaties and state of war. They shall also not apply during the two first years of a new government in power.

The statutory debt limit is not the operational target. The Act includes provisions to introduce expenditure ceilings, which are expected to play this role and underpin the implementation of the debt limit. However, the expenditure ceilings have until now not been implemented. The Ministry of Finance presented the first draft proposal for expenditure ceilings in a discussion paper published in 2018. Implementation will be the responsibility of the Government that will form after the next round of national parliamentary elections in 2020. This delay in implementation has been criticised by local experts who note that it has made it easier for the Government to spend generous windfall tax revenues over the period 2014-18 at the expense of long-term fiscal sustainability.

The Act also contains a no-bailout clause and automatic financial sanctions for municipalities and self-governing regions breaching a debt threshold of 60% of their revenues.

With regard to transparency, the Act requires the publication of several important pieces of information in the general government budget and the final annual report of the state. These relate to consolidated budget figures, tax expenditures, implicit and contingent liabilities, net national wealth, one-off effects, fiscal performance of state corporations, and a debt management strategy.

Source: (CBR, 2011^[3])

11. The creation of the Council also helps the Slovak Government align with requirements of the European fiscal framework (see Box 1.3).

Box 1.3. The role of IFIs in the European fiscal framework

In the European Union, IFIs have become a major feature of the oversight of public finances. In accordance with article 6 of Directive (EU) n° 2011/85, “*independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States*” shall monitor compliance with numerical fiscal rules.

The 2012 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) further developed the role of IFIs in the implementation of the correction mechanism in case of non-compliance with the rule. 2012 Common principles of the European Commission accompanying the TSCG specify that:

“National legal provisions ensuring a high degree of functional autonomy shall underpin the above bodies, including:

- i) a statutory regime grounded in law;*
- ii) freedom from interference, whereby the above bodies shall not take instructions, and shall be in a capacity to communicate publicly in a timely manner;*
- iii) nomination procedures based on experience and competence;*
- iv) adequacy of resources and appropriate access to information to carry out the given mandate.”*

Subsequently, Article 2 (1) of Regulation (EU) n° 2013/473 (one component of the so-called two-pack applicable for euro area countries) fully incorporated the above-listed independence safeguards, thereby including it to supranational legislation.

Finally, the same EU regulation requires that national medium-term fiscal plans and the draft budgets shall be based on “*independent macroeconomic forecasts*” (i.e. produced or endorsed by independent bodies).

Source: European Commission 2019 and (European Commission, 2012_[6])

12. An IFIs’ impact can benefit from the existence of well-designed fiscal policy rules (Wyplosz, 2018_[7]). Hence, an IFI can hold the government accountable for unwarranted deviations from the rule’s prescription or for taking excessive risks with ex-post compliance. While Slovakia has a strict debt brake mechanism enshrined in the fiscal framework, the statutory expenditure ceiling supposed to operationalise the debt brake was never enacted, leading to additional spending funded with revenue windfalls instead of debt reduction. This has created a sense that the fiscal framework is insufficient to ensure fiscal responsibility and that there is a need for an expenditure rule to encourage revenue windfalls to be used to reduce the debt. Examples of expenditure rules and how they function across the EU are provided in Box 1.4. In addition, as highlighted later in Chapter 4, the comply-or-explain provision attached to the compliance with EU fiscal rules is only implicitly conferred upon the Council¹. Although it is guaranteed through legislation in relation to the Council’s published opinion, it is not clear whether the Council should publish assessments of the ongoing correction mechanism. In other countries, the comply-

¹ For more detail, see “The Fiscal Compact - Taking Stock” Annex on Slovakia - https://ec.europa.eu/info/sites/info/files/slovakia_-_country_annex_to_the_report_c20171201.pdf

or-explain provision is supported by more specific legal requirements (Ireland) or a strong culture of parliamentary oversight (Netherlands), which are both lacking in Slovakia.

Box 1.4. Expenditure rules and how they function across the EU

The design of fiscal policy rules inevitably reflects the same economic, political and social considerations shaping the conduct of fiscal policy. In the EU, however, national fiscal rules must exhibit common features aimed at supporting compliance with the supranational rules enshrined in EU law.

The objective of fiscal rules is to ensure public debt sustainability (understood in the EU as a long-term convergence of debt trajectories to a level below 60 percent of GDP), while encouraging short-term macroeconomic stabilisation. Fiscal stabilisation means a tolerance for weaker budget balances (higher deficits or lower surpluses) during downturns and a requirement for stronger balances during upturns. Stabilisation is typically deemed adequate if cyclical oscillations in the fiscal balance reflect the so-called automatic stabilisers (i.e. the revenue losses and increased social transfers associated with a slowdown in economic activity, and the opposite developments during upturns).

The EU requires national fiscal rules to balance three considerations: (1) commitment to bring debt below treaty limits, (2) allowance for cyclical stabilisation, and (3) effective enforcement. Debt sustainability implies explicit caps on public debt and overall fiscal deficits; stabilisation suggests defining the deficit limit in structural terms; and enforcement calls for automatic correction mechanisms that toughen the rule if the government systematically deviates from it. The best-known correction mechanism is the Swiss “debt brake” which mandates stronger budget balances to offset cumulative deviations from the deficit ceiling. The Slovak Constitution is rather unique in imposing specific corrective measures proportional to the risk of exceeding the debt ceiling.

In recent years, the difficulty to implement rules capping structural budget balance — an indicator that is unobservable and very poorly estimated in real time — have led some countries to rely on expenditure (growth) ceilings as an operational constraint on medium-term fiscal plans and the annual budget. At EU level, the 2011 revision of the SGP (the so-called “six-pack”) introduced an expenditure benchmark containing the net growth rate of government spending at or below a country’s medium-term potential economic growth rate. At the national level, Sweden and the Netherlands are often cited as good examples of expenditure rules formulated in absolute terms. Binding expenditure caps defined over 3-4 years have desirable cyclical properties (they let automatic stabilisers play symmetrically) and target the core political-economy problem behind excessive deficits: the lack of expenditure restraint, especially in good times, when revenues grow faster. To maintain a strong link with debt developments, expenditure ceilings must be regularly adjusted — with the outer year of the horizon often left non-binding — and premised on unbiased revenue forecasts.

By envisaging a combination of debt, deficit and expenditure ceilings as well as automatic correction mechanisms, the Slovak fiscal framework thus reflect good international practice. However, implementation lags behind intentions, as expenditure ceilings have never been implemented. This constitutes a gap that undermines the effectiveness of the rules-based fiscal framework, most notably by allowing additional spending funded with revenue windfalls. Implementing a credible mechanism of medium-term expenditure ceilings could help mitigate the overspending problem in the short term and provide the

right incentives to get revenue forecasts right. A well-designed expenditure rule would avoid that the debt ceiling bind too often and mandate pro-cyclical consolidations.

Source: Authors

13. As in other EU member states, a key communication challenge for the CBR is the complexity resulting from the combination of European and national fiscal rules, and possible divergences of interpretation on the meaning of these rules between the CBR and the European Commission. For example, the CBR pointed to significant deviation from the path to the Medium-Term Objective (MTO) in 2015 and 2018, triggering the need to activate the correction mechanism. By contrast, in its assessment of the Slovak stability programme, the European Commission concluded that there was “no sufficient ground” to form the opinion that there was significant deviation in 2018. There have also been different interpretations of the national “balance budget rule” by the Ministry of Finance and the CBR. Diverging assessments create an opportunity for the Government to use different interpretations at different times and can confuse wider stakeholders including the public, media and politicians. This arbitrage opportunity represents a weakness in the fiscal framework.

14. A further challenge in Slovakia is that political stability has been shaken recently after the murders of journalist Jan Kuciak and his fiancée in February 2018. There have since been several personal changes in the Government and a fall in the popularity of the ruling parties. At the same time new political parties have been established and have gained popularity, some who promise to fight against corruption and some who have strong disregard for the institutions of the modern state. The political events have tested Slovakia’s police and judicial independence and could potentially define institutional developments in Slovakia for a long period of time.

15. The recent political instability, together with an upcoming parliamentary election scheduled for February 2020, have direct implications for the Council. For example, these factors have contributed to the delayed election of a new Chair for the Council (the current Chair’s term expired in June 2019). The Government coalition parties, whose popularity has been falling, has also taken forward several legislative measures which have increased the budget deficit and worsened long-term fiscal sustainability (such as introducing a cap on the retirement age, higher minimum pensions, etc.). Many of these measures have been approved by Parliament without official calculations of their fiscal impact. This has increased the need for independent costings to be provided by the Council as well as the risk of conflict between the coalition politicians and the Council. At least one of the current coalition politicians publicly declared the ambition to abolish debt brake rule, which could weaken the Fiscal Responsibility Act.

1.2. The CBR’s governance structure and key accountabilities

16. The Council is governed by a three-person Board, one chair and two other members. The chair is elected and can be dismissed by the National Council with the support of at least a three-fifths majority vote of members (i.e. by at least 90 out of 150 members), based on a proposal by the Government. The other two Board members are elected and can be dismissed by the National Council with an absolute majority of members present, one based on a proposal of the President of the Slovak Republic and the other based on a proposal of the Governor of the National Bank of Slovakia.

17. According to the Council's internal rules of procedure, Council decisions are taken by consensus or by majority vote, with each of its Board members having one vote. The Council benefits from inputs on the work programme through its Advisory Panel (see Chapter 2 for a full discussion of the Council's organisational structure).

18. The Council is not required to undergo external audit of their financial statements by law. However, the Council recently initiated an external audit in this respect and have confirmed that it will continue to have this undertaken annually. So far, the audit has been done twice, in 2017 and 2018, by an external auditor selected after a public procurement call for tenders.

1.2.1. Relationship with parliament

19. Fiscal oversight and budget scrutiny by the Slovak Parliament is relatively limited (International Budget Partnership, 2017^[8]). In addition, there is no analytical unit to support the Financial and Budgetary Committee at Parliament in examining the budget, as is good practice across other OECD countries.

20. Once a year, the Council submits to the parliament (the National Council) its report on compliance with the fiscal responsibility and fiscal transparency rules. At this time, the Financial and Budgetary Committee holds a hearing with the Council. Otherwise, there is no systematic communication between the Council and the parliament. Unusually in an OECD context, when the Financial and Budgetary Committee undertakes its budget hearings, it does not ask the Council to give evidence. This may in part be because the Supreme Audit Office publishes a statement on the Government's budget proposal and has a related hearing at a plenary session of parliament.

21. The Council usually communicates with individual parliamentarians upon their request. For the most part, this involves communication about the budget proposal, published reports as well as about costing legislative proposals. The Council can prepare a costing at the request of parliamentarians or at its own initiative. In 2019, there have been 6 costings, among which one requested by an opposition parliamentarian, as compared to 3 costings in 2018 (including 2 requested by opposition parliamentarians).

1.3. The CBR's mandate and ongoing evolutions

22. In line with the OECD's Principles for IFIs and the EU Common Principles, the Council's mandate is set out in its enabling legislation, as shown in Box 1.1. The Council's formal mandate is narrower than some of its EU peers since it does not have a formal mandate to produce or endorse the macroeconomic and fiscal forecasts. The Council focuses for the most part on assessing compliance with fiscal and transparency rules, assessing the long-term sustainability of public finances and monitoring public finances in Slovakia. The Council can also undertake legislative costings and work at its own initiative, or if requested by political party.

23. The Council has been increasingly undertaking costings work. Although costings were rarely undertaken in the Council's initial years, there were three undertaken in 2018 and six in 2019. Costings produced in relation to the recently passed pension reform were particularly well-received by parliamentarians and the public. This has engendered broad support among stakeholders for the Council to do more costings work. The Council is considering producing more costings on a regular basis.

24. At the moment, the Council's costings work is occasional and is done alongside the Council's other tasks. The Council tends to undertake a costing where the information is lacking for a key legislative measure, with the intention of facilitating greater debate and oversight at Parliament. So far these costing needs have not arisen during peak times for the Council, however this approach is not sustainable should there be increased demand. If the Council is to devote more time to this area then it could have significant resource implications. Given that stakeholders expressed appetite for the Council to do more costings, the Council should ensure that new hires include staff with the necessary skills.

25. In order to contain the scale of its costings work to match available resources, it would be advisable for the Council to develop transparent criteria for undertaking costings work. A risk-based approach would allow the Council to select those projects that represent the greatest threat to public finance sustainability *and* have the greatest appeal to the public. Such principles would also avoid the Council to be dragged in too many assignments driven by policymakers' demands without regard for the Council's human resource constraints. Clear rules would also help protect the Council politically in terms of the costings selected. This will be important given that costings is an area of work that can attract high political interest. Box 1.5 provides insights into the criteria used by the Netherlands's CPB for undertaking costings work, which it does both at its own initiative and at the request of cabinet, parliament and individual political parties.

Box 1.5. Criteria used by the Netherlands CPB's for undertaking costings work

In the Netherlands, the CPB does costings *at the request* of cabinet, parliament, individual political parties and occasionally social partners:

1. Policy measures which have been decided on by cabinet are always costed as they have to be implemented in the baseline forecast.
2. Cabinet can also request costing of a specific policy measure under consideration; this is done by a formal request addressed to the Director of the CPB by the relevant ministry and results will be published within three weeks after sending the final report to the ministry.
3. Parliament can make a similar request for costing. As a rule, these have to be formally channeled through the Minister of Economic Affairs, and the results will be published by the CPB.
4. Individual political parties and social partners can request the Director of the CPB directly to do a costing of a new policy, and the result can remain confidential if the party chooses to and does not communicate the results itself.

In practice virtually all of these costings are published. Criteria used by the CPB to assess whether to grant a request under (2) (3) and (4) are: is it a truly new proposal (i.e. there is no earlier costing or only an outdated one), is it a complex reform (i.e. simple extensions or cuts of existing policy measures are well documented or can be obtained from the Ministry of Finance), and does it fit within the CPB timetable and overall priorities?

Apart from these requested costings, CPB periodically undertakes costings *on its own initiative* within the framework of its "promising policies" series. The series contains reports on the Labour Market, Innovation, Education, Mobility, Science policy and Housing. Reports provide an overview of options that cater to a wide political spectrum in order to prevent suspicion of political bias in the choice of policy areas and policy options.

Another important aspect is the timing of the publications. Promising policies reports are published at relatively peaceful moments in the election cycle: at least a year before the elections – before political parties start writing their election platforms and before the debate on policies for the next cabinet period running up to the elections intensifies.

Source: (Rudy Douven, 2017^[9])

26. Stakeholders also spoke of the potential for the Council to undertake costings of election platforms in the future. This is not feasible with the Council’s existing resources given it is operating at full capacity. However, developing increased costing capacity will allow the Council to revisit this matter in the medium term.

1.3.1. Economic and fiscal forecasting in Slovakia

27. Unlike many of its EU and OECD peers, the Council does not have responsibility for producing or assessing official forecasts. Instead, there are two ad-hoc bodies provided by the Law: the Macroeconomic Forecasting Committee and the Committee on Tax Revenue Forecasts. The existence of these committees, which dates back to 2004-05, prevented such forecasting responsibilities being given to the Council in 2011.

28. The forecasting committees work as advisory bodies to the Minister of Finance. The preliminary prognoses are brought by the Ministry of Finance and committee members express their opinion by assessing them as conservative, realistic or optimistic. The prognosis is approved if more than half of regular members assessed it as realistic or conservative.

29. The committees are legally required to meet twice per year, to enable the production of forecasts to inform the budget preparation process in February and June. In practice there is usually a third meeting in September and sometimes more meetings in the case of the Committee on Tax Revenue Forecasts, depending on the budget approval process at Parliament.

30. Both committees are chaired by the Head of the Institute for Financial Policy, an analytical unit at the Ministry of Finance. The Council is a regular member of the Committee on Tax Revenue Forecasts. However, it has no voting rights on the Macroeconomic Forecasting Committee meaning that the Council is one of the few EU IFIs without a formal role in relation to producing, endorsing or assessing the national macroeconomic forecast².

31. The Macroeconomic Forecasting Committee has nine regular members including the Institute for Financial Policy (who chairs the Committee without voting rights), the National Bank of Slovakia, the Institute of Informatics and Statistics, the Slovak Academy of Sciences, and five private banks. With just one analyst currently working at the Council on macroeconomic forecasts, the Council would require additional resources to become a regular voting member.

32. The Committee on Tax Revenue Forecasts has eight regular members including the Institute for Financial Policy (who chairs the Committee without voting rights), the National Bank of Slovakia, the Institute of Informatics and Statistics, four private banks and the Secretariat of the Council.

² Others are the German Advisory Board to the Stability Council and the Czech Fiscal Council.

33. Overall, there are concerns that the Committee on Tax Revenue Forecasts is not functioning as well as it could be in the Slovak context. A key concern among stakeholders is that non-tax revenues and social transfers are not in the Committee's purview as there has been a lack of understanding around the figures presented in recent years.

34. In addition, a number of stakeholders commented on the poor timing of committee meetings. The timing of the meetings was initially set in line with the original proposal for the expenditure ceiling, but there is a view that it does not work in the context of the current budget process. In particular, a number of legislative measures which affect the forecasts are often introduced after the forecast has been approved. Although the Government is legally required to take account of the committee's forecasts in compiling its budget, the official tax revenue forecasts have often been inflated to take into account these new legislative measures in the budget proposal prepared by the Government or during the budget approval process at Parliament. This means that the tax revenue forecasts approved by the Committee have not been used in the budget in recent years.

35. Another reason that the Government and parliamentarians have used different forecasts is because tax revenues have consistently been higher than forecast over the period 2014 to 2018 thanks to higher than expected efficiency in VAT collection and surprising growth in the labour market (further discussed in Chapter 3). Errors in the macroeconomic forecast - which the Committee on Tax Forecasts is obliged to use - have also contributed the tax forecast errors. This means that the Government and parliamentarians have become accustomed to the notion that revenues will be higher than forecast, enabling them to make forecast adjustments which create room for higher expenditures.

36. However, the process of the Government or Parliament changing tax forecasts without any consultation with the Committee on Tax Revenue Forecasts undermines the role of the Committee. A later meeting of the Committee could partially resolve this issue as tax revenue forecasts would then be able to take into account the impact of approved legislative proposals. Greater efforts could also be made to understand the drivers of forecast errors in the past and improve the ability of the Committee to incorporate structural breaks in their forecasting models. At present, the Institute for Financial Policy publish an *ex post* evaluation of forecasts every year, however this is not accompanied by action points to improve the process. Some stakeholders called for the regular *ex post* evaluation of revenue forecasts to be produced instead by the Council, which is seen as a more independent actor, and for this to be accompanied by action points for the Committee as part of a greater focus on continually improving the forecasts.

37. Overall, there is merit in reconsidering the operation of these committees so as to increase the credibility of the forecasting process and bring it closer in line with international good practice. As a first step it would be helpful to change the scope of the Committee on Tax Revenue Forecasts to include non-tax revenues. Some suggest that there would also be value in including social transfers and the Committee becoming a "Committee on Fiscal Forecasts". While this is generally viewed as important for improving fiscal oversight in Slovakia, Committee members also expressed some hesitations given concerns about their capacity to undertake the additional work it would involve.

38. Another potential change is to give the Council a more prominent role to help increase confidence in the forecasts that underpin budgetary planning by strengthening their independence from political pressures. In addition to undertaking the regular *ex post* forecast evaluation, the Council could replace the Ministry of Finance as Chair of the

Committee on Tax Revenue Forecasts to boost the independent nature of the Committee's assessments. In addition, given the Council is now at a stage where it could credibly publish its own macroeconomic forecasts (see Chapter 3), it would be the natural next step for it to become a regular member (with a voting role) of the Macroeconomic Forecasting Committee.

1.4. Engagement with the global IFI community and adherence to international standards

39. From the outset, the Council has made a concerted effort to learn from the experience of other IFIs and to share good practice. It has been a regular and active member of the Commission-organised informal EUNIFI Network since 2013. Moreover, the Council was active in initiation of the autonomous EU Network of IFIs (EU IFIs). The Council called the first meeting of the EU IFIs in October 2013, and has since organised and hosted several other meetings – in the autumn of 2014, 2015 and 2018. The EU IFIs operated informally as a network until the Council hosted a meeting in September 2015 when the Bratislava Agreement of EU IFIs formalised its cooperation by installing a formal leadership with a clear mandate. For the following two years, the Council provided the Deputy Chair of the Network and also allocated resources to a small secretarial structure as a voluntary contribution to its functioning for four years.

40. The Council also participates in the OECD's PBO Network, hosting a social event for the PBO Network's 7th Annual Meeting held in Vienna. In its initial years, it also held Macroeconomic and Fiscal Affairs seminars with international experts and those working in international organisations to build macroeconomic and fiscal expertise in the Council, as well as among the local community of economists. Some seminars were also open to the international IFI community. For example, the UK Office for Budget Responsibility (OBR) and the Slovak Council jointly hosted a seminar on fiscal risks in Bratislava in 2016.

41. Outside of the IFI community, international organisations, such as the EC, the OECD and the IMF, engage with the Council and its work when carrying out assessments in the Slovak Republic.

42. Standards developed by the OECD and EU IFI networks provide a useful comparative context in which to evaluate the Council. Analysis demonstrates that for the most part the Council meets the OECD Principles and EU-IFI Minimum Standards (see Table 1.1 below). This adherence to defined global standards provides the CBR with legitimacy among peer institutions. However, the analysis also identifies two risks underlying the Council's current institutional arrangements: one risk related to its provisions on access to information, and the other related to its funding (these are both discussed further in Chapter 2).

Table 1.1. Does the CBR meet the OECD Principles for Independent Fiscal Institutions? (assessment of legislation and practice)

Key: ●=yes; ◐=partial; ○= no

OECD Principle	Is there related EU-IFI Principle	Assessment	Notes
1. LOCAL OWNERSHIP			
1.1 Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed.	In preamble	●	The CBR was created on the basis of a consensus that brought together all political parties in support of its legal framework. Its draft legislation was developed by a cross-party parliamentary committee and signed by a member of the parliament from each of the political parties represented in the National Council. It was later passed by a majority of 146 out of 147 parliamentarians in the National Council.
1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI.	In preamble	●	The CBR was created as part of a broader set of measure aiming to strengthen Slovakia's fiscal framework and enhance fiscal transparency in the country.
2. INDEPENDENCE AND NON-PARTISANSHIP			
2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, and serves all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.		●	The CBR has no mandate to formulate explicit policy recommendations.
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.	✓	●	According to the CBR's enabling legislation, Board members must have appropriate expertise and experience, at minimum a completed master's degree and at least five years of experience in public finance and macroeconomics. Membership of the Council is also incompatible with holding a position with a political party or political movement, or with running a company. Also excluded are the President of the Slovak Republic, Members of Parliament, Members of the European Parliament, members of the Government, members of the European Commission, mayors,

			Governors of a region, Members of a municipal or regional council, or individuals on the Board of the National Bank of Slovakia. In addition, a former CBR Board member may not become a member of the government until more than three years have expired since the end of their membership. However, there are no restrictions precluding the nomination of a Board member who is a member of a political party, or has recently been a politically-appointed government official.
2.3 Term lengths & number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria & process.		●	Board members serve seven year non-renewable terms. The Act also provides for grounds of ineligibility, along with a removal process should a Board member become ineligible.
2.3 The leadership's term should optimally be independent of the electoral cycle.	✓	●	The terms of Board members are longer than electoral terms.
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.	✓	●	There is no specification on whether Board members should be full or part-time. Although there are no statutory rules for remuneration, Board members are remunerated for their service.
2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.	✓	●	The Council is solely responsible for hiring the staff for its office. Although the growth of the Council's total wage bill is directly linked to the National Bank's wage policy, the Council is free to set the pay scales of its employees.
2.6 Staff should be selected through open competition based on merit & technical competence, without reference to political affiliation, in line with civil service conditions.		●	Staff are recruited based on their ability to carry out the required analytical and administrative tasks to enable the Council to fulfil its functions. Vacancies are always advertised on open job portals.
3. MANDATE			
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.		●	
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 Council's legal framework allows it to determine its own work programme, within the requirements of its mandate.

3.3. Clear links to the budget process should be established within the mandate.		●	
4. RESOURCES			
4.1 The resources allocated to IFIs must be commensurate with their mandate.	✓	●	
4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.	✓	●	The Council is financed from the budget of the National Bank of Slovakia. The National Bank must be immediately reimbursed for these expenses shall it make such a request to the Ministry of Finance.
4.1 Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.	✓	●	The CBR does not have its own budget line or multi-annual funding commitments as it is linked to and financed through the National Bank of Slovakia.
5. RELATIONSHIP WITH THE LEGISLATURE			
5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature.	✓	●	The Parliament has a role in appointing members of the Council, and is also a statutory recipient of one of the Council's required reports.
5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.	✓	●	
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 Council may be asked to participate in hearings of the Budget and Finance Committee. Parliamentary groups can request the Council to cost particular pieces of legislation.
6. ACCESS TO INFORMATION			
6.1 IFI should have full access to all relevant information in a timely manner.	✓	●	The Council has access to information provisions underpinned in the legislation. Although access to information has generally been good since its inception, issues started arising with the Statistical Office in 2016.
6.2 Any restrictions on access to government information should be clearly defined in legislation.	✓	●	
7. TRANSPARENCY			
7.1 IFI should act as transparently as possible, including full transparency in their work and operations.		●	

7.2 IFI reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to parliament.		●	
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.		●	
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.		●	
8. COMMUNICATIONS			
8.1 IFIs should develop effective communication channels from the outset.		●	
9. EXTERNAL EVALUATION			
9.1 IFIs should develop a mechanism for external evaluation of their work.	✓	◐	The Council's enabling legislation does not mention systematic peer review of the reports of the council, or any other monitoring and evaluation arrangements. However, there is an Advisory Panel comprising five well-respected international experts.

1.5. Conclusions and recommendations

43. The Council was established in 2012 as the watchdog to enforce Slovakia's strengthened fiscal framework. It was introduced alongside a package of measures to address Slovakia's rising debt levels, including debt limits, automatic sanctions and correction mechanisms, strengthened fiscal rules for local government and enhanced fiscal transparency. It was a national initiative and has had strong cross-party backing from the beginning, having had its legislation – a Constitutional Act – adopted by a majority of 146 out of 147 parliamentarians in the National Council. Its creation is also in accordance with requirements relating to the European fiscal framework.

44. There remain a number of perceived weaknesses in Slovakia's fiscal framework. While Slovakia has a strict debt brake mechanism, the statutory expenditure ceiling supposed to operationalise the debt brake was never enacted. This has facilitated a lack of fiscal discipline in recent years, with revenue windfalls being used for additional spending instead of reducing the debt. While the Council itself cannot directly address these gaps in the fiscal framework, it should not refrain from continuing to identify the gaps and proposing a menu of options to address them.

45. A further difficulty is that there have recently been different interpretations of fiscal rules by the European Commission and the CBR. This has partly been driven by differences in the European and national fiscal frameworks. There have also been different interpretations of the national "balance budget rule" by the Ministry of Finance and the CBR. Diverging assessments can potentially be exploited by the Government to undermine the CBR's position.

46. In addition, recent political instability in Slovakia, together with an upcoming parliamentary election scheduled for February 2020, have direct implications for the Council. In particular, these factors have contributed to the delayed election of a new Chair for the Council.

47. The Council was set up to monitor the Government's compliance with national fiscal rules, monitor public finances, assess fiscal sustainability and undertake costing activities. In particular, this latter strand of work is of growing interest to external stakeholders. Recent costings of pension reforms have been well-received by stakeholders and this has paved the way for the Council to do more costings work. Given that this work can be resource intensive, it is recommended that the Council develops clear and transparent criteria for undertaking future costings. Transparent selection criteria would also help safeguard the Council's independence by preventing partisan interpretations of decisions to undertake certain costings and not others.

48. The Council does not have a formal mandate to produce or endorse the macroeconomic and fiscal forecasts, as is commonplace among its EU peers. This is due to the existence of two ad-hoc bodies that predate the Council's set-up: the Macroeconomic Forecasting Committee and the Committee on Tax Revenue Forecasts. The Council is a full member of the latter Committee. However, stakeholders have concerns about how effectively the Committee on Tax Revenue Forecasts is functioning, particularly since the Parliament has not used their endorsed forecasts in recent years. Reforms to improve the functioning of these committees would help strengthen Slovakia's fiscal framework. Options include broadening the scope of the Committee on Tax Revenue Forecast's work to include non-tax revenue forecasts, and potentially social transfers. Changing the timing of the committee meetings could also improve its functioning and help ensure that the

approved tax forecasts from the committee are up to date at the time when the government sets out its budget.

49. Given the Council's strong reputation for credible and independent analysis, an increased role for the Council could also lend more independence and credibility to the committees. Specifically, the Council is well positioned to replace the Ministry of Finance as the Chair of the Committee on Tax Revenue Forecasting to help boost its independence. Additionally, given the Council is now at a stage where it could credibly publish its own macroeconomic forecasts (see Chapter 3), it would be an appropriate time for it to become a full voting member of the Macroeconomic Forecasting Committee.

50. As a pioneer of the EU Network of IFIs, the Council is very active amongst the global IFI community, with whom it has continuously sought to foster greater cooperation. From the outset, the Council has made a concerted effort to learn from the experience of other IFIs and to share good practice.

Chapter 2. Resources and independence

2.1. Introduction

51. This Chapter looks at the extent to which the Council has sufficient resources and independence to deliver its mandate. This includes human and budgetary resources, but also access to information. The extent to which these resources are predictable and sustainable impacts whether the IFI has the necessary level of independence to carry out its work. According to the OECD Principles, an IFI must have resources commensurate with its mandate to fulfil it in a credible manner (Principle 4.1). An IFI must also have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals (Principle 6.1). Finally, non-partisanship and independence are pre-requisites for any successful IFI (Principle 2.1).

2.2. Funding

52. The Council is financed from the budget of the National Bank of Slovakia, which must be immediately reimbursed for these expenses shall it make such a request to the Ministry of Finance. Although the Council's budget is set on an annual basis along with provisional information on allocations for the subsequent two years, it does not have a separate budget line or multi-annual funding commitments due to its financing through the National Bank.

53. According to the explanatory document that accompanied the draft of the Council's establishing legislation, the intention was to fund the Council with approximately EUR 2 million in 2012, and to subsequently link its allocation to the nominal growth of the current budget of the National Bank.

54. The Council has autonomy in determining the allocation of funds across various items of expenditure, within the overall spending limit established by the National Bank. As part of this, Chair or Board members must approve financial transactions above EUR 5,000 as well as any changes in the Council's personnel and their remuneration. It is always important to balance oversight with flexibility. In the case of the Council, given that there is already a budget and personnel framework approved by Board members, there is scope to give the Executive Director increased flexibility to take decisions on personnel and their remuneration within this framework. The limit above which Board members must approve financial transactions could also be reconsidered. This modification would be fitting given that the Executive Director is already specified as the accountable officer for the Council in its enabling legislation.

55. As the Council is the part of General Government sector in Slovakia, it is obliged to submit standard reporting on its finances to the Ministry of Finance on a monthly basis.

56. The Council's funding arrangements are relatively unusual across OECD IFIs, with just two other institutions receiving their funding via the central bank (the Estonian Fiscal Council and the Austrian Fiscal Advisory Council). As highlighted in Chapter 1, this design choice was selected by the Council's founding team as a means to safeguard the institution's independence from the Executive, based on challenges encountered by IFIs in neighbouring countries.

57. To date, the resources allocated to the Council have proven sufficient. As previously stated, in 2012, the full possible budget for the Council was EUR 2 million. Since then, it has grown with the current budget of the National Bank. In 2018, actual expenditure amounted to EUR 1.3 million. The compound average growth rate for the budget over the period 2013-2018 was 11%. The biggest increase in spending occurred in 2018 and was mainly driven by a rise in overhead expenses, in particular the purchase of a new software and IT infrastructure as well as hosting an EU IFI Network meeting. In line with the experience of peer IFIs, staff and Board member costs consistently represent 75-80% of total expenditure over time.

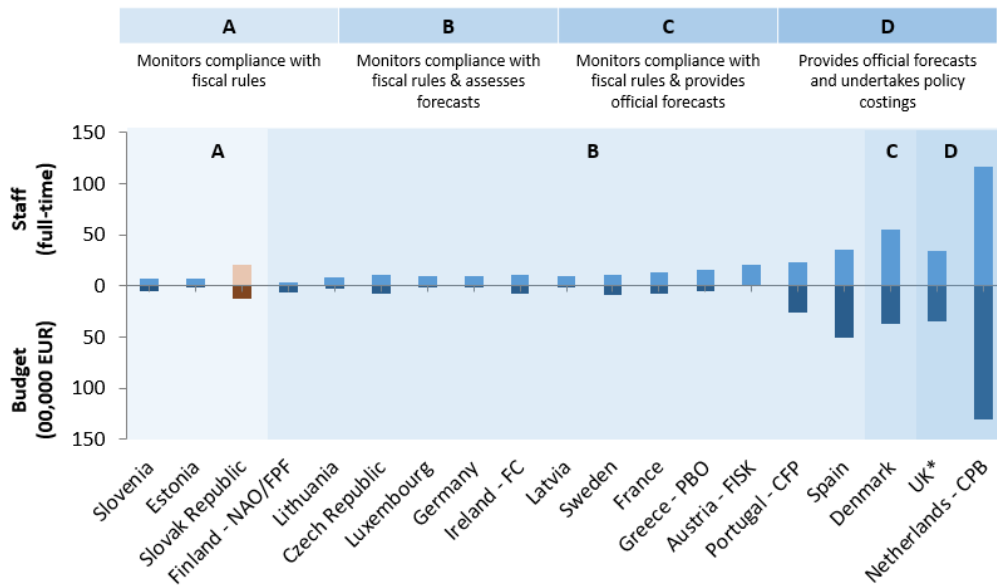
Table 2.1. Annual expenditure of the CBR 2013-2019 (EUR million)

	2013	2014	2015	2016	2017	2018	2019*	Compound average growth rate 2013-2018
Total expenditures	0.811	0.916	1.077	1.087	1.068	1.367	0.807	11%
<i>Staff costs</i>	0.36	0.492	0.55	0.578	0.601	0.666	0.408	13%
% of total costs	44%	54%	51%	53%	56%	49%	51%	
<i>Overheads</i>	0.17	0.141	0.225	0.202	0.15	0.364	0.163	16%
% of total costs	21%	15%	21%	19%	14%	27%	20%	
<i>Board members costs</i>	0.232	0.234	0.26	0.245	0.255	0.256	0.179	2%
% of total costs	35%	31%	28%	28%	30%	24%	29%	

Note: *The figure for 2019 covers the period extending from 1 January to 31 July 2019.

Source: Authors, based on information provided by the CBR.

58. When comparing the Council with peer institutions, it might appear that the financial resources it has available are higher than those available to peer institutions with similar functions (see Figure 2.1 below). However, the Council's mandate is larger than Figure 2.1 would suggest. For example, although the Council does not have an official role to assess or provide official forecasts, it still undertakes fiscal and macroeconomic forecasting to help it fulfil its other roles. In addition, although the Council does not systematically undertake policy costings like its peers in the UK or the Netherlands, it does undertake some policy costings. Given the unique nature of the CBR's mandate, it is difficult to identify the adequacy of its resourcing relative to peers.

Figure 2.1. Mandate and resources of EU IFIs

Note: * The UK also monitor compliance with fiscal rules.
 Data on the budget for the IFI in Austria is not available.
 The Slovak CBR also produced macroeconomic and fiscal forecasts and undertakes some policy costings.
Source: OECD IFI Database 2019.

59. Although the Council's budget has proven sufficient in recent years, the Council is likely to need to increase its funding request over coming years in the context of the recommendations in this Review that it should hire more staff (see forthcoming Section 2.3).

60. Given that the Council receives its funding directly from the National Bank, the Council's ability to obtain the funding it needs is reliant on good relations with the Bank. Although the majority of stakeholders in Slovakia that the review team met with continue to see this as a safer arrangement than the Council receiving funding directly from the Ministry of Finance, the process of the Council obtaining funding from the National Bank should be formalised and made more transparent. There are a number of ways in which this could be achieved. In the first instance it would be helpful for the Council and the National Bank to develop a Memorandum of Understanding (MoU) to formalise the procedures for the Council making funding requests. These procedures could include the publication of letters between the Council and the Bank as well as an escalation process in the case of disagreement. For instance, if the Bank refuses to give the Council the level of funding requested, it might be bound to provide written justification.

2.3. Human resources

61. This section considers the role and performance of the Council's leadership, Advisory Panel and staffing.

2.3.1. Leadership

62. The Council's enabling legislation is strong in terms of the provisions relating to its leadership. The Council is led by the Fiscal Responsibility Board (hereinafter the

‘Board’) established by its enabling legislation. As per article 3 of the *Constitutional Act on Fiscal Responsibility*, the Board comprises three members, including a Chair and two additional Board members. While all Board members are elected and can be recalled by Parliament (the National Council of the Slovak Republic), the appointment process of each member differs. As highlighted in Chapter 1, the Chair is proposed by the Government and is elected with the support of at least a three-fifths majority vote of deputies. The other two Board members are elected with an absolute majority of deputies present, based on the proposal of the President of the Slovak Republic for one Board member, and the proposal of the Governor of the National Bank of Slovakia for the other Board member. All three Board members have the status of public officials.

63. Both the OECD Principles for IFIs and the EU Common Principles state that leadership appointments should be based on merit and technical competence. It is good practice across OECD IFIs to have technical requirements for leadership set out in legislation, as is the case for the Council. Its enabling legislation states that Board members must have “*appropriate expertise and experience*”, including a master’s degree and at least five years of experience in public finance and macroeconomics.

64. Although Board members are selected on the basis of merit and technical competence, without reference to political affiliation, stakeholders raised concerns about the legal appointment process not having been followed in the past, as well as a lack of transparency in the appointment process. Parliamentary hearings for proposed Board members could increase transparency around the shortlisted candidates. As an alternative, the names of the shortlisted candidates could be made public prior to appointment.

65. In general, stakeholders believe appointments are merit based, rather than political. The Council’s enabling legislation provides protections to ensure that Board members are independent and non-partisan. The Act states that Board membership is incompatible with being the President of the Slovak Republic, Members of the Parliament, Members of the European Parliament, members of the Government, members of the European Commission, Mayors, Governors of a region, Members of a municipal or regional council, or individuals on the board of the National Bank of Slovakia. Board members must also have a clean criminal record, and full legal capacity is required. Legal provisions also exist to replace a member upon the expiration of their mandate, their resignation or death, or shall they become ineligible due to a conviction for an intentional crime. In addition, a Board member may not become a member of the Government until at least three years after termination of their term. However, there are no reciprocal legal provisions to prevent a member of a political party or senior official who has been politically appointed from immediately becoming a member of the Council’s Board. The introduction of restrictions in this regard would help safeguard the independence of future leadership appointments. The Portuguese CFP provides a good practice example (see Box 2.1).

66. There are no formal specifications about whether or not the Chair or Board members work full or part-time. However, it would make sense for at least one Board member (preferably the Chair) to be available on a daily basis for practical reasons, such as always being able to respond to the media. There are also no statutory rules for remuneration. However, in practice all Board members are remunerated, with the rate decided upon by the Council. There are no pre-set rules for indexation of Board member’s remuneration and as a result the level has not changed since the Council was established. Internal rules on these matters could be set out as part of a broader push to develop staff regulations and a human resources policy (see Section 2.3.3).

Box 2.1. Provisions to protect the independence of leadership appointments at the Portuguese CFP

The Portuguese CFP has a Senior Board that is a collegial body of five members: a President, a Vice-President, one executive member and two non-executive members. Each member is appointed by the government (Council of Ministers) on a joint proposal of the President of the Court of Auditors and the Governor of the Central Bank.

The Senior Board's terms are delinked from election cycles; this enhances the independence of the CFP. None of the five council members is eligible for appointment to the Senior Board if he/ she has held political positions during the previous two years. The statutes are specific on prohibiting the appointment of members of: parliament (neither European nor national), the government (national, regional or local), an executive body of a political party, or a public manager (these include managers of autonomous public entities, notably state-owned enterprises, municipal enterprises, public institutes and the Central Bank). The statutes also elaborate on qualifications for membership:

- personalities of acknowledged merit, with experience in the areas of economics and public finance and a high degree of independence;
- nationality (a maximum of two non-national members, preferably from EU member states; the President must be a Portuguese citizen);
- residency (the President and the executive member must reside in Portugal); and
- gender (all five members cannot be of the same gender).

Source: (OECD, 2019^[10])

67. Board members serve one non-renewable term, with duration of seven years. The first three Board members were appointed under the special provisions contained in Article 10 of the Act, whereby Parliament had to elect the first Board members of the Council with a three-fifths majority of deputies present. In order to avoid all terms expiring at the same time and thereby disrupting the work of the Council, Article 10 provides for different initial term durations underlying each position. While the Chair remains elected for seven years, the Board member proposed by the President of the Slovak Republic was initially elected for five years, and the Board member proposed by the Governor of the National Bank of Slovakia initially served a three-year term.

68. Both Ľudovít Ódor and Michal Horváth, whose initial discussion paper raised the idea for an IFI in Slovakia, became founder Members of the Council, together with Ivan Šramko, the first and ongoing Chair. Looking backwards, stakeholders report the founding Members as having led the development of outstanding analytical work, which was paramount in enabling the high-quality outputs that have helped the institution establish a reputation for independence and non-partisanship. Through their engagement at the European level, they have also allowed the Council to have an impressive international profile.

69. The appointment of a next Chair for the Council is a key issue. The first Chair has come to the end of his term, however there has not been any announcement with regard to the next Chair. This neglects the legal requirements for the appointment of Board members to occur before the end of the term of the sitting members. It also obliges the first Chair to

stay in office beyond the duration of his term until the nomination of his replacement, as the Act states that: “*the office of the Board member shall terminate upon expiry of the term of office, as of the day on which a new Board member has been appointed*”. As mentioned in Chapter 1, the delay in appointing a replacement for the first Chair is linked to the current political turmoil in Slovakia, and the upcoming election.

70. This Review strongly encourages the Government to adhere to the legal appointment process for future appointments. The fact that the current Chair’s term has already ended but as of yet there is no new chair appointed weakens the position of the current Chair and creates considerable uncertainty for the Council. It also has the potential to bring about strategic inertia if the incumbent Chair becomes reluctant to take key decisions, e.g., about hiring, given that the appointment of a new Chair is imminent. It also raises wider questions about whether or not the need for a three-fifths majority for new leadership appointments makes it more likely that there are delayed appointment decisions during times of political division. On the other hand, many stakeholders do not wish to see a change to the rules of appointment, which they see as crucial to guaranteeing the independence and non-partisanship of the appointment.

2.3.2. Advisory Panel

71. The Council’s enabling legislation does not make provision for an oversight board or advisory panel. However, in line with the OECD’s Principles for IFIs on external evaluation (Principle 9.1), the Board members took the initiative to establish an Advisory Panel comprising five well-respected foreign experts on fiscal councils and rules.

72. The Advisory Panel includes the former head of the Hungarian Fiscal Council and a current member of the Portuguese CFP, the first Canadian Parliamentary Budget Officer, a Senior Deputy Governor at the Italian Central Bank and two academics.

73. The Panel’s main task is to provide advice on methodological issues, to review the quality of the Council’s work and to discuss strategic issues as well as the forthcoming work programme. Its members work on a pro bono basis and are expected to attend a one day meeting in Slovakia on an annual basis and to be available for consultation electronically. Over 2013-18, there have been four meetings, all taking place in Bratislava.

74. It is relatively unusual for all of the Advisory Panel members to be able to attend each annual meeting, due to their wider commitments. For example, at the 2018 meeting, three out of the five Advisory Panel members attended. The meetings were also attended by the current CBR Board Members, founder members Ľudovít Ódor and Michal Horváth, the Executive Director, and technical staff involved in the papers being discussed.

75. The meetings last for one full day and the agenda is often substantive and ambitious, with the Advisory Panel almost always running out of time for discussion. Each Advisory Panel member is usually allocated one task for each meeting, which can be problematic when members do not end up attending. The Council may get more value from its Advisory Panel if it were to allow members to make cross-cutting commentary. The Council records minutes of the meetings which are circulated afterwards. There is relatively little communication between the Advisory Panel and the Council throughout the rest of the year.

76. In its initial stage of existence, the Advisory Panel was particularly valuable to the Board Members and staff through their provision of guidance on methodological developments. Panel inputs have enabled the production of high-quality models and tools which underpin the institution’s reputation as a provider of high-quality, independent and

non-partisan expertise. Now that the Council has developed the models and tools necessary to deliver its mandate, it would be sensible to rebalance discussions from methodological guidance to the Council's work programme and more strategic issues.

77. As the role of the Advisory Panel evolves, the Council may also wish to renew its composition. Although setting up an Advisory Panel comprising high calibre members was a good initiative, these members have had other commitments which has meant that their availability to engage with the Council is limited. To enable the Council to get more value from its Advisory Panel, it would be helpful to extend the annual meeting from one to one and a half or two days. The Council may wish to renew Advisory Panel membership with candidates who are able and willing to devote this time to the role.

2.3.3. Staff

78. According to Article 3(7) of the Council's enabling legislation, the Board has the support of a secretariat. Staff are recruited based on their ability to carry out the required analytical and administrative tasks to enable the Council to fulfil its functions. The Council is solely responsible for hiring its staff. Although the growth of the Council's total wage bill is directly linked to the National Bank's wage policy, the Council is free to set the pay scales of its employees.

79. Staffing levels at the Council have built up steadily over the eight year period since its establishment (see Table 2.2). The Council has hired staff from a range of backgrounds, including directly out of university, from the Ministry of Finance, the National Bank and academia. In total, 60% of analytical staff have a postgraduate degree.

80. Given the small pool of candidates with economic expertise in the Slovak Republic, there was some initial concern that the National Bank of Slovakia and the Ministry of Finance would lose staff to the Council. While this did indeed happen, the Council agreed not to hire more than one staff member from each institution each year in order to mitigate the impact. Although recruitment of sufficiently qualified staff remains a challenge, the ability of the Council to set its own salary packages has helped it maintain competitiveness.

Table 2.2. CBR staffing levels 2012-2019 (in full-time equivalent)

Staff	2012	2013	2014	2015	2016	2017	2018	2019*
Executive Director	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Assistants	0.78	1.00	1.33	2.00	2.00	2.00	2.00	2.00
Analysts	3.00	8.71	10.25	10.75	10.98	11.13	11.36	11.63
- macroeconomic forecasting	0.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00
- budget and fiscal analysis	1.15	3.34	3.20	3.20	3.44	3.66	3.75	3.99
- LT sustainability/costing	0.50	1.24	1.70	1.70	1.69	1.61	1.75	1.79
- microsimulations/costing	0.63	1.72	2.65	3.15	3.15	3.15	3.15	3.15
- revenue forecasting/costing	0.48	1.41	1.70	1.70	1.70	1.70	1.70	1.70
- data analyst	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total FTEs	4.78	10.71	12.58	13.75	13.98	14.13	14.35	14.63

Note: *Figures for 2019 are indicative.

Source: Authors, based on information provided by the CBR.

81. In terms of gender equality, 70% of the staff is male, and 30% is female. To ensure that the Council continues to develop in a way that provides equality of opportunity to all staff, it is recommended that the Council develops staff regulations and a human resources

(HR) policy. This would include details of wage bands for different roles and provisions to also ensure gender equal pay.

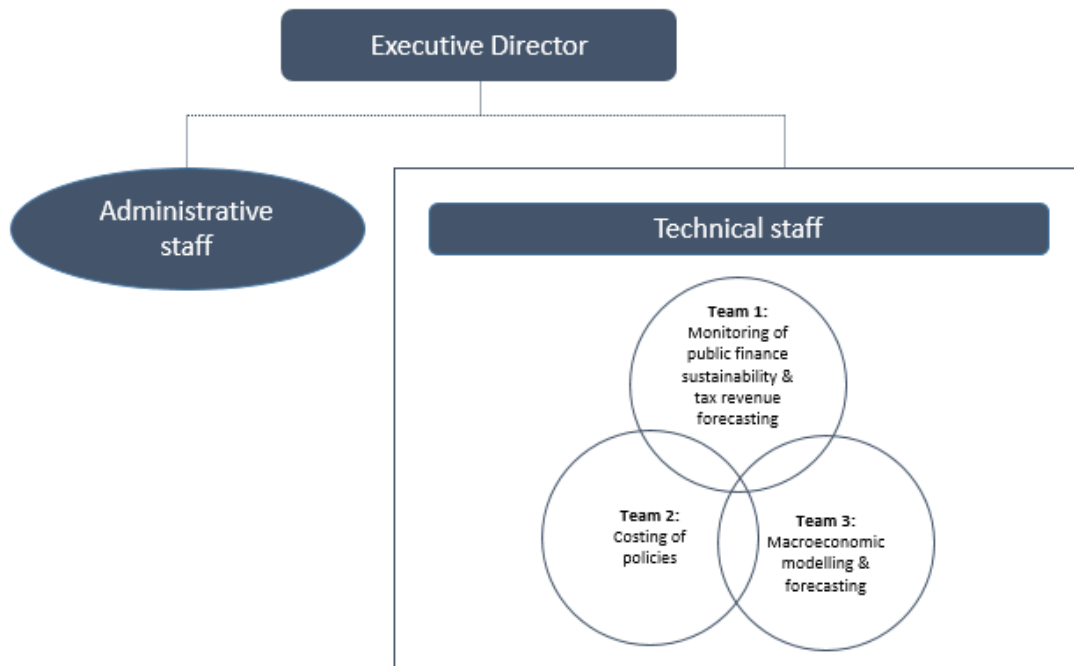
82. While staff turnover has not been an issue to date, the upcoming move of the European Labour Authority to Bratislava will make the labour market for economists even more competitive. A proactive approach to succession management of senior staff seems particularly desirable as the departure of a single key person could severely and durably disrupt the work of the institution.

83. The Council has in the past operated a programme of personnel development activities for its staff. This has mainly focussed on staff participation in training programmes organised by universities and institutes abroad. In recent years, such study visits were co-financed from EU structural funds. This helped compensate for the absence of relevant training opportunities in Slovakia and supported staff retention. However, the ability of staff to attend training in recent years has been constrained given their full workloads. Once immediate capacity issues are addressed, developing training plans for staff would help ensure staff retention over coming years. Overall, investing in designing a systematic HR approach will enable fair and sustainable functioning of the Council as it matures as an institution.

84. Council staff are organised into three functional teams (see Figure 2.2). However, analysts also work across these teams on different tasks. In 2019, most staff were dedicated to the two tasks of conducting budget and fiscal analysis and undertaking tax-benefit simulations (approximately four FTEs for each task). With regard to tax-benefit simulations, it was the decision of the founding members to allocate a high proportion of the Council's resources to this area, given that there is no other institution undertaking this work in Slovakia. The Council has developed solid capacity in this area and is now sharing its microsimulation models with other institutions in Slovakia, like the Statistical Office, the Ministry of Finance, the Slovak Academy of Sciences and the Ministry of Labour. The Council has one FTE dedicated to macroeconomic forecasting. Although the Council does not have macroeconomic forecasting responsibilities, it still produces macroeconomic forecasts as a means to assess the government's forecasts, specifically in relation to fiscal risks and long-term fiscal sustainability. One staff member is project-oriented, with the responsibility to undertake new streams of work which require the development of new models.

85. Although all analysts contribute to the drafting of the reports, some analysts are responsible for checking the overall consistency and quality of documents – akin to team leaders for each report.

Figure 2.2. Organisational chart for the Council’s secretariat



Source: Authors, based on information provided by the CBR.

86. In addition to its internal staffing compliment, the Council outsources a number of support services, including a legal advisor, IT support, a public procurement consultant, accounting and reporting, and payroll.

87. Overall, the analytical capacity of the Council is a key strength of the institution. The Council’s analysts have enabled the production of high-quality outputs and advanced models which have given it a solid reputation for expertise and independence. The Council’s reputation in this respect makes it an attractive working place for economists.

88. While the Council’s staffing levels have been sufficient for it to deliver its mandate in recent years, it is operating at full capacity and there is limited back-up, even across important work streams such as macroeconomic forecasting. As highlighted later in Chapter 3, the high demands on Council’s staff time carries clear operational risks. The absence or departure of a single staff member can potentially disrupt the entire production process. While well-planned succession management could mitigate such risks, those are hard to put in place in an organisation working at full capacity or above. A modest increase in analytical staff would help to remove these operational risks.

89. Another factor which will likely necessitate the Council hiring additional analysts is that the Council is considering launching two additional reports: a Fiscal Space Review (which will be published every four years), and a Welfare Report (which will be published every two years). This, together with the growing demand for costings set out in Chapter 1, will put increased strain on the institution, particularly since costings can be a very resource-intensive task.

90. In this context, and given that the Council is not yet spending its full possible budget, it is appropriate that the Council has plans to start recruiting additional staff.

Overall, the Council estimates that to mitigate operational risk, dedicate more resources to costing and launch two additional reports it will require three additional FTE analysts.

91. In addition to hiring more staff, the Council may also wish to reconsider how it allocates resources across existing tasks to try and address capacity issues. At present, the Council seems under-resourced in relation to fiscal analysis and macroeconomic forecasting. The Council could also take measures to distribute its workload more evenly throughout the year to reduce capacity pressures. Although publication dates are set in the law for four reports, one solution to circumvent intense publication periods could be to postpone some of the publications by publishing a summary report when mandated to and a full report later in the year. Some stakeholders also suggested that the forthcoming Fiscal Space Review could be published alongside the Long-Term Fiscal Sustainability Report.

92. A further challenge of the existing organisational structure is that the Council has one Executive Director to whom all analysts report. There are no team leaders under the Executive Director. This puts significant burden on the Executive Director role. As a solution, the Council could consider hiring an Operations Manager responsible for back-office functions, including HR, to support the Executive Director. Alternatively, the Council could consider establishing team leaders under the Executive Director to manage each of its technical work streams as well as appointing a team leader for administrative staff.

93. When recruiting new staff, finding candidates with the right skillsets is likely to be challenging in Slovakia. The Council may have to hire junior staff directly from universities, or recruit internationally. As financial resources are not a binding constraint, some consideration could also be given to outsourcing discrete pieces of work in Slovakia or elsewhere where that might be appropriate.

94. Another challenge relating to the recruitment of new staff is that the Council has limited office space in the National Bank. The National Bank should work with the Council to develop options for how it might accommodate extra staff in its office space over coming years.

2.4. Access to information

95. There is an inherent asymmetry of information between the government and an IFI. Principle 6.1 of the OECD Principles for IFIs outlines that, in order for the IFI to have timely access to all relevant information, access to information should be guaranteed through legislation and practically reaffirmed through protocols or MoU. This includes information on methodology and assumptions underlying the budget and other fiscal proposals. “*Appropriate access to information*” is also underpinned by the EC Common Principles.

96. According to Article 4(2) of the Council’s enabling legislation, the Council has the right to require government entities to provide data that are necessary to carry out its functions. Public entities must provide advice and the necessary assistance upon request. In general, the law provides strong underpinning for the Council’s access to information, without defining specific exceptions of the general principle of access to information.

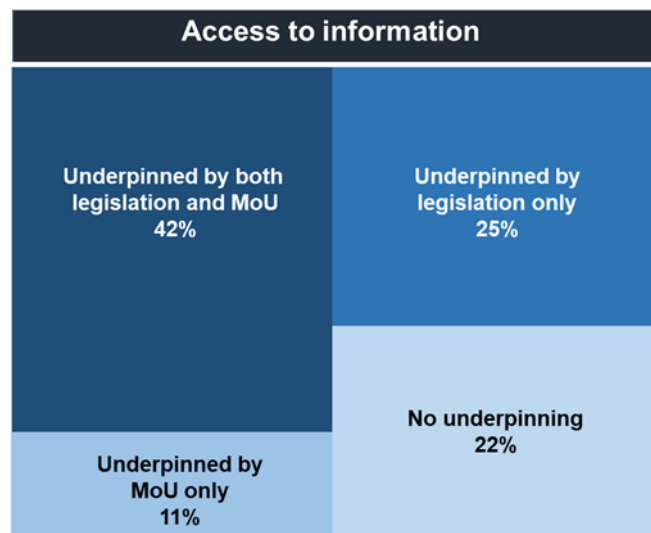
97. Access has generally been good in the first years after the establishment of the Council. It has very good access to the raw real time data of the Treasury. This is, also by international standards, very good practice. Since 2015 however, two issues have arisen with respect to access to information.

98. Firstly, while the Council has very good access to (raw) data via government systems, it has experienced challenges in getting timely and comprehensive answers to follow-up questions relating to this data and to the budget. The Council also struggles to get combined anonymised individual data needed for microsimulation work associated with costings. In practice, the Council reports recurrent difficulties accessing the information it needs to deliver its mandate, with information requests frequently denied on the basis that the information is not available. In other instances the information is provided, but to insignificant detail, or with the caveat that it should not be published (even if the Council believes that there are no sensitivities around the information). There has been a trend that the quality of additional information and explanations provided by the Government has gradually deteriorated.

99. At the same time, central government stakeholders report that the Council's requests have at times created a significant burden in terms of additional workload and that there are a number of cases where the information requested is simply unavailable or cannot be provided in the timeframe requested. This is especially the case when it concerns financial information on other entities. Central government stakeholders suggest that the Council could also approach these entities directly with their questions.

100. Access to information often relies on good relationships between staff at the IFI and the government. Interviews with stakeholders suggest that there is room for improvement on this point. In addition, experience in other countries suggests an MoU on access to information between an IFI and the government can also provide the basis for a more constructive and collaborative access to information relationship. Around 50% of OECD IFIs have an MoU in place (see Figure 2.3). It helps to manage expectations of both the IFI and government departments by establishing processes for information requests, including indicative and realistic timeframes for responses, steps to take when requests are not complied with, and provisions regarding the treatment of confidential data. By formalising these rules of the game in an MoU, the frequent counterproductive repetition of discussions concerning explanations and follow-up questions can be avoided.

Figure 2.3. Arrangements through which access to information is secured in OECD IFIs



Source: (OECD, 2019^[12])

101. The current practice by the Council to encourage responses to its information requests through publishing information on the requests it makes and the responses to them, is good practice among OECD IFIs. The Council could, however, make this information more prominent on its website or publish summary statistics in an Annual Report. The Australian Parliamentary Budget Office (PBO) monitors and reports on information requests sent and responses received, both in its annual report and in reports to the Senate Finance and Public Administration Legislation Committee.

102. Secondly, the Council is also not able to access important data from the Statistical Office of the Slovak Republic (hereafter referred to as “the Statistics Office”) due to a “legal impasse”. In the first place, this concerns the Council’s wish to be involved earlier in the Excessive Deficit Procedure (EDP) notification process so that it can contribute to increased quality of data, thus lowering the need for revisions following the April notification. In addition, the Council needs more in-depth data than those published by Eurostat in order to conduct its *ex post* analyses of public finances, including the assessment of compliance with national fiscal rules. In order to be able to discuss current public finance developments, the Council should have access to preliminary data on the actuals, including specific statistical adjustments made by the Statistics Office to align the source data with the ESA 2010 standards.

103. The Council has asked the Statistics Office for access to data that transforms the cash-based source data into data reflecting ESA 2010 methodology and to be able to participate in discussions before the data is sent to Eurostat for the Excessive Deficit Procedure (EDP) notification. However, the position of the Statistics Office is that this is not possible due to legal obstacles, specifically Regulation (EU) n° 223/2009 on European statistics and European statistics Code of Practice. The Statistics Office is reasoning that the Council is not a member of the national and/or European statistical system, nor responsible for the development, creation and dissemination of European statistics, and thus should not have access to any confidential statistical data. The Statistics Office is of the view that the majority of data requested by the Council is confidential. However, Regulation (EU) n° 473/2013 requires Slovakia to have legal provisions in place to ensure adequate access to information needed for its IFI to perform its statutory tasks. In letters to the Council, Eurostat as well as DG ECFIN have confirmed that regulation (EU) n° 223/2009 should not a priori prevent IFI’s from accessing relevant data, while they have also reminded that the full responsibility in the development, production and dissemination of European statistics lies with the national statistical authorities.

“[Eurostat] would like to stress the fact that Regulation (EC) No 223/2009 on European statistics designates the national statistical authority in each Member State as the body for having the responsibility for coordinating all activities at national level for the development, production and dissemination of European statistics. This coordinating responsibility shall cover all other national authorities involved in the process.”

104. To resolve this legal impasse, the Statistics Office and the Council should establish an MoU to underpin arrangements for sharing data, including the underlying information for EDP notifications. Such written cooperation agreements exist in a number of other European countries, such as Luxembourg and the Netherlands (see Box 2.2 for details).

Box 2.2. Information sharing arrangements between the IFI and the national statistics office in Luxembourg and the Netherlands

Luxembourg

In Luxembourg, the National Statistics Office sits in the Ministry of Finance. A Memorandum of Understanding between The National Council of Public Finance (CNFP) - the independent institution monitoring the public finances of Luxembourg - and the Ministry of Finance sets out agreed procedures in relation to access to information. This includes the agreement that the Ministry of Finance will send the CNFP information on notifications under the Excessive Deficit Procedure as soon as possible when available.

Source: (CNFP, 2017_[13])

Netherlands

In the Netherlands, CPB Netherlands Bureau for Economic Policy Analysis (CPB) produces the independent macro-economic and fiscal outlooks, and the Advisory Division of the Dutch Council of State is designated as the body charged with the independent supervision of compliance with the fiscal rules.

CPB has a long standing working relationship with Statistics Netherlands (CBS) which historically gave CPB access to economic and government finance data before publication and in a more detailed breakdown than published by CBS. This exchange used to be based on an informal agreement. However, this has recently been formalised in a written bilateral agreement.

This agreement makes explicit which statistics and detailed break-downs CBS will provide at which point in time. CPB can ask for additional information against payment. This is advantageous for both institutions as it guarantees CPB that it will obtain the required data in a timely manner for its recurrent analyses and forecasts, while it gives CBS a right to refuse or demand payment in case of additional requests beyond the (already extensive) information it provides under the agreement.

In addition, CPB has access to CBS micro-data for specific research projects via remote-access terminals, under the standard CBS-terms for researchers. CBS also provides CPB with very detailed information on incomes, taxes payed and benefits received for a large sample of households in order to update the CPB tax-benefit calculator.

Source: Authors

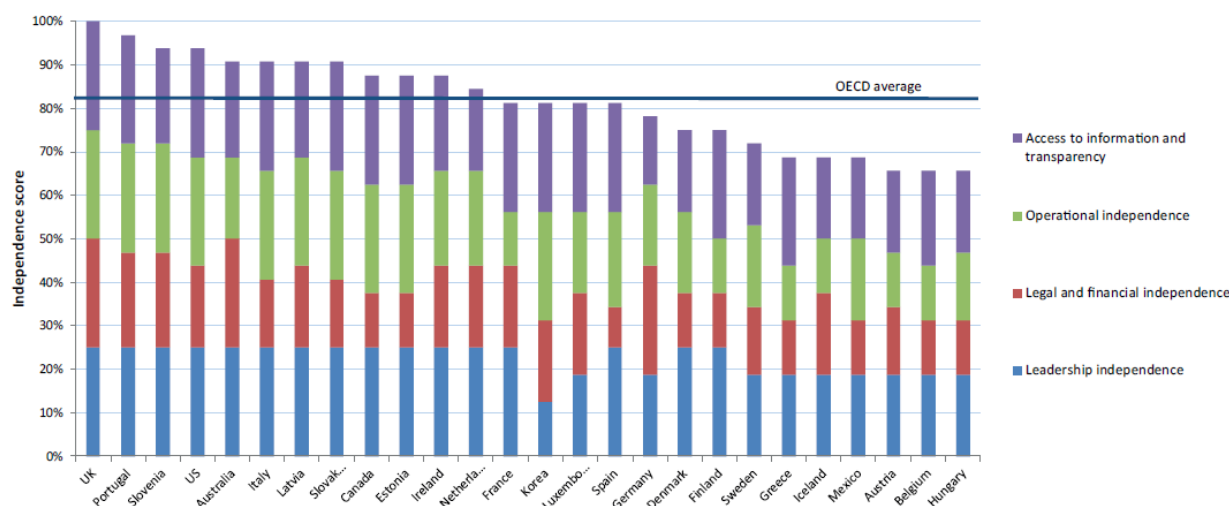
2.5. Independence

105. An IFI must be able to demonstrate its independence (or freedom from political interference). Even the perception that an IFI is not independent can seriously undermine an IFI's reputation and credibility as a politically neutral arbiter of the numbers. An assessment of Council's legislation shows that it meets the standards related to independence in the OECD Principles for IFIs.

106. The Council scores above the OECD average in an index of IFI independence (von Trapp and Nicol, 2018_[14]). This indicator comprises leadership independence, legal, financial and operational independence, and access to information and transparency.

107. Although the Council scores relatively low on legal and financial independence, this is partly due to the fact that it does not have a separate budget line or multi-annual funding commitments as it is linked to and financed through the National Bank. However, this has not posed a problem for the Council's independence as was already highlighted in Section 2.2.

Figure 2.4. Measuring IFI independence: A first pass using the OECD IFI database



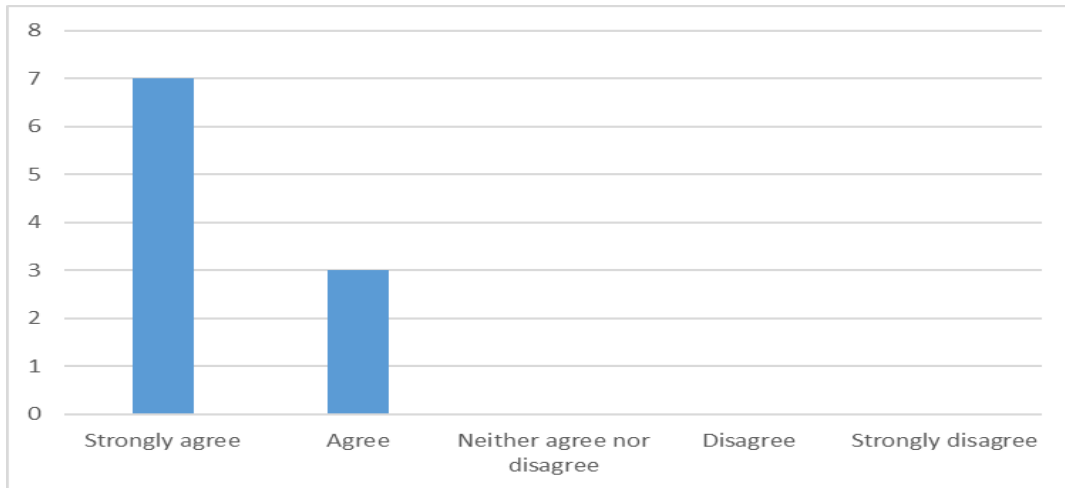
Source: (von Trapp and Nicol, 2018^[14])

108. Linkages to other independent institutions can be a strength and a weakness for OECD IFIs. On the one hand, linkages can mean that a new IFI benefits from the good reputation of another more established institution in its early years and allow the burden of providing back-office facilities to be shared with a larger institution. On the other hand, it can put the IFI at the mercy of good relations with these linked institutions, e.g., for continued funding. On the whole, the Council's linkages to the National Bank have served it well. Despite the Council receiving its funding from the Bank, and also being physically located in the Bank's offices, there is no chain of command between the institutions and the Council has complete autonomy over how it operates. The Bank itself is seen as a very independent institution in Slovakia and has always dealt with the Council's funding requests in a non-partisan way.

109. Among national stakeholders, the Council stands out as one of the (few) truly independent organisations in Slovakia. In a ranking by INEKO, a Slovak NGO and economic think tank, the Council comes first in a ranking of the independence of 18 Slovak institutions, and the National Bank comes second (INEKO, 2019^[15]). In a survey of the Council's major stakeholders (government, media, think tanks, international institutions) undertaken for this Review, all respondents indicated that they (strongly) agree with the proposition that the work produced by the Council is free from political interference (see Figure 2.5).

Figure 2.5. Perceptions of stakeholders on the work produced by the CBR

Number of stakeholders responding to: “the work produced by the CBR is free from political interference”



Source: OECD survey of CBR stakeholders, 2019.

110. One of the key reasons that stakeholders perceive the Council to be independent is because of its leadership and the fact that the Chair has to be appointed by at least a three-fifths majority vote in Parliament. Also, the Council’s openness and transparency are mentioned by stakeholders, as well as its willingness to challenge the administration. One of the examples of a truly independent stance by the Council which was frequently cited by stakeholders is the position that the Council took on the recent (re-) introduction of a fixed pension age. Another example of Council analysis challenging the administration which was mentioned by various stakeholders are the “budgetary traffic lights” (see Section 3.3.2).

111. An IFI’s independence may come under stress at given ‘pinch points’ where there is potential for greater undue influence to be exerted. This includes leadership transitions, particularly relevant to the Council at this point in time while it is awaiting the appointment of its second Chair. Stakeholders understand this vulnerability, and the appointment will be closely watched as a signal of the Government’s continued commitment to an effective and independent IFI, and to fiscal responsibility more broadly.

2.6. Conclusions and recommendations

112. The Council scores above the OECD average in an index of IFI independence. Although it is marked down because it is financed through the National Bank, there is no chain of command between the institutions and the Council still has complete autonomy over how it operates. This design choice was selected by the Council’s founding team as a means to safeguard the institution’s independence from the Government, based on challenges encountered by IFIs in neighbouring countries. Future resourcing is reliant on good relations with the National Bank. Although this is viewed as a safer arrangement than the Council receiving funding directly from the Ministry of Finance, the process could be formalised and made more transparent, for example through the establishment of an MoU between the Council and the Bank and the publication of relevant letters between the two institutions.

113. The Council has a team of highly qualified staff that are well regarded among national peers. Although the Council is able to deliver its mandate within the existing staffing compliment, it is at full capacity. This means that staff no longer have time to undertake training and development and the Council lacks back-up on some important work streams. Increased demand for costing work together with the introduction of two new publications (a Fiscal Space Review and a Welfare Report) will also increase pressure on the Council's staff. The Council should recruit new analytical staff to mitigate the risks associated with operating at full capacity and so that it is able to operate sustainably in the context of delivering additional costings and new publications. It may also wish to look at how resources are allocated across its outputs. The Council's fiscal and macroeconomic work seems particularly under-resourced. In addition, there could be ways of spreading the workload more evenly across the year.

114. In the Council's current organisational structure, all staff report to the Executive Director, who has responsibility for overseeing the production of outputs as well as organising back-office functions, including HR. This puts significant burden on the Executive Director role. As a solution, the Council should consider hiring an Operations Manager to support the Executive Director role or establishing team leaders for each technical work stream, as well as a team leader for administrative staff. This should also enable the Council to have the capacity to develop important documents to help it function in a sustainable and fair way, such as staff regulations and a human resources policy. This would include details of wage bands for different roles and provisions to also ensure gender equal pay.

115. The Council is headed by a Board comprising three members, including a Chair and two additional Board members. The current Chair's term has already ended but the legal process for appointing a new chair has not been followed and as yet there is no new chair appointed. To give stakeholders confidence in the independent and non-partisan nature of leadership appointments, there should be restrictions precluding the nomination of a Board member that is a member of a political party, or who has recently served as a high-level government official appointed by political parties. Going forward, the legal process for appointments should be adhered to, meaning all leadership appointments are made in advance of the term of the current member's term expiring. The Council would also benefit from increased transparency around the appointment process, e.g., through parliamentary hearings for proposed candidates.

116. The Council has an Advisory Panel made up of five international experts, and members meet with the Council on an annual basis. In its initial stage of existence, the Advisory Panel was particularly valuable to the Board members and staff through its provision of guidance on methodological developments. Now that the Council has developed the models and tools necessary to deliver its mandate, it would be sensible to rebalance Advisory Panel discussions from methodological guidance to the Council's work programme and more strategic issues. The Council may wish to renew Advisory Panel membership with candidates who are able to devote more time to the role.

117. While the Council has very good access to information via government systems, it has experienced challenges in getting timely and comprehensive answers to follow-up questions relating to this data. The Council and the Ministry of Finance should develop an MoU on access to information. In addition, the Council may wish to publish summary statistics on the extent to which access to information requests are fulfilled and present this in its annual report.

118. The Council is also not able to access important data in the EDP notification process from the Statistics Office due to divergences in the interpretation of Regulation (EU) n° 223/2009 and Regulation (EU) n° 473/2013. To resolve this, specific arrangements for sharing the data series, and in particular the underlying information for EDP notifications between the Statistical Office and the Council, should be codified in an MoU.

Chapter 3. Methodology and outputs

3.1. Introduction

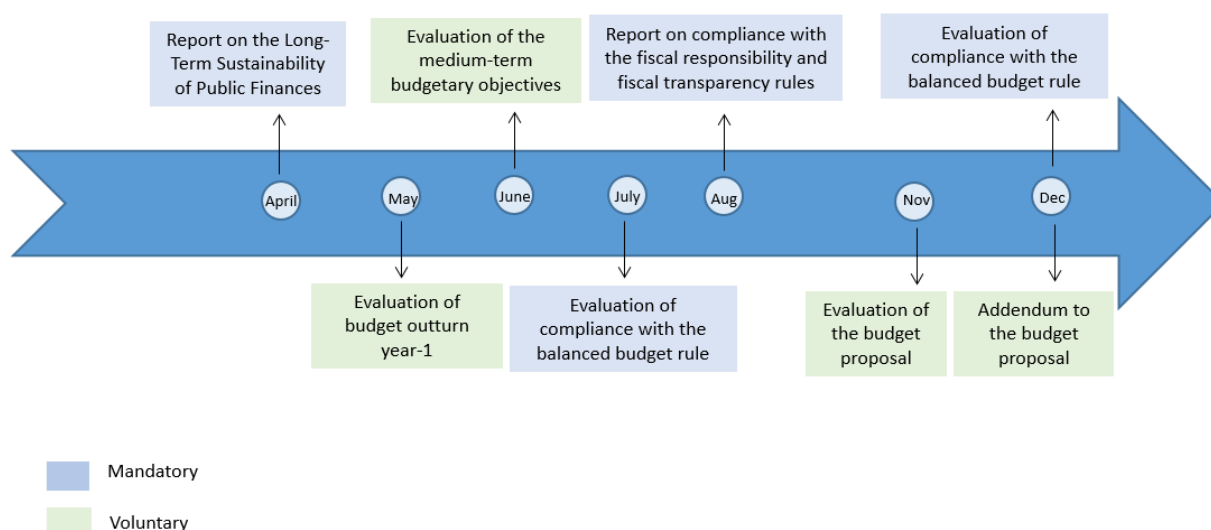
119. This chapter discusses the Council’s outputs as well as the methodologies and analytical tools used to deliver them. In doing so, the chapter includes a technical assessment of the Council’s models, and benchmarks them against those operating in peer institutions. The chapter also highlights key issues for the Council’s reports, including quality control and continuous improvement, the report production cycle, the accessibility of reports, the assessment of tax and macroeconomic forecasts, and the treatment of uncertainty.

3.2. The CBR’s outputs

120. The Council prepares a total of eight regular reports per year, with a primary focus on assessing fiscal sustainability, budget monitoring and compliance with fiscal and transparency rules (see Figure 3.1). Half of those reports are mandatory with legally binding deadlines. In addition, two reports — the report on the Long-Term Sustainability of Public Finances and the report on the Evaluation of the Government Budget Proposal — are formally launched during press events and have a “flagship” status.

121. Its regular reports are supported by discussion and working papers. Recent innovations include the monthly publication of accessible technical updates, including a “budgetary traffic lights” series that monitors within-year budgetary performance, updates to short-run macroeconomic forecasts using nowcasting models and updates to tax revenue forecasts. In addition, the Council can undertake costings of draft legislation submitted to parliament, on its own initiative or at the request of official stakeholders.

Figure 3.1. CBR reports throughout the year



Source: Authors, based on information provided by the CBR.

122. As highlighted in Chapter 2, the intense publication schedule and the sophistication of the supporting analytical work undeniably strain human resources and require a considerable amount of standardisation in the production of the documents. In addition, the quick succession of production cycles during the year leaves little space to carefully think through the messaging and narrative of the reports.

3.3. Technical assessment of CBR methodologies

123. The Review team assessed the appropriateness of the Council’s tools to deliver its mandate according to the technical assessment framework for IFIs developed by the OECD’s Directorate for Public Governance. This technical assessment framework weighs both academic and practical considerations. The framework also compares an IFI’s tools to the practices of other institutions in the OECD’s PBO Network and draws upon research and guidance from other supranational organisations.

3.3.1. Assessment criteria

124. The Council relies on a broad toolkit of statistical models and methodologies to deliver on its mandate covering a broad range of methodologies — from straightforward statistical filters to multi-equation econometric models, state-of-the-art time-series methods, micro-simulation tools and full-fledged dynamic stochastic general equilibrium models. The framework assesses the technical fitness of an IFI’s macro-fiscal analysis tools across six assessment criteria (Table 3.1). The goal was to determine whether these tools are appropriate for the Council’s analysis and whether they meet standards practised by other IFIs.

Table 3.1. Assessment criteria

Theoretical justification	Does the academic literature support this model, or set of tools, for this analysis?
Accuracy	Is the tool likely to give accurate results for this type of analysis?
Communication	Can the methodology and results be easily and convincingly communicated to parliamentarians and the public?
Transparency	Are assumptions clear? Does the model use free and open data? Has it been published in a manner that lets the public recreate its results?
Resources and business continuity	Does the model require many analysts with specialized skill sets to maintain?
International use	Does it compare favourably to approaches used at other research institutions and those recommended by authoritative reference manuals?

125. Choosing a model involves complex trade-offs between opposing considerations. Analysts in IFIs must exert pragmatism in resolving these dilemmas and prioritise certain criteria over others when choosing an appropriate tool for the job. For this reason, it is far from straightforward to offer a final pronouncement on whether a tool is the *most* appropriate for the analysis in the context of the Council. Instead, the OECD considers the results of the six assessment criteria and offers a subjective opinion on whether each methodology is *appropriate* for delivering the mandate.

3.3.2. Results

126. The technical assessment found that the Council has chosen to build numerous state-of-the art models. The models the Council uses are more than adequate to fulfil its mandate in a credible way (see summary in Table 3.2).

Table 3.2. Assessment of the CBR's models and methodologies³

Model	Approach	Assessment
Macroeconomic medium-term econometric model	A standard macro econometric model with a neoclassical supply block and error correction equations for the components of aggregate demand. It has a detailed fiscal block that allows analysis of interactions between fiscal variables and the real economy. The model is used for: macro forecasting; estimating fiscal multipliers; and measuring economic impacts of fiscal measures.	Appropriate
Macroeconomic nowcasting model	A dynamic factor model that is used for short-term forecasting of macroeconomic indicators for up to two quarters.	Appropriate
Structural Vector Autoregressive (SVAR) model	A multivariate autoregressive time-series model with restrictions on structural variables. It is used for alternative estimates of multipliers and assessment of alternative macroeconomic scenarios.	Appropriate
Econometric models for flash estimate of macroeconomic variables	A set of error-correction type equations for flash estimates of GDP and its components. This is used in monitoring the actual development of the economy.	Appropriate
Excise and withholding tax model	A set of models for forecasting in-year revenues and updating medium-term revenue forecasts. The results are used to identify risks to the official revenue forecasts.	Appropriate
Value added tax (VAT) revenue forecasting	In-year forecasts are done by extrapolating the seasonally adjusted time-series from VAT returns. Medium-term forecasts are based on tax bases obtained from Macroeconomic Committee forecasts and a constant VAT elasticity.	Appropriate
Corporate income tax and personal income tax	In-year forecasts are obtained on the basis of the previous year's revenue collection and forecast change in tax bases. Medium-term forecasts are based on the tax bases obtained from Macroeconomic Committee forecasts and a constant tax elasticity.	Appropriate
SIMTASK	A microsimulation model for costing reforms to the tax and transfer system. It is used to estimate the static impacts of reforms and consequences for income inequality.	Appropriate
VAT simulation model	A microsimulation model for costing VAT liabilities of households when VAT coverage and rates are changed. This is linked to SIMTASK.	Appropriate
Labour supply model	A microsimulation model that evaluates the impact of changes in the tax and transfer system on the labour participation rate based on a probit model.	Appropriate
W_hat if model	A micro-macro model that combines a microsimulation model of individuals' behavioural responses to changes in the tax and transfer system and a macroeconomic model that determines the impact of the behavioural responses on macroeconomic variables.	Appropriate

³ The models and studies that focused on a one-time assessment of an issue were not assessed.

Microsimulation model of social security individual records	A microsimulation model for simulating revenues from social insurance and health insurance contributions, and income tax. This is used as a check on results from SIMTASK.	Appropriate
Budgetary traffic lights (BTL)	A short-term fiscal model to project the in-year fiscal balance to identify the risks of deviation from the initial budget balance target.	Appropriate
True deficit (Structural budget balance)	A methodology to improve the estimate of the structural budget balance. It incorporates disaggregated gap measures for revenue and expenditure components; estimates elasticities with respect to relevant basis; and identifies one-off and temporary measures on the basis of a set of pre-determined criteria.	Appropriate
Dynamic Stochastic General Equilibrium (DSGE) model	The model includes several adjustments to the standard DSGE model. It includes an array of expenditure and revenue instruments; it takes into account domestic and euro-area rules; and, it allows a risk premium on government bonds, resulting from the past fiscal performance. The model is used to assess consequences of fiscal consolidation measures.	Appropriate
Public finance baseline scenario	A bottom-up model to project revenue and expenditure in the long run for assessing fiscal sustainability and estimating the fiscal gap.	Appropriate
Output gap (HP-filter)	An HP-filter model to estimate trend GDP and output gap. This is used as an input into estimating the General Government structural budget balance and the assessment of long-term fiscal sustainability.	Appropriate
Output gap (PCA)	A principal component model that estimates the output gap directly, using several soft indicators of the cyclical components of GDP. This model provides an alternative estimate of the output gap as an input into the estimation of the General Government structural balance and the assessment of long-term fiscal sustainability.	Appropriate
Output gap (State-space)	A multivariate Kalman filter technique for estimating potential output and the output gap. This provides the third alternative estimate of the output gap. This, along with other estimates of the output gap, is used as an input to the estimation of the General Government structural balance and the assessment of long-term fiscal sustainability.	Appropriate
Slovak pension model (SLOPEM)	A long-term cohort-based projection model that combines demographic projections with a Cobb-Douglas production function and the pension system of Slovakia. It provides long-term projections of pension benefits as an input into the estimate of long-term fiscal sustainability.	Appropriate
Projection model for the armed forces pension system	It is the same as SLOPEM adjusted for the specifics of the pension system for the armed forces.	Appropriate
Microsimulation model of health care costs	A microsimulation model based on a database of all insured persons in Slovakia. The model is supplemented by a demographic block and a macroeconomic block. This allows estimating the long-term cost of the health care system, taking into account demographic changes.	Appropriate
Impact of Fiscal developments on long-term growth	The model uses a Cobb-Douglas production function supplemented by a pooled regression model to estimate the impact of fiscal developments on yield spread and long-term economic growth. This is used in assessing how the interaction between debt accumulation and the real economy affects fiscal sustainability.	Appropriate
Endogenous fiscal limits	The model is designed to evaluate long-run impacts of fiscal reforms on sovereign debt sustainability and to estimate the default probabilities, using long-term demographics and output growth projections.	Appropriate

Note: The models and studies that focused on a one-time assessment of an issue were not assessed.

Source: Authors.

127. On **theoretical justification**, the Council has been successful in building a large suite of highly sophisticated statistical and mathematical models in a short period of time. For each of its tasks, the Council uses a set of alternative models to improve the robustness of its analyses and estimates. All models are built with state-of-the-art statistical techniques, are theoretically sound and are consistent with broadly accepted methodologies in the economics profession.

128. On **accuracy**, due to the lack of sufficiently long time series on forecasts and outturns, the Council has not yet looked into the accuracy of its forecasts and the performance of its models. A forthcoming Council paper emphasises the importance of *ex post* evaluation of economic forecasts as a tool to improve future forecasts and raise awareness of uncertainty associated with any forecast. In this context, it is advisable for the Council to regularly monitor forecasting errors and analyse them *ex post* to increase the transparency and credibility the Council's forecasting exercise. The Council's Advisory Panel could be tasked to provide a first assessment in this regard.

129. On **communication**, while the theoretical rigour of the Council's models and the use of advanced statistical techniques may help to enhance the credibility of its analyses, they may impede effective communication of the results. The use of multiple alternative models to prepare a forecast or estimate a key indicator, such as the output gap, may improve the robustness of the results. However, it becomes more difficult to link the results to their underlying drivers and to explain them in a non-technical manner to stakeholders. More reliance on simpler structural models facilitates communication of the results.

130. On **transparency**, the Council matches or exceeds the level of transparency expected from an IFI. It provides more information about its models and methodologies than most IFIs. The Council has based most of its models and methodologies on detailed working papers or peer-reviewed published papers. These papers provide ample information on the theoretical and empirical justification for the chosen methodologies. They also provide information on the underlying assumptions and the simulation properties of the models, if necessary. Less information is available on the tax revenue models. The Council should consider providing documentation for all its models when it has sufficient resources to do so.

131. On **resources and business continuity**, the Council may find it challenging to maintain business continuity, given that it is operating at full capacity and some of the models are complex and difficult to operate and maintain. The Council has built a large array of complex statistical and mathematical models. Continued maintenance and development of these models is resource intensive. Doing so also requires significant expertise. The Dynamic Factor models, the Principal Component model and all the microsimulation models built by the Council require significant amount of skilled resources to operate and maintain. The Council must establish a plan to ensure that it has a back-up for each of its models and that new recruits have the opportunity to learn the intricacies of the models from the departing employees. Otherwise, the performance of the models may deteriorate over time.

132. On **international use**, the Council's general approach to short-term monitoring of economic and fiscal developments and medium- and long-term fiscal projections is similar to the approach used by other IFIs, including Canada's PBO, the UK's OBR and the US Congressional Budget Office (CBO). In terms of the range and complexity of its models, the Council is comparable to Spain's AIReF and the Netherlands CPB. However, a key difference is the use of multiple alternative models to prepare a forecast or estimate a key indicator. The Council should explore the potential net benefits of relying on a more

streamlined toolkit going forward. The Council could leverage the expertise on the Advisory Panel to provide a targeted evaluation, using criterion such as which of the models are vital for the Council's publications?

3.4. Key issues for CBR reports

133. The Council was established as an independent body to provide professional, comprehensive and politically unbiased information to the public on the development of the public finances. Key elements of its mandate include provision of assessments of whether the budget is consistent with maintaining the long-term sustainability of the public finances and compliance with national fiscal rules. The core mechanism through which the Council delivers on its mandate is the publication of its eight regular reports (highlighted previously in Figure 3.1).

134. Supported by a dedicated and skilled staff, these outputs are produced to a high standard and compare favourably with outputs of IFIs internationally. Indeed, other IFIs often look to the Council as an exemplar in the use of state-of-the-art methodologies in its reports to deliver on the fiscal assessment function. Stakeholders were also unanimous in their praise for the quality of the Council's analysis. Particular note was given to the quality of analysis and value of the annual Report on the Long-Term Sustainability of the Public Finances (see Box 3.1). Many stakeholders also highlighted the accessibility of the Budgetary Traffic Lights Report and noted the significant impact of the recent costing report on pension age ceilings on the public debate.

Box 3.1. CBR Report on the Long-Term Sustainability of the Public Finances

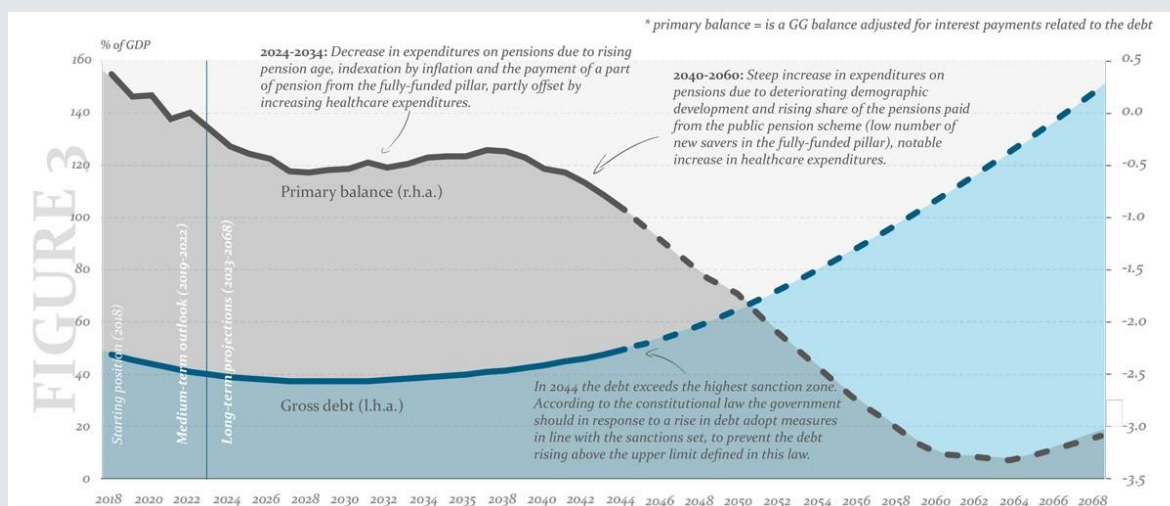
The Council's flagship report is the Report on the Long-Term Sustainability of the Public Finances, which is mandated by the Fiscal Responsibility Act to be published by April 30th of each year and always within 30 days of the parliamentary debate on the Government Manifesto and the vote of confidence in the Government. The purpose of the Report is to assess whether existing policies are compatible with remaining within the debt limits set down by law over the next 50 years.

The core measure is the long-term sustainability indicator. This indicator measures the change in the budget balance as a percentage of GDP that would be required to ensure that the debt to GDP ratio does not exceed its legal limits over the entire 50-year period, taking

into account demographic and economic forecasts. This indicator has the advantage of being easily communicated, and its release receives widespread attention in the media.

The Report is complemented by a Summary Report that includes accessible graphics on the main findings (see, e.g., Figure 3.2).

Figure 3.2. Example graphic from Summary Report on the Long-Term Sustainability of Public Finances (April 2019)



A core part of the production of the sustainability analysis is the development of a baseline scenario. This scenario shows the implications of current policies taking into account anticipated demographic and macroeconomic developments. Recognising the high uncertainty surrounding long-term projections, this baseline scenario is supplemented by detailed scenario analysis drawing on the suite of Council models. The scenarios consider various alternative policy paths (e.g. delayed budgetary consolidation) and alternative demographic and macroeconomic assumptions. The modelling also considers the possible feedback effects from debt to economic growth through the channel of sovereign debt default risk premiums.

The report includes the provision of generational accounts for Slovakia. These accounts estimate the magnitude of fiscal expenditures and revenues for individual age cohorts during their lifetime, and allows for a distributional analysis of major changes in expenditure and tax policies on different age cohorts. While the Council refrains from any normative analysis of such policy shifts, the generational accounts provide information for a more informed debate concerning matters of intergenerational fairness.

Although a relatively young institution, the long-term sustainability analysis produced by the Council compares well in terms of methodological sophistication with the European Commission Ageing Report and similar analysis published by peers including the Canadian PBO, the UK OBR, and the US CBO. Newer IFIs have also looked to the work of the CBR to develop their own tools and outputs for long-term budgetary analysis.

Source: (Council for Budget Responsibility, 2018_[16])

3.4.1. Quality control and continuous improvement

135. The Council has developed an impressive level of standardisation in the annual production of its eight main reports. Core methodologies have been developed over time and are presented in working and discussion papers. As previously reviewed, the methodological work is of a high international standard and is drawn on by other agencies in Slovakia and by IFIs internationally. The methodological approach underlying each report is well defined allowing clarity for analysts in the report writing process. However, under the pressure of the report writing schedule there is limited time for the Board and staff to review what worked well and what could be improved for subsequent reports. The time pressures may also limit the scope for Board members to review report drafts, including for the clarity of the key messaging in the report. Although there is clear evidence of ongoing improvement in the content and presentation of reports, the process of continuous improvement could be enhanced by a more formal post-publication review procedure involving the Board, analysts and any future communications expert hired by the Council (as recommended in Chapter 4).

136. A further risk to the quality of the Council's outputs is the complexity of its models and the limited number of analysts that can use them. To mitigate risks to business continuity, sound workforce planning and the creation of staff redundancies (backup) should be top managerial priorities. This is particularly important when the sophistication of the analytical tools entail significant "entry costs" for new staff tasked to operate them and when scarcity of skills in the market can lead to extended vacancy lags. Staff should be encouraged to continuously document issues and improvements to the models as well as develop guidance to exert sensible judgment. Every model should be fully familiar to at least two staff members.

3.4.2. Report production cycle

137. Legislative requirements significantly dictate the timing of reports and can lead to intense periods of activity that strain the capacities of the Council. The Council's workflow is particularly in the intensive April/May period and would benefit from a more even spacing of reports over the year. While changes to legislation – and particularly changes to the Constitutional Law – are difficult, opportunities for such changes could be taken to help support a more even workflow through the year. An alternative in some cases could be to produce a shorter document by the legislative deadline (e.g. for the long-term sustainability report) allowing more time for the publication of the full underlying analyses by a later deadline.

138. The significant suite of reports are produced with a relatively small core staff. Recognising the large pressures created by the extensive report schedule reinforces the finding in Chapter 2 that the Council would benefit from expanding the staff resources dedicated to the production of the core outputs. This is especially the case given that additional reports are under consideration, including a Fiscal Space Report and a Welfare Report. While these reports would likely have significant value and would utilise the impressive modelling capabilities of the Council's staff (including the micro simulation expertise), they should also only be undertaken following the increase in the Council's staff recommended in Chapter 2

3.4.3. Accessibility of reports

139. The Council has made significant strides in improving the accessibility of its analysis through the use of such devices as summary reports, infographics with high

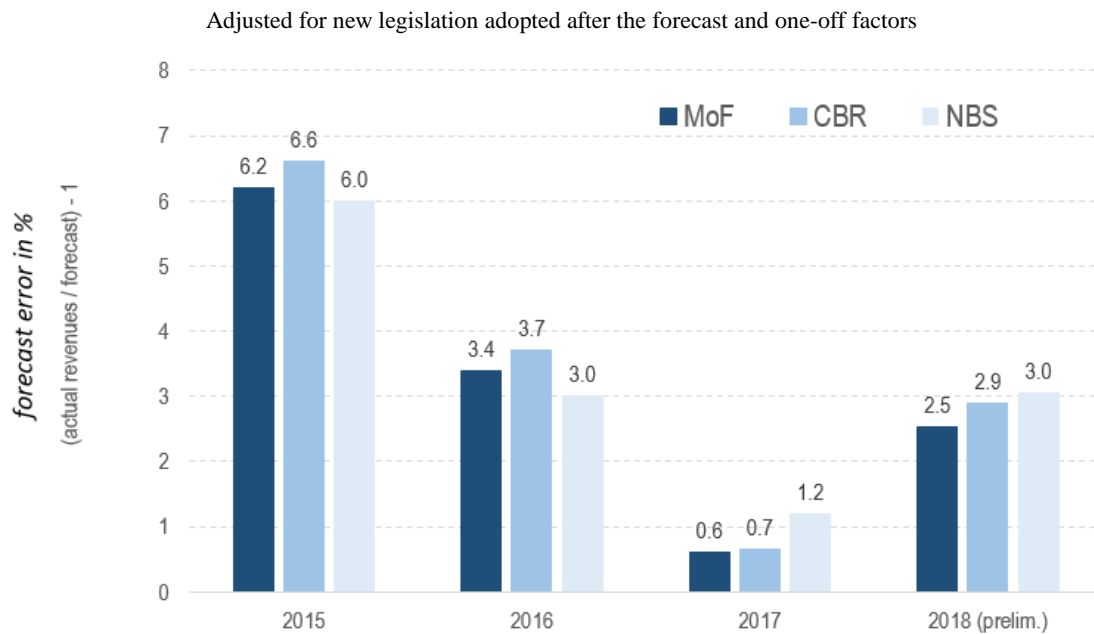
production values and concisely written press releases. Stakeholders also value innovations such as the use of blogs and social media to communicate findings and interact with users. A number of stakeholders also note that they often reuse the charts produced by the Council.

140. However, some stakeholders commented that the summaries can still be challenging in terms of accessibility. Greater use of devices such as bolded first sentences to convey the key idea in each paragraph and the interspersing of graphics with text (rather than the current practice of including all graphics at the end of the summary) could be considered to improve the accessibility of what can be technically challenging analyses. Additional summaries aimed at non-expert users might also be considered. Current summaries are often number heavy with detailed comparisons based on, for example, different budgetary concepts (e.g. general government balance versus structural balance) or projections/estimates from different entities (e.g. CBR versus Ministry for Finance). Where feasible, accessibility could be improved by focusing on fewer numbers, with careful crafting of the text to highlight the core messages.

141. While the Council is already effective in communicating its outputs to the public – with a significant media presence of the Chair and other Board members – the overall communications effort would be aided by appointing a communications specialist to develop the overall communications strategy to the Council’s staff, as also recommended in Chapter 4. This specialist would help ensure that the core messages are more broadly accessible to the public beyond the more expert audiences that are presently the main consumers of the reports.

3.4.4. Assessment of tax and macroeconomic forecasts

142. Tax revenue forecasts in Slovakia have received some criticism from stakeholders for being too pessimistic in recent years (see Figure 3.3). This includes forecasts by the Council, the National Bank and the Ministry of Finance. This apparent pessimism reflects in large part errors in the underlying macroeconomic forecasts (approved by the Macroeconomic Forecasting Committee, on which the Council is a member without voting rights) and possibly also, the perennial difficulty to capture the effects of the business cycle on tax compliance. This has been caused by higher than expected efficiency in VAT collection and the labour market out-performing expectations over the period 2014 to 2018. However, a number of stakeholders also commented that this common forecast error also raises questions about the risk of convergence among Slovakian forecasters. A potentially valuable role for the Council would be to conduct *ex post* evaluations of the tax forecasts produced by the main forecasters, with accompanying action points to help improve the tax forecasting process in future years, as recommended in Chapter 1.

Figure 3.3. The extent to which tax revenues exceeded forecasts 2015-2018

Source: Authors, based in information provided by the CBR.

143. The Council's assessment of macroeconomic forecasts is comparatively under emphasised relative to its work on long-term sustainability analysis and its assessment of budgetary forecasts. The relative lack of emphasis on the assessment of macroeconomic forecasts is explained by the absence of a formal role in the endorsement of such forecasts or role as the official provider of such forecasts. The Council has just a single staff member dedicated to the production of such forecasts. Notwithstanding the limited allocation of staff time to macroeconomic forecasts, it is evident that the Council has achieved considerable sophistication in its macro-modelling tools, and plans to begin publishing its macroeconomic forecast. Greater visibility of this part of the Council's work - including through it becoming a formal member of the Macroeconomic Forecasting Committee, as recommended in Chapter 1 - would benefit the broader discussion on likely macroeconomic developments in Slovakia. Moreover, a greater stress on macroeconomic forecasting could extend the Council's strengths in the analysis of longer- and medium term fiscal policy issues to include a greater role in the analysis of shorter-term cyclical fiscal management.

3.4.5. Treatment of Uncertainty

144. The Council produces fan charts to illustrate uncertainty in macroeconomic and revenue projections. The long-run sustainability report includes scenario analysis (underpinned in part by deep expertise in microsimulation models), which is an effective way to show the sensitivity of fiscal projections to key underlying demographic and growth projections. However, there may be greater scope for the analysis of uncertainty in the Council's economic and budgetary projections. For example, the issue of uncertainty is not highlighted in summary reports.

145. The core budgetary reports include an extensive analysis of risk, but the concept of risk used in this context might be better described as the identification of point estimate

errors in the government's budgetary forecasts. These risks are communicated in part through the recent innovation of the traffic lights presentation that were commented on favourably by a number of stakeholders (see Figure 3.4). However, given that there is a perception that the tax forecasts from different agencies in recent years have been too pessimistic, some stakeholders commented that there is excessive focus on downside risks to the forecasts. Complementing such risk analyses with greater focus on the inevitable uncertainty surrounding macroeconomic and budgetary forecasts would help to encourage a broader risk management perspective in the management of the public finances.

Figure 3.4. Example graphic from Budgetary Traffic Lights: Monitoring Budgetary Performance in 2019



Source: (Council for Budget Responsibility, 2019^[17])

3.4.6. Comparing the CBR against established peers

146. Despite differences in mandate and resources, it is possible to compare some of the Council's main reports with similar reports by OECD peers such as Spain's Authority for Fiscal Responsibility (AIReF), the Portuguese CFP, the Italian PBO and the UK OBR (see Table 3.3). It is found that the Council's main reports compare well with, and are even often at the forefront of, international good practice.

Table 3.3. Evaluation summary – three key reports

	Long Term Fiscal Sustainability Analysis	Assessment of Compliance with Fiscal Rules	Evaluation of Budget Proposal
Legislative mandate	Required under the Constitutional Act No. 493/2011 on Budget Responsibility. The report evaluates the long-term sustainability of the public finances on the basis of current policies.	Required under amended Act No. 523/2014 on General Government Budgetary Rules. This Act implements the transposition of the Balanced Budget Rule into national legislation on the basis of an obligation arising under the international Treaty of Stability, Coordination and Governance in the Economic and Monetary Union.	The Constitutional Act No. 493/2011 sets out that the CBR performs other activities related to the monitoring and assessment of how the public finances develop. The Evaluation of the General Government Proposal is a core element of this monitoring and assessment.
How well do these reports fulfil the legislative mandate?	The Report on the Long-Term Sustainability of the Public Finances effectively fulfils the legislative mandate by assessing whether existing policies are compatible with remaining in the debt limits set down by law over the next 50 years (see Box 3.1 for more details).	The Balanced Budget Rule is based on a requirement for a structural budget balance target that the public finances should attain or quickly approach. The evaluation of compliance with the rule is contained in a report of compliance with the balanced budget rule for the prior year. The report meets that mandate by combining clear assessment of compliance with detailed rationales for the assessments provided and explanations for differences between the CBR's and Ministry's assessments. As required under the mandate, the report also evaluates the need to activate a correction mechanism and circumstances for triggering and exiting escape clauses that suspend that mechanism.	The evaluation compares the evolution of the General Government Balance under a No Policy Change scenario and a scenario that includes the Government's proposed measures. The CBR then identifies "risks" to the projections that could necessitate the adoption of additional measures for the Government's objectives to be met. This analysis is supplemented by regular Budgetary Traffic Lights reports that provide further identification of risks associated with meeting budgetary targets in a user friendly format. Collectively, these reports effectively meet the mandate to monitor and assess the likely development of the General Government Balance.
How do methodology and content compare to the best international practice of peer institutions?	In line with best international practice, the Council's reports produce a long-term sustainability indicator that measures the change in the budget balance that would be required to ensure that the debt to GDP ratio remains within its legal limits over the entire 50-year period. The basic analysis is supported by detailed scenario analysis using a sophisticated toolkit. The analysis compares favorably in terms of methodological sophistication and clarity of exposition with longer-established peers such as the Canadian PBO, UK OBR and the US CBO. New IFIs have looked to the CBR as exemplar for long-term sustainability analysis.	Core elements of the Council's methodology include calculations of the structural balance based, <i>inter alia</i> , on estimations of the output gap and careful identification of one-off factors (e.g. windfall revenues). The structural balance analysis is complemented by an analysis of compliance with the Expenditure Benchmark. The methodology and implementation compares well with international good practice and allows for straightforward comparisons of structural balance and Expenditure Benchmark assessments undertaken by the European Commission under the Stability and Growth Pact.	The Council has developed substantial capacity for budgetary forecasting, which is a resource intensive exercise requiring expertise on both the expenditure and revenue components of the budget. The Council's evaluation of draft budgets compares well with other IFIs that provide detailed assessments of draft budgets, including Spain's AReF and Portugal's CFP. Its ongoing monitoring of possible deviation risks through the traffic-lights reports is at the forefront of international good practice.

Source: Authors

3.5. Conclusion and recommendations

147. The Council has eight regular publications, four of which are mandatory. It has also developed an impactful monthly monitoring of fiscal risks and performance and is planning on launching two additional reports – a Fiscal Space Review once every four years and a Welfare Report every two years. In addition, the Council can at its own discretion engage in costing exercises of draft legislation submitted to Parliament, either at its own initiative or in response to an official request. All of this gives the Council a relatively intense work schedule throughout the year.

148. The preparation of these outputs uses a comprehensive suite of state-of-the-art analytical tools and models, placing the Council among the most respected EU IFIs for the quality of its analysis. A number of these models represent alternative approaches to estimating or projecting the same economic or fiscal indicators to reduce the dependence of the results on a single model or methodology. This approach — common in policy institutions such as central banks — has the benefit of reducing the potential bias of the results that are derived from a single model.

149. However, it also has certain drawbacks: it severely strains already limited human resources; it carries obvious risks to business continuity; it is more difficult to explain the results since they are not based on a specific structure; and, it can complicate judgment calls inherent to any forecasting process with no guarantee of more accurate and reliable estimates and analysis in all cases. It is difficult to conclude with confidence that the Council absolutely needs the full set of models to fulfil its mandate and maintain its credibility. This underscores the importance to review the Council’s experience with the full set of models and explore the potential net benefits to rely on a more streamlined toolkit going forward. The Council could leverage the expertise on the Advisory Panel to provide a targeted evaluation in this regard.

150. A key challenge with the Council’s intense work programme is the limited space to carefully think through the communication to a non-technical audience and to draw lessons after each production cycle. To further enhance the transparency and accessibility of the Council’s work, each production cycle should allocate enough time to prepare messaging and communication. In addition, the Council could take steps to build in time to review what has worked well and what could be improved for subsequent reports.

151. In addition to hiring additional analytical staff, as recommended in Chapter 2, the Council could try to ease capacity constraints through revisiting its current production schedule. For example, reports subject to formal deadlines could be issued independently of the underlying analytical details, which could be circulated by a later deadline in the form of background papers.

152. Constantly working at full capacity or beyond also complicates succession management, leaves little room for redundancies, and exposes business continuity to clear operational risks. Once the Council has hired additional analysts, the Council should ensure the sustainability of its work through ensuring that every model is fully familiar to at least two staff members. Staff should also be encouraged to continuously document issues and improvements to the models as well as develop guidance to exert sensible judgment.

153. With regards to the Council’s forecasting role, the Council and other Slovakian institutions have all experienced challenges with tax revenues being higher than forecast in recent years. In light of this, and in line with good practice, the Council should publish

a detailed evaluation of the quality of official forecasts so far, and outline action points to help improve forecasts in coming years. The Advisory Panel could play an important role in this exercise. In addition, while the Council's models and methodologies are usually well documented in working papers and/or peer-reviewed articles, tax forecasting models would benefit from greater transparency. This would help the Council affirm a greater role on the preparation of official tax revenue forecasts underlying the government budget, as recommended in Chapter 1.

154. On the macroeconomic forecasting side, the Council is now at the stage where it can increase its clout in this area through publishing its own forecasts and *ex post* evaluations of these forecasts. This would support the Council in its role as a regular voting member of the Macroeconomic Forecasting Committee, as recommended in Chapter 1.

155. Finally, the Council's reports would benefit from a more transparent acknowledgment of the uncertainty surrounding forecasts. The Council can produce fan charts mapping uncertainty around point estimates. Reports could develop a simple narrative around such charts, such as a discussion of the odds of meeting official targets under alternative policy scenarios.

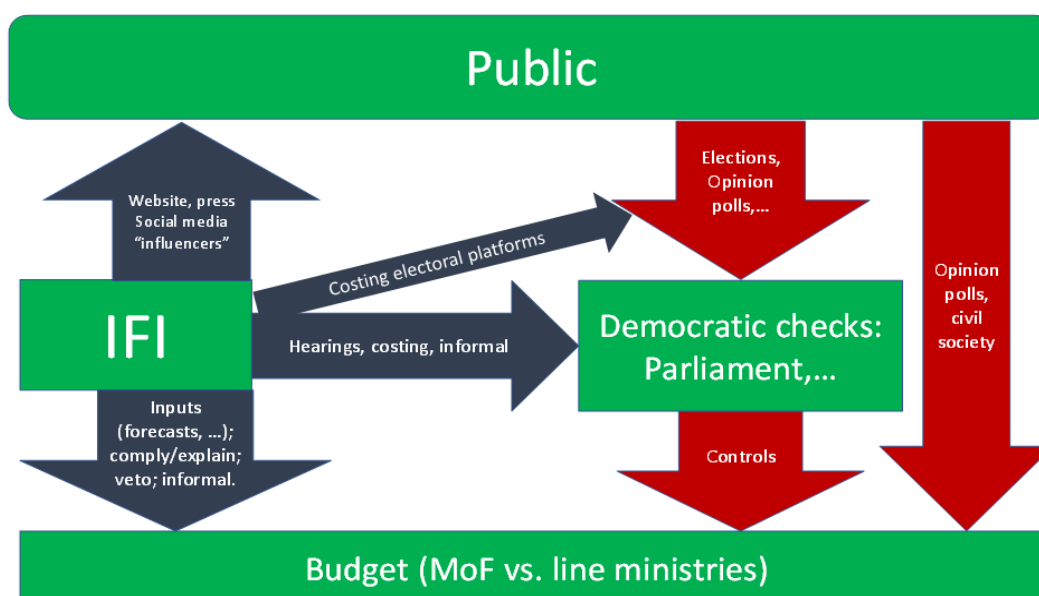
Chapter 4. Impact

4.1. Introduction

156. This chapter assesses the impact of the Council on fiscal soundness in Slovakia and makes recommendations to increase that impact going forward. The relatively short experience with the Council and the difficulty to compare experiences with IFIs across countries call for an eclectic approach combining descriptive evidence, stakeholders' testimonies, and the identification of apparent gaps with good international practice. The analytical framework for assessing the Council's impact is further described in this section. The Chapter goes on to quantify the Council's contributions to the public debate about fiscal policy in Slovakia and analyse the nature and effectiveness of Council's engagement with stakeholders in the budget process.

157. An IFIs' impact on budget outcomes is indirect, multifaceted, and hard to quantify (Figure 4.1). The overarching principle is that better fiscal choices are made if stakeholders in the budget process — including veto institutions such as Parliament or the Ministry of Finance — have unbiased fiscal and macroeconomic forecasts, a realistic picture of the state of public finances, and credible costings or impact analyses of specific measures. Through their provision of this information and presence in the public debate effective IFIs are expected to raise the reputational costs of harmful actions, enabling voters, civil society, and financial markets to “reward” good policies and “punish” bad ones. In addition, in the EU, constitutional or high-level legal provisions require governments to take decisions or provide explanations in response to the assessments of the IFIs (“comply-explain principle”).

Figure 4.1. IFIs' role in the budget process: Better information, stronger incentives



Source: Authors.

158. The literature often refers to five observable dimensions of an IFIs potential influence on the budget process: (1) the existence of a veto right, (2) the use of IFI forecasts in budget preparation, (3) an obligation for the government to comply with the IFI opinions or to publicly explain why it disagrees, (4) formal consultations with veto players, and (5) a strong media presence shaping public opinion (Debrun, 2013_[18]). However, these dimensions only form a subset of the relevant transmission channels between IFI activities and the conduct of fiscal policy. In addition, these channels have varying relevance depending on the country, and there is no obvious threshold allowing to discriminate between success and failure.

159. The Council relies mainly on its influence via channels (4) and (5) to encourage fiscal responsibility in line with its constitutional mandate. It has no direct or indirect veto role in the budget process (1), and the Council's role in forecasting (2) is rather minor because the preparation of macroeconomic and budgetary forecasts had already been delegated to forecasting committees that were set up prior to the introduction of the Council (as outlined in Chapter 1). The enforcement of the national correction mechanism through the comply-or-explain obligation (3) has been mixed: on the one occasion when the government did not comply with the recommendation to activate the mechanism, the explanation — based on a different interpretation of the rule — was issued 4 months after the formal rejection of the recommendation (see Section 4.3.1). Hence, even more than for other IFIs, the Council's watchdog role is largely in the barking, its own and that of parliamentarians and its allies in the press and civil society.

160. The remainder of this chapter thus builds on two pillars: a mostly quantitative analysis of the Council's presence in the public debate, and a mostly qualitative assessment based on the views of key stakeholders and gaps with good international practice. Short case studies will also help identify apparent gaps with international good practice. In addition, there is also a short assessment of the implementation of the “comply or explain” principle in Slovakia.

4.2. Influence on the public debate

161. The Council has generally had a relatively conservative approach to communications. Its main engagement with the press comes during twice-yearly press conferences – one in spring and one in autumn - related to the Council's assessment of long-term sustainability and the budget proposal, and attended by 15-30 people. When the Council releases a report, it has a publications checklist which includes announcing the release on the Council's website, Facebook and via newsletter. The preparation of press releases and advanced circulation of reports under embargo to a select group of influencers has started to be systematic since 2019. The Council does not track media mentions in a detailed way. However, in the past eighteen months, the Council has started increasingly investing in communications with TV appearances, the development of a Youtube channel and the publication of blog posts.

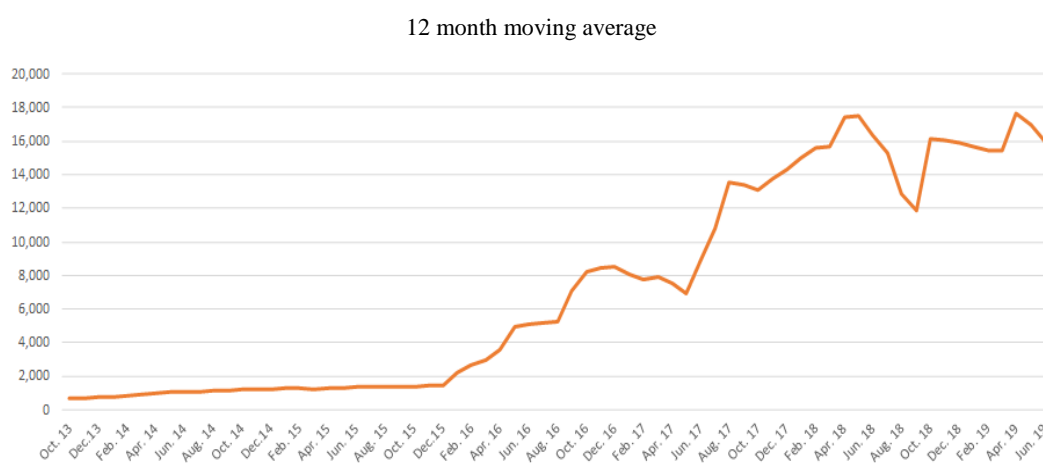
162. To assess the Council's impact so far on the public debate on fiscal issues, quantitative indicators covering the range of communication outlets available to the Council are analysed. They include activity on the Council's website, social media (Facebook), as well as the Council's presence in more traditional media outlets (written press, TV, radio). For each indicator, three dimensions seem particularly relevant:

- **The trend.** A sustained upward trend in CBR’s presence indicators would suggest that it has been gradually establishing itself as an influential actor in the public debate.
- **The timing.** Is the CBR particularly present in the public debate at key steps of the budget process and at moments of policy debates with deep implications for fiscal sustainability?
- **The voice and focus.** Whenever possible, it is useful to know how the CBR’s presence compares to the broader universe of information related to budget issues. The “voice” refers to the number of references to the CBR in news about budget issues, while the focus refers to the number of references to relevant budget issues in news referring to the CBR.⁴

4.2.1. Overall trends in media impact

163. Indicators of the Council’s media presence exhibit a clear upward trend since its creation in 2012, suggesting a broad-based increase in the Council’s influence on the public debate. Figure 4.2 shows that, after a slow start during the first 3 years, monthly visits to the Council’s website increased more than tenfold to exceed 16,000 per month at the time of writing (on a 12-month average basis). Activity on the Council’s Facebook page also increased significantly over the period.⁵ The overall presence in Slovak professional media (printed press, radio, TV and online) grew by a factor 6 since 2012 even though the available data for 2019 only covers the first half of the year (Figure 4.3). This is even more remarkable given that, over the same period, media references to government budget matters halved.

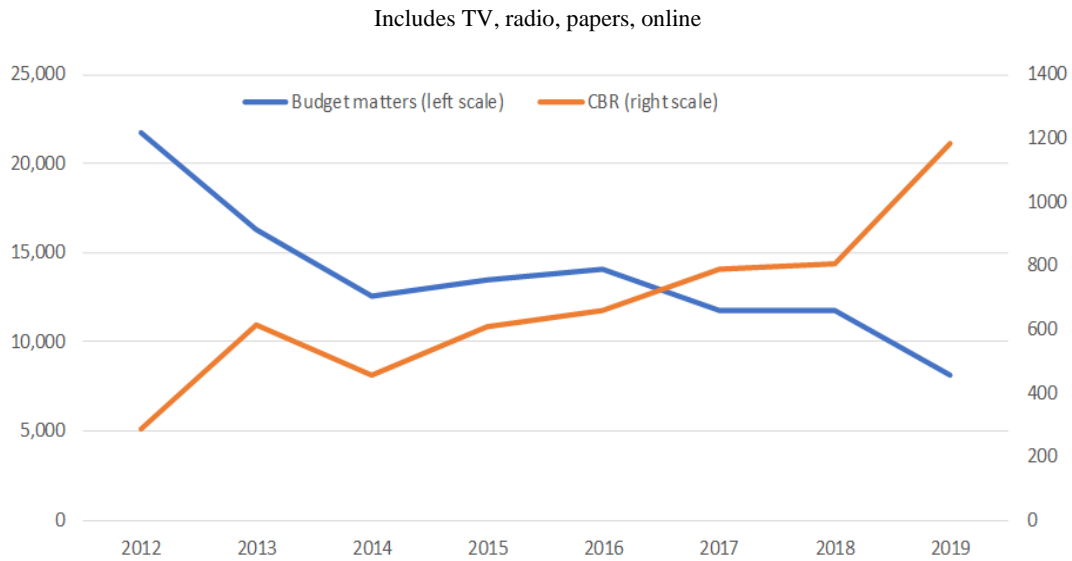
Figure 4.2. Number of monthly visits to the CBR website 2013 to 2019



Source: Authors, based on information provided by the CBR.

⁴ Indeed, an article mentioning the CBR might just refer to new personnel appointments or activities of council’s members (e.g. conference attendance) that may not warrant a reference to the keywords characterising the remit of the Council.

⁵ Facebook is the most popular social medium in Slovakia, where it dominates Twitter even for official communications.

Figure 4.3. References in professional media 2012 to August 2019

Source: Authors, based on information provided by the CBR and Slovakia Online Agency.

164. To put these trends in perspective, it is useful to compare them to those observed for other IFIs. The IFI media database assembled by Bruegel — a Brussels think tank⁶— allows such comparisons by simply scaling the total number of references to the national IFI in the country’s media by the number of outlets considered for data collection in that particular country.

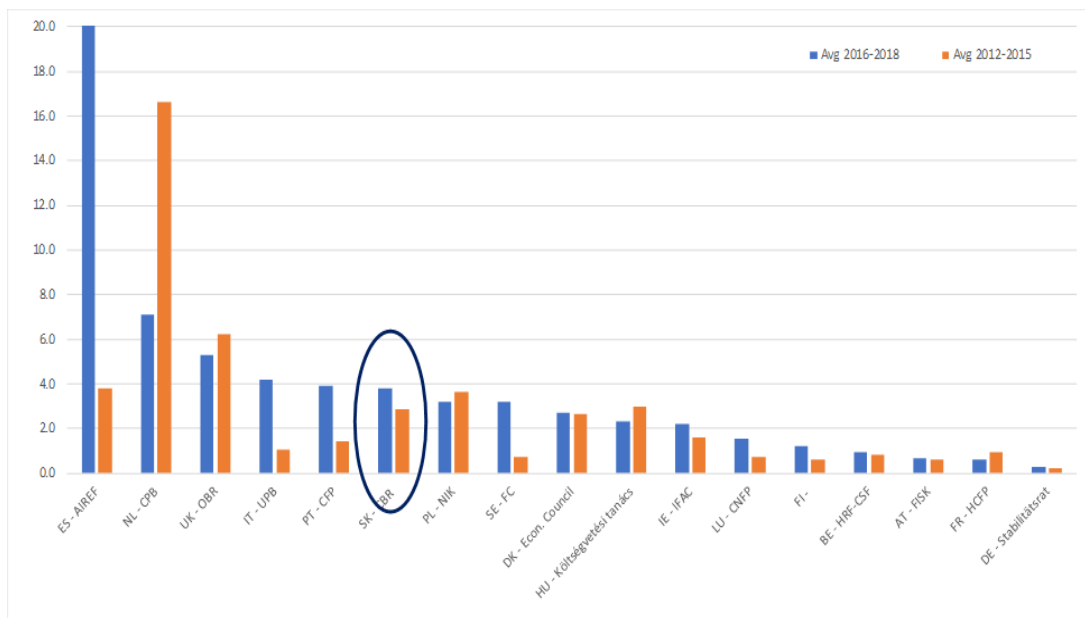
165. The Council’s media presence fares relatively well to that of other EU IFIs, in the range of 3.5 to 4 references per news outlet per year. This is in line with other comparably sized institutions such as the Portuguese CFP and the Italian PBO (see Figure 4.4). The potential for further progress nevertheless exists as two relatively new IFIs, Spain’s AIReF and the UK OBR, exhibit scores that are respectively 5 and 1.5 times higher than the Council. In both cases, there is a strong media landscape and developing an effective communication strategy has been an early concern backed by significant resources and top management’s active involvement.⁷

⁶ The authors are grateful to Gregory Claeys for sharing his dataset, which uses Factiva.

⁷ See (Sunshine, 2018_[25]) for a discussion of this issue.

Figure 4.4. CBR presence in the public debate relative to other EU IFIs

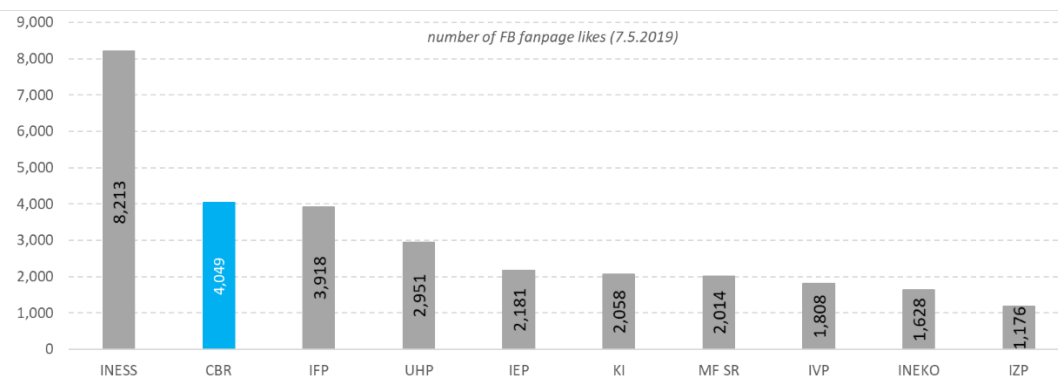
Average number of references per media outlet per year



Source: Authors, based on information provided by the CBR and (Claeys, 2019^[19]).

166. Compared to the relatively small universe of Slovak think tanks and similar institutions, public interest in the Council comes second (measured in terms of Facebook “likes”). The champion in that ranking is INESS (Institute for Economic and Social Studies), a non-partisan, privately funded think tank with interests extending well beyond public finances (Figure 4.5). The Council attracts roughly the same amount of social-network interest as the *official* public finance analytical arm, the Institute for Financial Policy, which is attached to the Ministry of Finance and produces macroeconomic and fiscal analyses and forecasts.

Figure 4.5. Facebook likes among comparable Slovak institutions



Source: Authors, based on information provided by the CBR.

4.2.2. *Timing of media impact*

167. Media presence is more likely to signal actual impact if it intensifies around major budgetary developments (unexpected outturns, ad-hoc policy announcements), key dates in the budget process, or specific public activities of the Council, including the launch of flagship reports or other useful public goods, such as the pension age calculator. Regardless of whether the Council actually contributes to raise public awareness of public finance issues during these critical periods, an effective IFI should at least be more present whenever the public shows greater interest in these matters. By contrast, the absence of spikes and troughs in public attention might suggest a lack of focus in communication and/or difficulties to catch the public eye and influence opinions when it matters. In other words, while seeking to establish a causality is overly ambitious at this stage, the existence of clear correlation is highly desirable. Case studies in Box 4.1 illustrate in greater detail the interest and the limits of the “spike-and-trough” test for effective IFI communication.

168. Higher-frequency data of the Council’s public presence — as captured by the total number of website visits and the average number of monthly quotes per media outlet — give mixed signals. On the one hand, both indicators of revealed interest in the Council’s output exhibit a spike-and-trough pattern typical of well-targeted and effective communication (described in Box 4.1). On the other hand, peaks in public interest rarely coincide with the publication of flagship reports (identified by red diamonds).⁸

169. Worth noting, however, is the fact that relevant parliamentary discussions may occur some weeks after reports are produced, leading to later peaks in public interest. In addition, the Council’s media presence took off in earnest only after its secretariat became close-to-fully operational and sanctions under the national fiscal rule were first applied in late April 2013 (first outsized red diamond in the top panel of Figure 4.8), a process whose implementation is under the Council’s watch. One of the reasons why the Council may have received greater media attention than most other EU IFIs may be because sanctions have applied in relation to the debt rule in Slovakia since 2013.

170. The Council’s crowded publication calendar may help explain these mixed results under the “spike-and-through” test. For example, the evaluation of compliance with the fiscal rules — an important function of the Council likely to attract public attention — is staggered across three publications: a preliminary evaluation of the budget-balance rule is published in June, a report on the compliance with the Fiscal Responsibility and Fiscal Transparency rules, by end-August, and a final report on the compliance with the budget-balance rule is due in December.

171. Media attention also increased markedly after September 2018, remaining above average well into the first part of 2019. This increased attention coincides with the period when new pension legislation was being discussed by Parliament. The Council published its ad-hoc report estimating the financial impact of a draft legislation capping the retirement age in September 2018. Running against the popular appeal of the proposed measure, the Council strongly vocalised its adverse impact on the sustainability of public finances and the policy trade-offs implied to preserve it. At the same time, it updated an on-line tool allowing citizens to estimate the effect of the new legislation on their effective retirement age as well as the induced costs in terms of lower benefits, higher public debt,

⁸ The flagship reports are defined as those launched during a formal press conference by the CBR. They are the report on long-term sustainability in April, and the evaluation of the government draft budget in November.

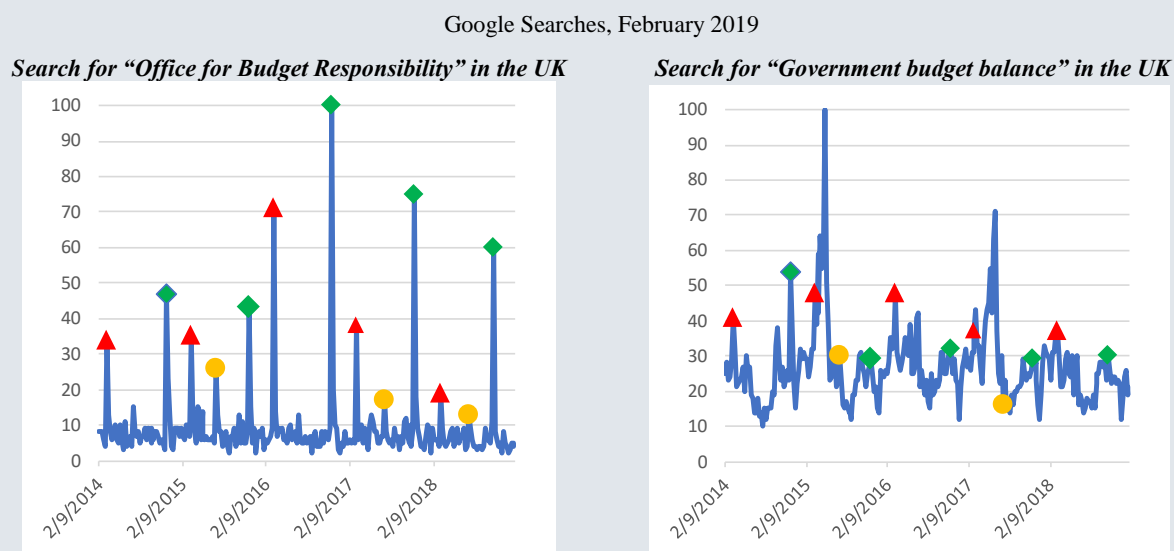
higher future taxes, and slower economic growth. A media blitz by the Council that included new media such as Youtube videos was simultaneously conducted. This finding is also backed up by data on website visits. This led to unprecedented spikes in website visits, mostly on account of an intense usage of the pension-age calculator (see Figure 4.9).

Box 4.1. Patterns in IFI media presence — the “spike-and-trough” test

A “spike-and-trough” analysis is particularly relevant to assess the success of a communications strategy aimed at raising public interest in a predictable manner around key moments in the budget process. The UK OBR epitomises such an approach. Its internet presence — measured with Google Trends — peaks around the autumn (November, marked with a diamond) and spring (March, marked with a triangle) budget statements. The autumn statement gets much more attention in the second half of the period under review because since 2017, all the budget measures for the year are only announced once in autumn. The dots correspond to the publication of the long-run debt sustainability analysis and fiscal risk statements in July. Peaks are less pronounced, presumably reflecting the intrinsically more technical nature of these documents.

Interestingly, there is no one-to-one mapping between spikes in the UK OBR presence and those reflecting public interest in a key metric of fiscal policy such as the government budget balance. While the right-hand panel of the Figure 4.6 shows that the OBR gets more public attention at times when government deficits is also a popular search item, the Office’s pre-announced communication schedule also implies that it might be more reluctant to opportunistically intervene in a discretionary fashion, hence several “orphan” spikes (right-hand panel).

Figure 4.6. The UK OBR spike-and-trough pattern of public presence



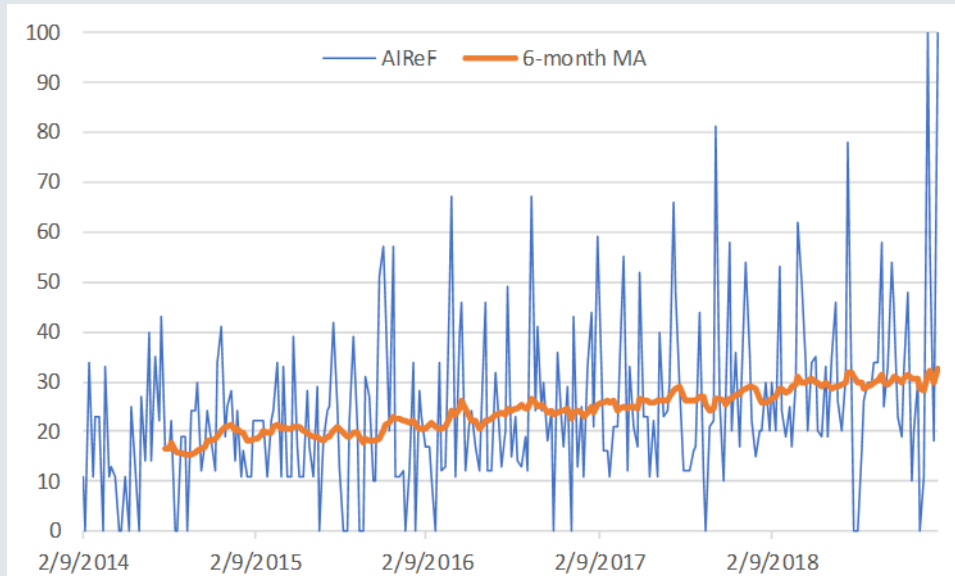
Note: The weekly data capture Google searches expressed in percent of the maximum number of Google hits over the period.

Source: (Debrun, 2019_[20]).

Like the UK OBR, Spain’s AIREF is a relatively new institution with a strong communications strategy. However, unlike the UK OBR, it has a broad mandate that

includes oversight of Spain's elaborate system of subnational governments, leading to the preparation of many different documents. The packed publication schedule may explain the highly volatile cyber presence of AIREF displayed in the Figure 4.7.

Figure 4.7. Internet presence of the AIREF in Google searches (weekly, 2014-2018)



Note: Numbers expressed in percent of the maximum number of Google hits over the period.

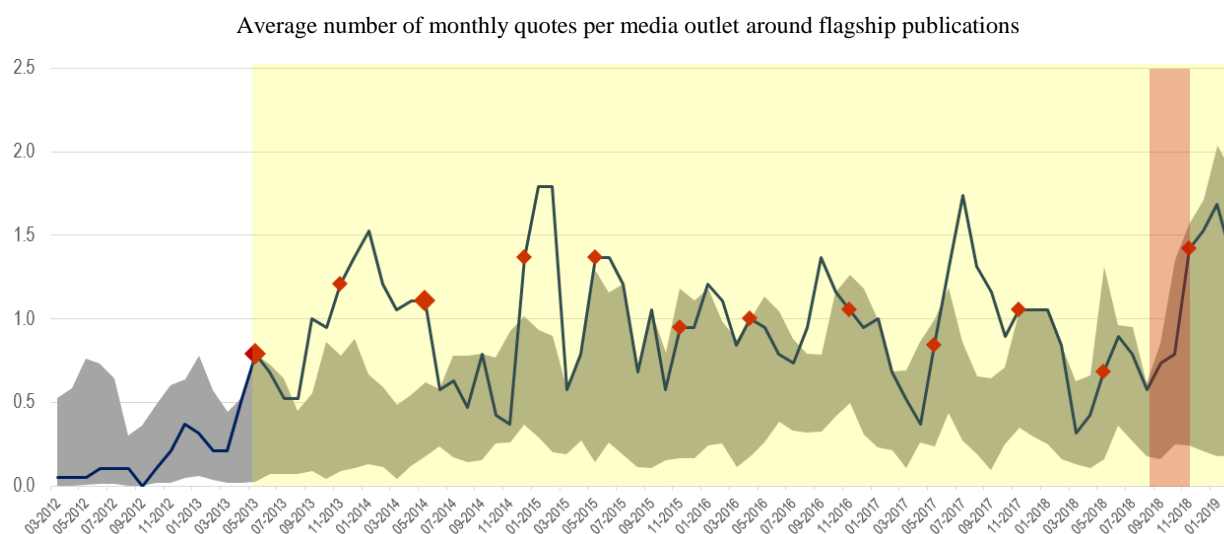
Source: (Debrun, 2019_[20]).

As noted by (Currstine, Harris and Seiwald, 2013_[21]), p.36 “[...] a fiscal council constantly out in the public with a running commentary, disconnected from important parliamentary budget preparation deadlines would raise doubts about its ability to contribute to the debate, when it is most needed.” However, Debrun (2019) argues that such risk is remote for AIREF. As confirmed by other indicators, public interest in AIREF has grown substantially. That said, the risks associated with high-frequency or unpredictable interventions in the public debate should always be kept in mind and subject to a regular evaluation during the implementation of any communication strategy.

Source: (Debrun, 2019_[20])

172. In terms of communication, the pension age episode was a useful quasi “natural experiment” for the Council which pointed to a significant untapped potential of public attention when the Council publishes outputs immediately relevant to the public interest.

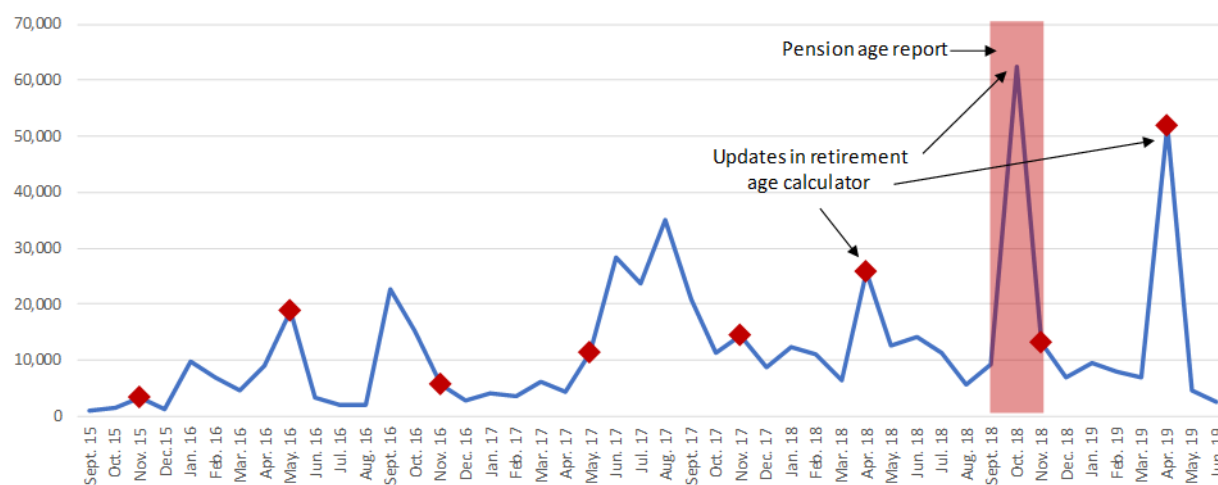
Figure 4.8. CBR’s public presence: the timing



Note: Publication of flagship reports shown using red diamonds. The yellow band represents the period when sanctions under the national fiscal rule applied. The grey band represents the interquartile range for the indicator across 17 EU IFIs. The red band represents the period when new pension legislation was being discussed by Parliament.

Source: Authors, based on information provided by the CBR and (Claeys, 2019^[19]).

Figure 4.9. Increased CBR website visits around the pensions debate



Note: The red band represents the period when new pension legislation was being discussed by Parliament.

Source: Authors, based on information provided by the CBR and (Claeys, 2019^[19]).

173. The Council could usefully seek to exploit this untapped potential in the context of a developing a communication strategy. This would ideally be developed by a dedicated communication officer and could be used as a basis to outline more proactive communications around report publications such as systematic preparation of press releases, non-technical blogs, videos, advanced circulation of embargoed material to trusted opinion makers or influencers, etc. As mentioned in Chapter 3, the communications officer could also work to improve the accessibility to a general audience of otherwise technical considerations — as was done recently with the pension age calculator or the

traffic light assessment of fiscal risks — to increase the reach of the Council beyond the traditional niche of well-informed and educated professionals.

174. Hiring a dedicated communications officer responsible for designing and implementing a communication strategy would bring the Council in line with international peers, such as the Portuguese CFP and the UK OBR (see Box 4.2).

Box 4.2. Communication staff at OECD IFIs

Portuguese CFP

The CFP employs an expert in communication to manage the engagement with media, other stakeholders and to support the effective publication and distribution of its reports and related materials. From its creation, the CFP has recognised the importance of engaging with the media. Over time, the CFP has continuously developed new materials, such as concise report summaries, as a means to further improve media engagement. However, the CFP is careful to restrict media interventions so that they are timed around publications. This strategy stems from recognising that targeted communication allows for greater impact, since minimising the noise-to-signal ratio increases the chance of key messages penetrating the public debate.

United Kingdom OBR

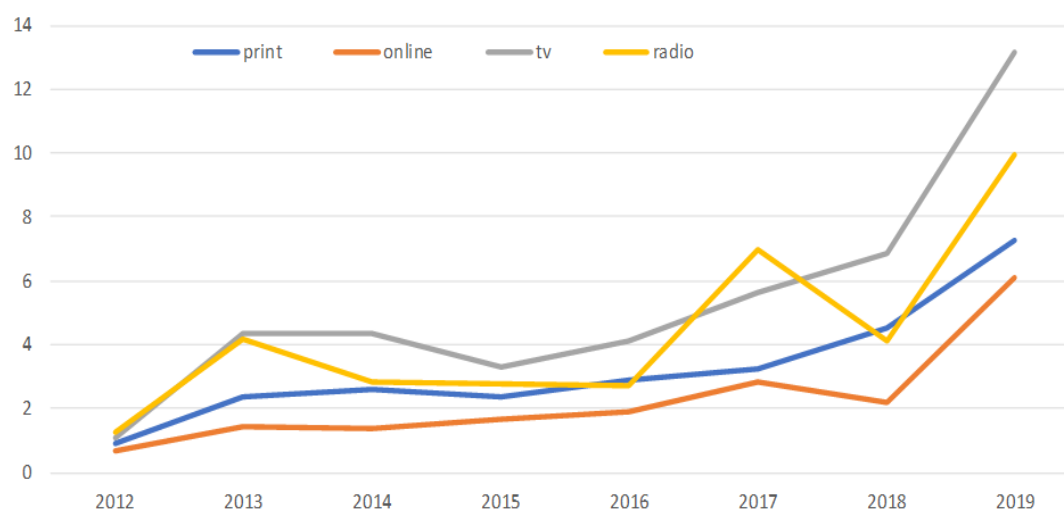
The OBR's communications team is relatively small, as it is only comprised of two people who are not dedicated full time to communications work. This limited capacity entails a need for selecting which channels to prioritise and for frequent evaluation of the communications strategy to determine the type of content that generates most engagement. As such, the OBR's communications strategy relies heavily on the experience and reputation of its Chairman for visibility of the institution's outputs. Overall, the OBR's communications strategy is reactive rather than pro-active. Engagement is mainly limited to core publications, since fewer releases lead to bigger impact when necessary.

Source: Authors, based on information provided by the Portuguese CFP and the UK OBR.

4.2.3. Media impact: voice and focus

175. While the absolute indicators reported so far suggest a growing presence of the Council in the public debate, they do not show whether the Council's messages are audible nor whether reports mentioning the Council do so in relation to its mandate (focus). Since being heard is a necessary condition for being listened to, simple *relative* indicators can give a prima facie indication of the Council's importance in the public discourse on fiscal issues.

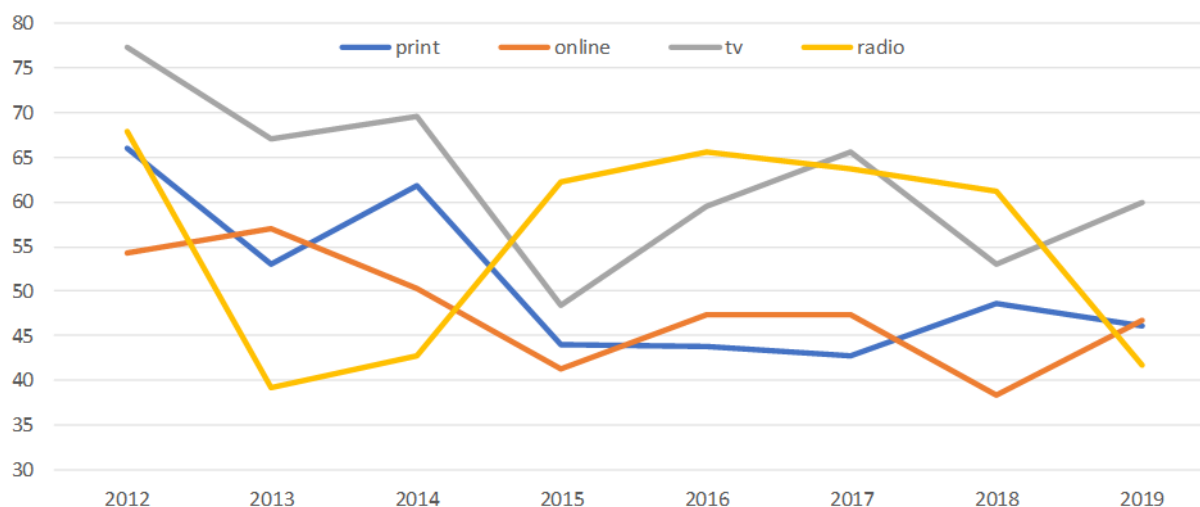
176. Figures 4.10 and 4.11 provide two such indicators: (4.10) the share of media reports mentioning public debt and the government budget that also refer to the Council; and (4.11) the share of media reports mentioning the Council that also refers to public debt and the government budget. Thus, the first indicator captures the "voice" of the Council in discussions about debt sustainability and budgetary issues, while the second measures whether media reports mentioning the Council are doing so in relation to the Council's outputs.

Figure 4.10. The share of media reports about public debt and budget referring to the CBR

Source: OECD, based on information from Slovakia Online Agency.

177. The analysis shows that over time the Council’s voice has become louder in the public debate on government debt and the budget. The steady rise in the indicator associated with mainstream media (TV and print) is particularly noticeable and suggests a stronger impact of Council’s work on professional journalists. It is also tempting to link the recent doubling in the voice metric to the intense debate on capping the retirement age, where the Council was particularly active and took deliberate steps to boost its media presence. At the same time, references to the Council concern only a small fraction (less than 10 percent) of all of the media reports about government debt and budget. In part, this reflects that fact that the state budget can be invoked in many instances (e.g. subsidies to a local theatre, a swimming pool etc.) for which macroeconomic concerns about public debt and long-term sustainability are out of scope. However, the very strong increase observed in synch with the pension debate once again points to a significant untapped potential of impact for the Council.

178. The picture is less clear for the “focus” indicator, which hovers between 40 and 70 percent. Roughly half of all media mentioning the Council do so without any apparent reference to the core issues the Council is expected to handle. This may simply be because media articles focus on other aspects of the CBR’s work which may not feature the keywords “public debt” and “budget”, for example, nowcasting, monthly tax costing, and the retirement age calculator.

Figure 4.11. Share of media reports about CBR that also refer to public debt and the budget

Source: OECD, based on information from Slovakia Online Agency.

4.2.4. Impact on the parliamentary debate

179. Soft power requires allies, and in many countries, the legislative branch of government is a key veto player that an IFI can hope to leverage. In Slovakia, however, the role of parliamentary oversight is constrained by generally strong party discipline. Hence, while it is positive to hear Members of Parliament from all sides praise the independence and quality of the Council's work, the potential to get traction on policy decisions through parliamentary control is weak at best.

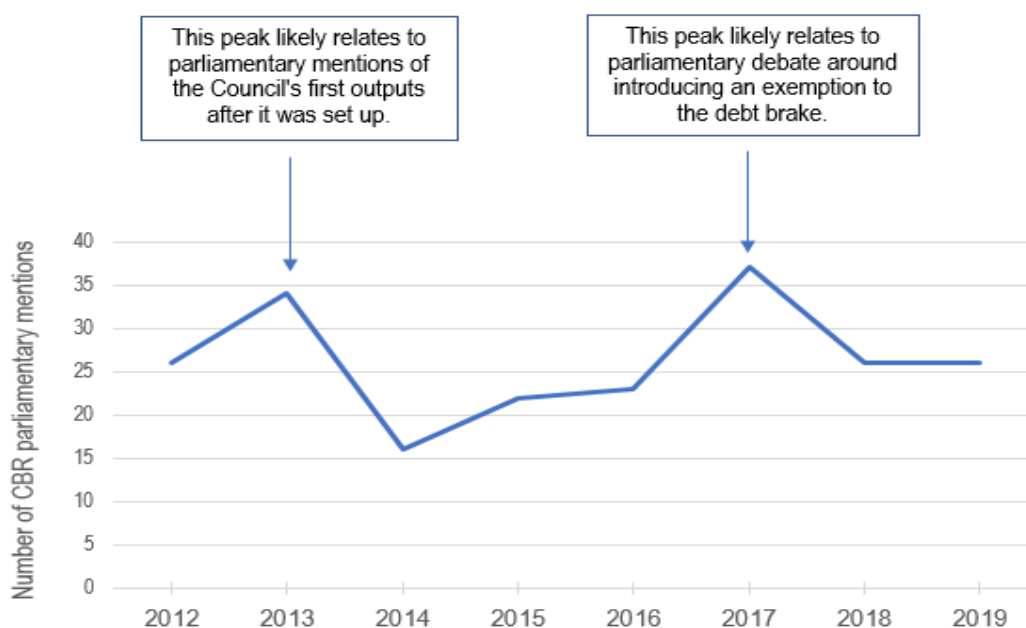
180. The Council's single annual hearing with the Financial and Budgetary Committee is insufficient to influence the debate, and past attempts by the Council to proactively engage with members of parliament — e.g. in the form of a workshop on pension issues — got no traction. Thus, in practice, exchanges of views with parliamentarians are ad hoc and informal. While this allows for candid discussions, these contacts remain outside the public debate.

181. One measure of the Council's impact on the parliamentary debate is the number of CBR parliamentary mentions. Figure 4.12 shows the number of times that the Council was mentioned in plenary session each year since it was established. The data shows that parliamentary mentions increased in both 2013 and 2017. These spikes are likely explained by the publication of the Council's first outputs after being set up (2013) and a parliamentary debate around introducing an exemption to the debt brake (2017). In particular, during the debate on the debt brake exemption, the Council was proactive in publishing relevant information, and communicating it on Facebook. This experience points to the potential for the Council to heighten parliamentary mentions through a more proactive communications strategy.

182. Over half of the parliamentary mentions of the Council over the period 2012-2019 related to the state budget (29%) and public administration (27%). The Council also received mentions relating to pensions (particularly in 2018 when pension reforms were being discussed at Parliament) and the debt brake (particularly in 2017 when exemptions to the debt brake were being discussed at Parliament). All of the CBR parliamentary

mentions were either neutral (94%) or positive (6%) for the Council. In addition, over half of the mentions came from just five deputies during the period monitored. These deputies tended to be in opposition parties and were known for focussing on public finance and economic matters.

Figure 4.12. CBR parliamentary mentions 2012-2019



Source: OECD, based on information from Slovakia Online Agency.

183. While the level of CBR parliamentary mentions is low relative to some OECD peers⁹, the fact that there has been spikes in mentions in topical fiscal debates points to the potential for the Council to inform future parliamentary debates. Upcoming elections mean that there will be new parliamentary members soon. This provides an opportunity for the Council and the Financial and Budgetary Committee at Parliament to strengthen engagement. For example, the Committee would ideally call the Council to give evidence during its budget hearings. In addition, the Council could be required to provide its assessment at the parliament plenary session when the budget is discussed, and the Government could add the Council to the list of organisations that can comment on legislative proposals through the formal parliamentary process. The Council may also wish to see how its budget analysis could be published earlier to have greater impact on the parliamentary debate, for example, through publishing a quick reaction document and following this up with a more in-depth briefing. By informing the parliamentary debate, the Council can strengthen the legislature's ability to hold the government accountable for its fiscal policy choices. Over time, the Council should aspire for parliamentary use of its work in times of heightened debate on fiscal issues as this will validate the relevance of its Council's outputs and its ability to enrich political discussions.

⁹ For example, while the CBR was mentioned 210 times in plenary session over the period 2012-2019, the Portuguese CFP was mentioned in 517 diary pages at Parliament over a similar period.

4.3. Engagement with stakeholders

184. This section complements the quantitative analysis of the Council’s influence on the public debate with qualitative considerations emanating from bilateral meetings with stakeholders (supported by the results from a stakeholder survey conducted for this Review), including Members of Parliament, political leaders, journalists, civil servants, and scholars (think tank, academia). After a review of the role played by the comply-or-explain provision, stakeholders’ perceptions about the Council’s impact are considered. The section concludes on institutional and operational gaps undermining the Council’s impact on policy outcomes.

4.3.1. Use of “Comply-or-Explain” Authority by the CBR

185. The comply-or-explain authority refers to the requirement for public entities to either ‘comply’ with IFI recommendations, or provide a response that ‘explains’ the detailed reasons for not doing so. According to Article 30a(4) of Act No 523/2004, the Ministry of Finance is obliged to publish its opinions on the Council’s assessments regarding the possible activation of the correction mechanism and the application of the escape clauses. Should the Government choose not to apply the correction mechanism proposed by the Ministry of Finance (on which proposal the Council had previously published its assessment), it is obliged to present a written justification for its decision to the Parliament (European Commission, 2017_[22]).

186. The comply-or-explain authority is limited to the Council’s assessment of compliance with fiscal rules. Since 2014, there have been two cases when the Council recommended to activate the correction mechanism. The first time was in 2016 when the Council identified significant deviation in the budget results for 2015. The second time was in 2019 for deviation in the budget results for 2018. On the first occasion the Ministry of Finance had a different assessment from the Council so did not comply with the Council’s recommendations to activate the correction mechanism. Initially¹⁰, the Ministry of Finance did not explain why its assessment was different. In its updated statement, the Ministry of Finance clarified that it had a different interpretation of the rule. However, on the second occasion, the Ministry of Finance confirmed the deviation in 2019 and approved – for the first time – the correction mechanism in January 2020.

187. On the whole, it is observed that the comply-or-explain authority has had a limited effectiveness so far. The Council may wish to explore ways to raise the reputational costs for the Government when it does not respond to its recommendations to activate the correction mechanism in a way that satisfies its comply-or-explain authority, for example, through notifying Parliament. Increased transparency around the comply-and-explain process could also help. For example, an MoU between the Council and the Ministry of Finance could outline the steps that the comply-or-explain procedure should have, and the timing around these.

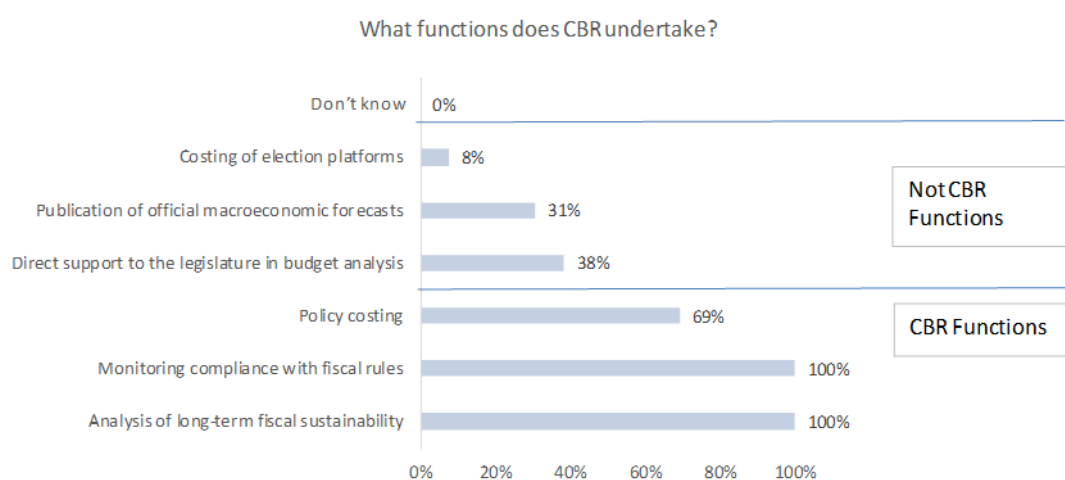
4.3.2. Stakeholder perceptions of the CBR

188. Stakeholders are generally well informed of the Council’s remit — although some see it as broader than it is — and they unanimously appreciate having a reliable, unbiased source of fiscal policy analysis (see Figure 4.13), especially in areas where such analysis

¹⁰ The balanced budget rule is assessed twice a year: the first round of assessment starts by end-June and the second with updated figures starts by end-November.

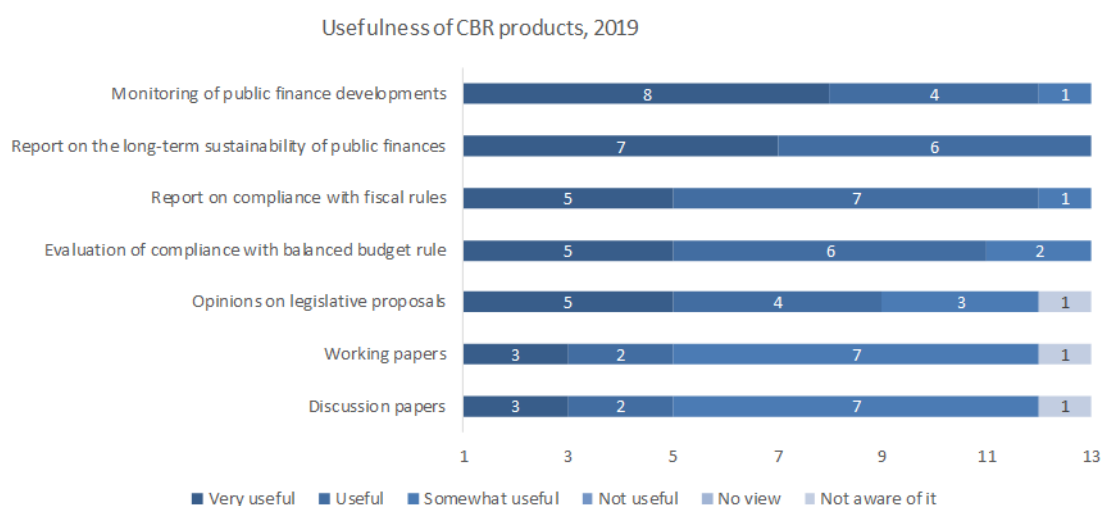
did not exist at all such as the continued monitoring of public finance developments. Figure 4.14 shows that most Council outputs receive high marks in terms of their usefulness, with flagship reports (on sustainability and on public finance developments and plans) being more highly regarded than research-oriented output (working papers). That result is not surprising given the intrinsically narrower audience of technical documents. In the end, the objective of technical papers is one of transparency regarding underlying methodologies, not one of messaging and communication. Journalists and media professionals unanimously declared using Council documents in their reporting on fiscal issues.

Figure 4.13. Stakeholder awareness of the CBR's functions



Source: OECD survey of CBR stakeholders, 2019

Figure 4.14. Stakeholder views on the usefulness of the CBR's outputs



Source: OECD survey of CBR stakeholders, 2019

189. Stakeholders expressed a very strong feeling of independence, professionalism and credibility emanating from the Council's work. This is a particularly remarkable feature in a small country where the perception of insulation from political interference is

by essence harder to achieve given the limited size of the community of fiscal policy experts.¹¹

190. In terms of the Council’s effectiveness at fostering fiscal responsibility, there is a sense that although it has contributed to increase the costs of fiscal profligacy, more could and should be done to avoid policies undermining the sustainability of public finances. The episode of the pension age cap - where reforms that the Council highlighted would compromise long-term fiscal sustainability in Slovakia still received approval – is an example of the limited power associated with indirect influence.

191. In terms of improving the Council’s clout, some members of the media community considered that as a watchdog the Council might be counting too much on the “barking” of its natural allies (in the press or elsewhere) and too little on its own barking. As identified in Chapter 3, the use of expert language is also seen as hindering accessibility to a wider audience, leaving it to professional journalists to bring out key messages. Journalists welcome contact with Council staff to answer questions, although the engagement comes across as too reactive. Stakeholders support the idea of the Council having a more proactive communications strategy.

4.3.3. Institutional and operational gaps hindering the CBR’s impact

192. Finally, it is worth remembering that the Council’s influence on policy outcomes is constrained by several specific features of the Slovak fiscal “ecosystem” already highlighted in this Review. This includes hurdles accessing information compiled by the Statistics Office, a weak “comply-or-explain” authority that is only implicit in some instances, the absence of a strong role for the Council in relation to the endorsement of macroeconomic and fiscal forecasts used for preparing the budget, possible divergences of interpretation on the meaning of fiscal rules between the CBR and the European Commission, and an incomplete fiscal framework where the statutory expenditure ceiling supposed to operationalise the debt brake was never enacted.

193. Impact is best achieved when an IFI’s actions consistently follow clear strategic orientations. So far, the Council has been very much focused on delivering many goods with limited human resources, leaving preciously little time to flesh out and even less to implement a comprehensive strategy of engagement.

194. Adopting explicit principles of action in areas where the Council has the discretion to act or not would reduce the risk of unfunded mandates and excessive demands on the Council’s resources. This has already been suggested in Chapter 1 in relation to costings. A more strategic approach will help ensure reasonable expectations about what the Council can do and protect the Council from partisan interpretation of its decision to do one exercise and refuse to do another. This could be supported by the Council developing and implementing a strategic plan and annual work plan.

4.4. Conclusions and recommendations

195. In a relatively short period of time, the Council has become a credible source of fiscal policy analysis anchored in strong perceptions of independence, non-partisanship

¹¹ The language barrier is a natural obstacle to considering appointments outside Slovakia. The existence of an external Advisory Panel somewhat mitigates the difficulty to bring outside expertise; but opportunities to tap into that knowledge are very limited.

and technical expertise. Indicators of media attention generally show robust upward trends and compare quite favourably to IFIs in other countries. Stakeholders' testimonies support the view that the Council is a reliable compass to navigate the complexities of the government budget. There is a strong perception among stakeholders that the Council has effectively raised the reputational costs of policies inconsistent with the constitutional mandate of achieving the long-term sustainability of public finances.

196. In the Slovak environment, the Council has no direct or indirect veto role in the budget process, its role in forecasting is rather minor because the preparation of macroeconomic and budgetary forecasts had already been delegated to forecasting committees that were set up prior to the introduction of the Council and the comply-or-explain obligation is limited. Thus, the Council's influence on fiscal outcomes operates mainly through the public debate.

197. The Council has generally had a relatively conservative approach to communications and there is tentative evidence that its influence on the public debate does not extend much beyond a niche of well-informed citizens particularly interested in public finances. This contrasts with the much broader public appeal of specific initiatives (e.g. the Council's analysis of the 2018 pension reform) supported by pointed efforts to draw the attention of the general public (e.g. short explanatory videos, pension-age calculator). This experience points to a significant untapped potential of public attention that the Council could usefully seek to exploit.

198. In this context, it is recommended that the Council employs a dedicated communications expert to design and implement a fully-fledged communication strategy. This should set out a more proactive approach to communicating the Council's work, including the systematic preparation of press releases, together with targeted use of non-technical blogs, videos, social media updates and advanced circulation of embargoed material to trusted opinion makers or influencers. Focusing communication efforts on high-impact media would be the safest way to secure quick wins. In this respect, Figure 4.14 suggests that beefing up the Council's "cyber presence" (website and social/online media) may well be the most fertile ground to catch public attention. This may require the Council to make improvements to its website so that it can serve its role as the main hub for information dissemination.

199. The communications strategy should also set out to improve the accessibility of Council reports to a general audience — as was done recently with the pension age calculator or the traffic light assessment of fiscal risks. This is paramount to increase the reach of the Council beyond the traditional niche of well-informed and educated professionals.

200. As for all strategic plans, implementation will require senior management ownership and capacity building within the Council. Continued monitoring of impact through systematic data collection (e.g. press quotes, website hits, Facebook "likes"), occasional stakeholders' surveys, and regular benchmarking with good international practice (a task that could be assigned to the external Advisory Panel) will also be important.

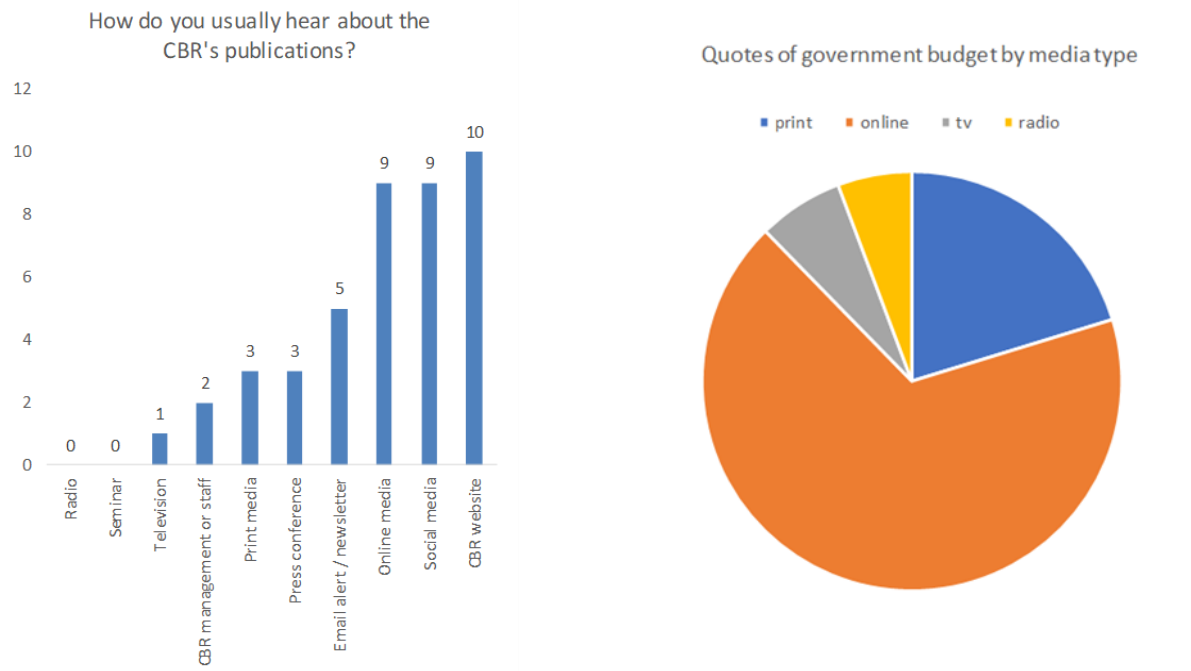
201. Engaging more actively with key stakeholders such as Members of Parliament could gradually raise the level of public finance literacy and genuine interest in budget issues. Upcoming elections will likely bring a new wave of parliamentary members. This provides an opportunity for the Council to strengthen its ties with Parliament and its committees. Gradually creating a culture of fiscal responsibility and parliamentary

oversight could go a long way in addressing some of the structural gaps identified in this review as impeding the Council's influence on policy outcomes.

Figure 4.15. CBR communication: the importance of a strong cyber presence

Most stakeholders learn about Council work from its website and social/online media...

...which indeed capture the majority of media references to budget matters.



Source: OECD survey of CBR stakeholders, 2019.

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Annex A. Review team and acknowledgments

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Xavier Debrun spent most of his 20-year professional career at the Fiscal Affairs and Research Departments of the International Monetary Fund (IMF). In 2006-07, he was a Fellow at Bruegel—Brussels' leading think tank on European economic issues—and an Associate Professor of Economics at the Graduate Institute in Geneva, where he obtained a Ph.D. in International Economics in 1999. His research interests include international policy coordination, the economics of monetary unions, and macro-fiscal issues, including debt sustainability assessments and the stabilizing role of fiscal policy. His work has been extensively disseminated in top-tier professional journals, IMF flagship reports, and conference volumes. He also led many technical assistance missions for the IMF in relation to the design and operation of fiscal policy rules, macro-fiscal forecasting, and the introduction of independent fiscal institutions.

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Annex B. Interview list

The review team would also like to thank all those who have contributed evidence and insights to this review, in particular individuals from the following institutions and groups who met with the team during its mission to Bratislava in July 2019:

- Academia and think tanks:
 - Institute of Economic Research
 - INESS – Institute of Economic and Social Studies
 - Economic Policy Institute
 - INEKO – Institute for Economic and Social Reforms
- CBR:
 - Chair
 - Board Members
 - Advisory Panel members
 - Executive Director
 - Staff
- European Commission – DG ECFIN
- Former CBR Board Members
- Former Minister of Finance (Ivan Mikloš)
- Members of Parliament
- Media:
 - Konzervatívny denník Postoj
 - Bloomberg News
 - Trend Business weekly
 - Hospodárske noviny
- Ministry of Finance
 - State Secretary
 - Institute for Financial Policy
- National Bank of Slovakia
- Statistical Office of the Slovak Republic
- Supreme Audit Office

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