

## Appendix 1: Fiscal policy monitoring and audit plan

### Fiscal policy monitoring

The ultimate goal of fiscal policy monitoring is to ensure that the Government's fiscal policy promotes sustainable public finances and that the fiscal policy-making provides good prerequisites for this. The monitoring aims to verify the setting of fiscal policy targets and to assess compliance with the rules and achievement of the targets. It also aims to verify the reliability of the forecasts on which fiscal policy is based. Another goal is to promote transparent rules that are easy to understand. The independent fiscal policy monitoring task is governed by the Fiscal Policy Act (869/2012), the Government Decree on the General Government Fiscal Plan (120/2014), the Stability Pact of the European Union and the common principles on national fiscal correction mechanisms (COM 2012/342), the European Union Budgetary Framework Directive (2011/85/EU), and Regulation (EU) No. 473/2013 of the European Parliament and Council.

The monitoring focuses primarily on statutory duties. The fiscal policy monitoring function issues public assessments of and opinions on the achievement of fiscal policy targets, compliance with the rules, impacts of the measures taken, and reliability of the forecasts of the Ministry of Finance. The main findings of the monitoring activities are reported twice a year: in spring or early summer and at the end of the year. The report published at the end of the year is submitted to Parliament for consideration.

In addition to the regular reports, the fiscal policy monitoring function prepares statements to Parliament according to an established practice when Parliament is discussing the General Government Fiscal Plan and the budget proposal for the coming year. The fiscal policy monitoring function also participates in expert discussion on fiscal policy, for example through blog posts and research publications and by organizing seminars.

In 2023, the fiscal policy monitoring function is planning to publish two separate reports. One of them will present an ex-post assessment of the reliability of the budgetary forecasts of the Ministry of Finance. The other one will discuss the importance and effectiveness of automatic fiscal stabilizers in Finland.

In the planning period 2023–2026, the fiscal policy monitoring function will develop both the organization and contents of its activities. The development work utilizes the OECD's external assessment completed in 2021 and its recommendations. The work will be carried out in interaction with national expert bodies, and external research contracts will also be used, if necessary.

The themes of the content development work are closely linked to the development of the EU and national fiscal rules and steering. In view of the current initiatives to amend the fiscal framework, a key focus area in fiscal policy monitoring will probably be public debt projections and other budgetary projections. The links between fiscal policy and the fight against climate change may continue to be reflected in the work of the fiscal policy monitoring function during the planning period 2023–2026.

In 2023, the fiscal policy monitoring function will continue to utilize in its regular reporting the alternative way it has developed to describe the business cycle, i.e. the business cycle heat map and the composite indicator derived from it. The development of the heat map and composite indicator will continue as necessary. The heat map indicator data is updated monthly on the website of fiscal policy monitoring in the VTV.fi service.

The fiscal policy monitoring function will also continue to engage actively in expert cooperation in international networks of independent fiscal institutions (IFIs). At present, the active cooperation networks are the Network of EU IFIs, the Commission-led EU Network of IFIs (EUNIFI), the OECD-led Working Party of PBO and IFIs, and the IFI network of the Baltic and Nordic countries. International cooperation also takes place at the initiative of the European System of Central Banks and the European Fiscal Board.

The escape clause that allows Member States to deviate from the achievement of the fiscal policy objectives based on the EU framework continues to be in force in 2023. For this reason, the NAOF will continue to adapt the assessment of compliance with the preventive arm of the Stability and Growth Pact to the current situation. At the same time, the monitoring function prepares for the deactivation of the escape clause after 2023 and the fact that the revised EU fiscal framework may be in force starting from 2024.

### Fiscal policy audit

Fiscal policy audit is part of the statutory basic task of the National Audit Office, and the international ISSAI audit standards are applied in it. Each year, fiscal policy audits are typically targeted at the knowledge base and steering instruments of fiscal policy.

The targets and themes of fiscal policy audit and fiscal policy monitoring may be similar, but in its nature, fiscal policy audit differs from the monitoring. The themes of fiscal policy audits are, in principle, non-recurring, whereas fiscal policy monitoring involves continuous monitoring and reporting on largely established themes. Fiscal policy audit supports fiscal policy monitoring: audit findings may highlight issues that will then be monitored as part of the fiscal policy monitoring.

The National Audit Office chairs the Network on Fiscal Policy Audit, operating under the Contact Committee of the Supreme Audit Institutions of the European Union. Those who work with fiscal policy audit participate actively in the Network's operations even otherwise. The objective is to publish 1–2 fiscal policy audits annually.

In 2022, an audit was launched on the assessment procedure for municipalities in particularly difficult financial position, and its results will be published at the end of 2023. New topics of fiscal policy audit include:

- Methods of forecasting general government debt
- Knowledge base of climate and energy policy.

Follow-ups on the following audits will be carried out in 2023:

- Reconciliation of fiscal policy and employment policy 9/2020
- Functioning of the central government spending limits system – Expenditure can be limited by the system, but other fiscal policy rules are also needed 8/2021.

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