



The EU Directive on budgetary frameworks

**Presentation by Georges Tournemire
European Commission**

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Directive on budgetary frameworks

Setting the stage

- ✓ There is considerable variation in the quality of fiscal governance across EU Members
- ✓ Experience has shown that well-designed fiscal frameworks can substantially contribute to the conduct of sound fiscal policies
- ✓ The EU budgetary framework has proven to be insufficiently entrenched in the national structures shaping budgetary policies
- ✓ The Commission proposed in September 2010 a Directive, which sets minimum requirements for the budgetary frameworks of EU Member States
- ✓ The Directive is binding and failure to transpose in national law would result in infringement procedure; Member States have leeway when choosing which instrument in their national legal system would best ensure transposition of the directive provisions
- ✓ Transposition should be completed by end-2013
- ✓ Directive is currently under discussion with EU co-legislators: Council and Parliament

Directive on budgetary frameworks

The Directive's main building blocks

The Directive sets requirements in five categories:

- ✓ Accounting and statistics
- ✓ Forecasts
- ✓ Numerical fiscal rules
- ✓ Medium-Term Budgetary Frameworks
- ✓ Transparency of general governments, comprehensive scope of budgetary frameworks

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Accounting and Statistics

Rationale:

- ✓ In the wake of the Greek crisis, it became clear that common accounting practices and high-quality and comparable statistics constitute a prerequisite for sound national fiscal policy and effective EU budgetary surveillance

Directive provisions:

- ✓ Comprehensive accounting system covering all sub-sectors of general government
- ✓ Quick availability of cash-based data on a monthly basis for central and regional government and social security funds (quarterly basis for local authorities)
- ✓ Transparency of the methodology underlying the production of ESA95-comptatible data (transposition table required)

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Forecasts

Rationale:

- ✓ Biased underlying macroeconomic and budgetary forecasts alter the “true and fair” presentation of budgets. While acknowledging the inherent limitations of forecasting, there is the need for more transparency in budgetary planning making governments more accountable to external bodies and the public opinion

Directive provisions:

- ✓ Budgetary planning shall be based on the most likely/prudent macro-fiscal scenario
- ✓ Significant differences with the Commission forecasts shall be explained (no alignment needed though)
- ✓ Alternative macro and budgetary forecasts shall be considered
- ✓ Methodologies and parameters used for fiscal planning shall be disclosed

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Numerical fiscal rules

Rationale:

- ✓ Recent economic literature and country-specific experience provide ample evidence that well-designed numerical fiscal rules enhance budgetary discipline

Directive provisions:

- ✓ Member States shall have in place fiscal rules that effectively promote compliance with the obligations derived from the Treaty for the general government as a whole (in particular the reference values for deficit and debt)
- ✓ Design features requested: target definition, scope, effective monitoring attached to the rules, “consequences” in the event of non-compliance
- ✓ Annual budget legislation should reflect the constraints arising from these numerical fiscal rules

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Medium-Term Budgetary Framework (MTBF)

Rationale:

- ✓ As most fiscal measures have implications that go well beyond the yearly budgetary cycle, the adoption of a multi-annual perspective should enhance the overall quality of fiscal policy-making, in line with the existing features Stability and Growth Pact (MTOs and annual multi-year stability and convergence programme)

Directive provisions:

- ✓ Member States shall establish a MTBF with an horizon of at least three years
- ✓ Design features requested: comprehensive nature, MTBF shall include projections of major expenditure and revenue items based on unchanged policies
- ✓ Realistic macroeconomic and budgetary forecasts needed
- ✓ Stress on MTBF consistency: (i) with the numerical fiscal rules in effect; (ii) with the annual budget process (MTBF projections shall constitute the basis for the preparation of the annual budget)

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Transparency and comprehensive scope of budgetary frameworks

Rationale:

- ✓ Transparency of general government operations is key to ensure effective monitoring of budget execution. Member States should make sure that common SGP targets are properly taken into account by all general government sub-sectors; this is especially —but not only— the case for federal governments

Directive provisions:

- ✓ Need for internal coordination and clear allocation of tasks across sub-sectors of general government; likewise fiscal planning, forecasts, numerical fiscal rules and MTBFs should cover all sub-sectors of general government
- ✓ Extra-budgetary funds part of general government should be documented in annual budgets
- ✓ Detailed information requested on: (i) tax expenditures, (ii) contingent liabilities