



The EU Fiscal Governance Framework and Implications on National Fiscal Frameworks

World Bank Conference

« Fiscal Rules and Fiscal Councils in the Western Balkans »

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National fiscal frameworks and institutions

Structure

- *Legal Framework: Key Building Blocks*
- *Cooperation beyond the legal framework*
- *Economic Governance Review*

Definition and rationale

Why do we cover fiscal frameworks?

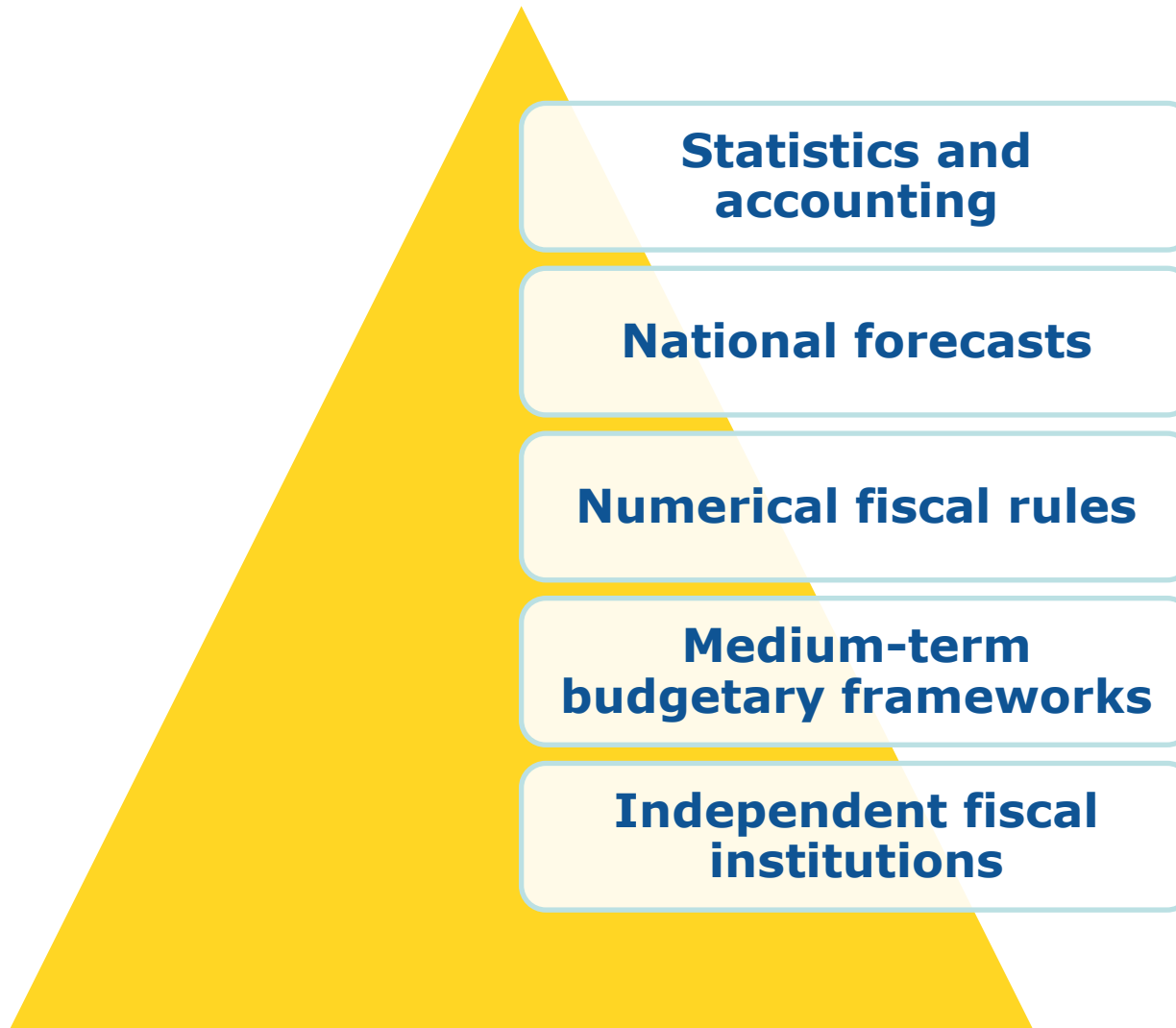
The Great Recession revealed critical vulnerabilities in the fiscal positions of most Member States and was a wake-up call to the importance of strong fiscal frameworks.

Stronger EU surveillance via reformed Stability and Growth Pact and new Macroeconomic Imbalances Procedure.

Agreement to set national minimum requirements:

- Directive on Budgetary Frameworks
- The Fiscal Compact (intergovernmental)
- Regulations to strengthen the coordination and surveillance of budgetary policies in the euro area (“Two-pack”).

Legal Framework: Key building blocks



Statistics and accounting

Rationale

Enhance **comparability** between Member States on an intra-annual basis;

Consistent accounting rules;

A sound base for => **preparation of annual budgets**, and => **monitoring** of fiscal surveillance;

A more precise definition of public **liabilities**;

Improve **transparency** and **accountability**;

National forecasts (1)

Rationale

Macroeconomic and budgetary forecasts are an essential component in **budget preparation**

Potential for budget manipulation (**biased forecasts**)

Desired features

Realistic

Based on transparent/public methodologies

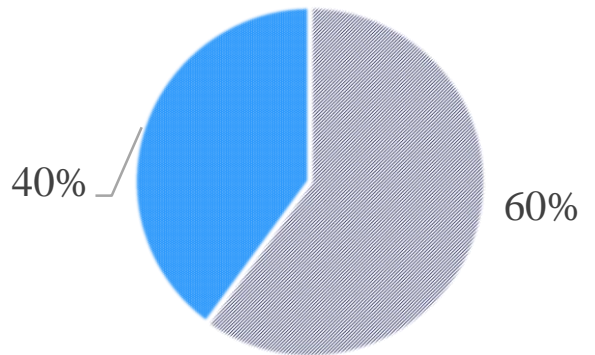
Scenario analysis

Produced or endorsed by an independent body

National forecasts (2)

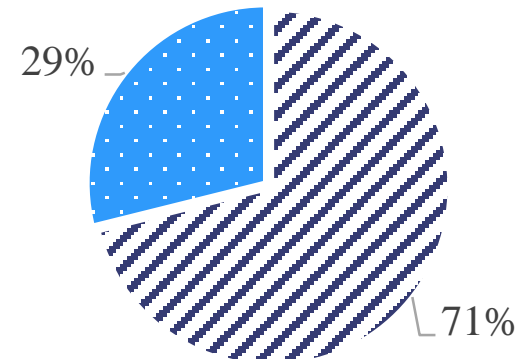
Chart 3.2.1: Evolution in forecast prudence compared to the pre-crisis period

a) Macroeconomic forecasts



■ No change ■ More plausible

b) Budgetary forecasts



■ No change ■ More plausible

Source: Stakeholder survey

Numerical Fiscal Rules (1)

Background and rationale

Definition: *Permanent /long-lasting constraint on fiscal policy using numerical limits on budgetary aggregates*

Objectives

Avoid tendency to over-spend

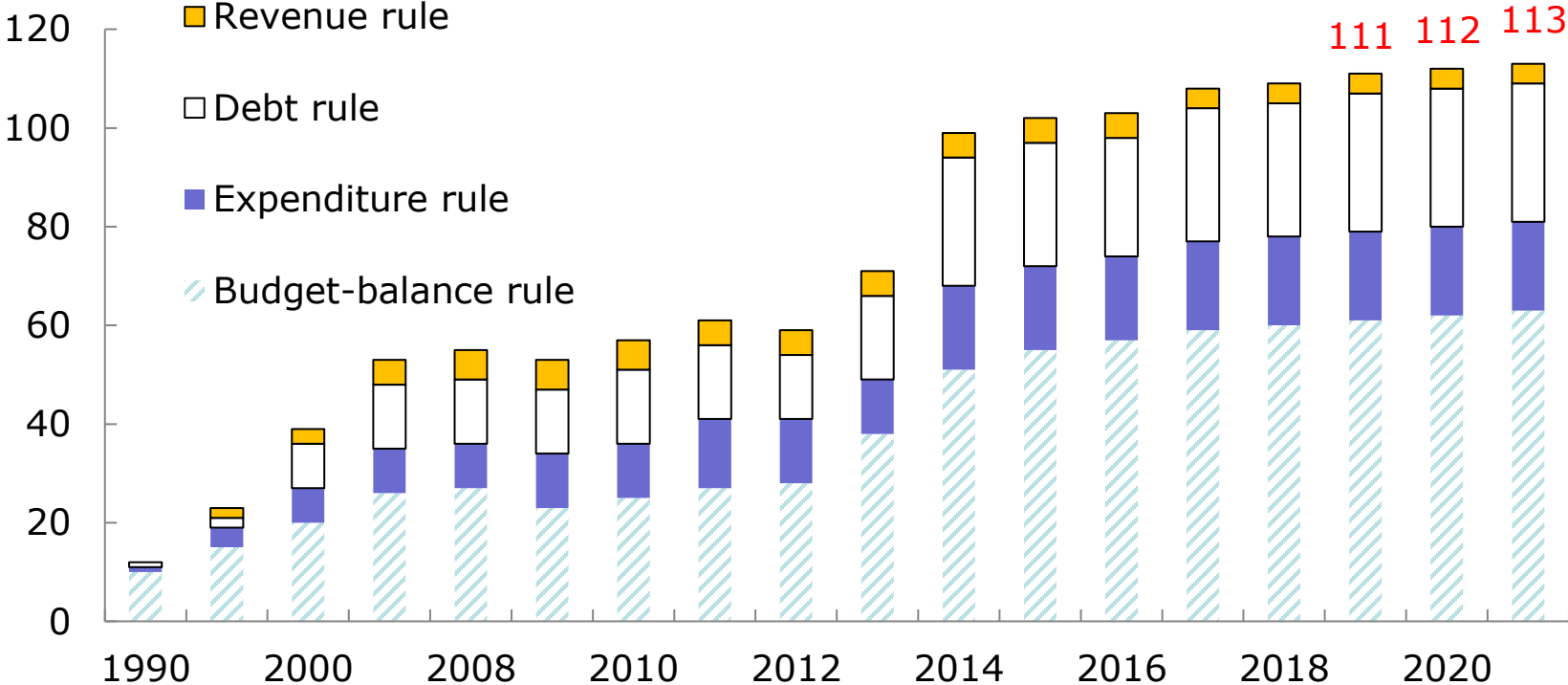
Avoid painful cuts during downturns

Types of rules

Debt, balanced budget (nominal or structural), expenditure , revenue allocation, etc.

Numerical Fiscal Rules (2)

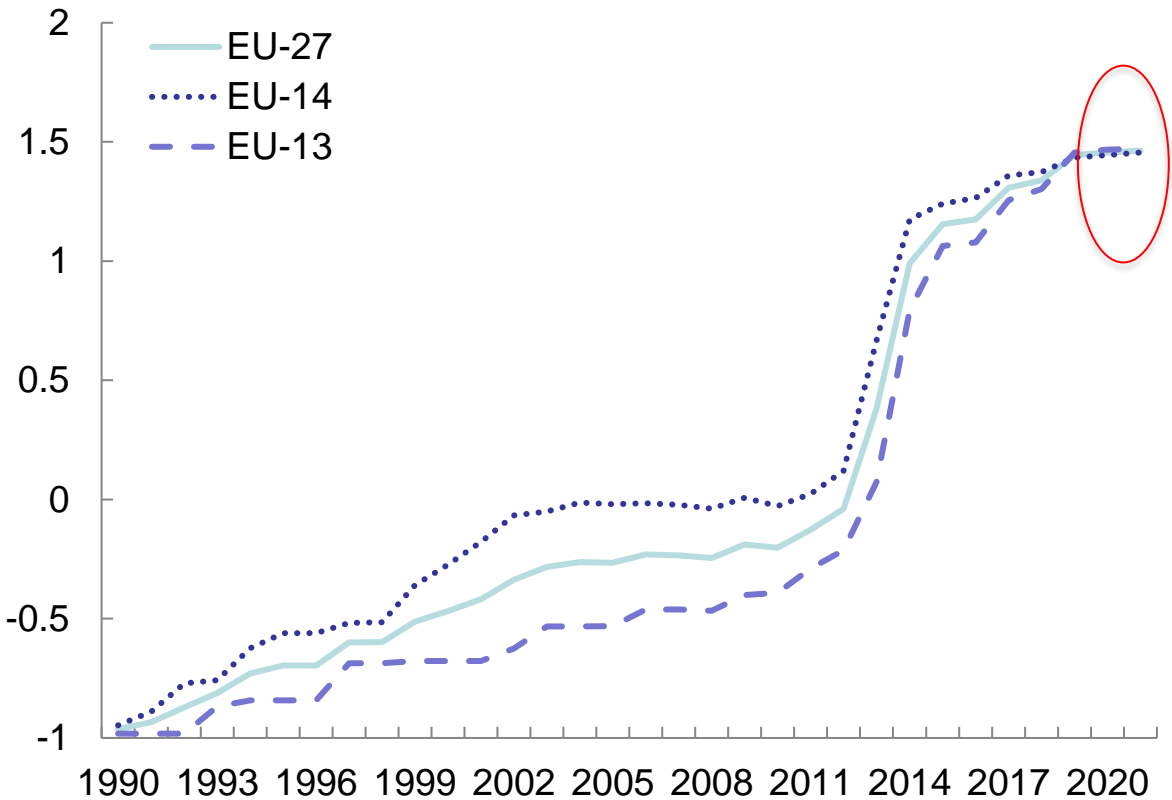
National fiscal rules across Member States



Source: European Commission Fiscal Governance Database

Numerical fiscal rules (3)

Strength of fiscal rules



Fiscal Rule Index	
Legal basis	
Binding character	
Nature of body in charge of monitoring & correction mechanism	
Correction mechanism in case of deviation	
Flexibility to shocks	

Source: European Commission Fiscal Governance Database

Medium-term budgetary frameworks (1)

Definition:

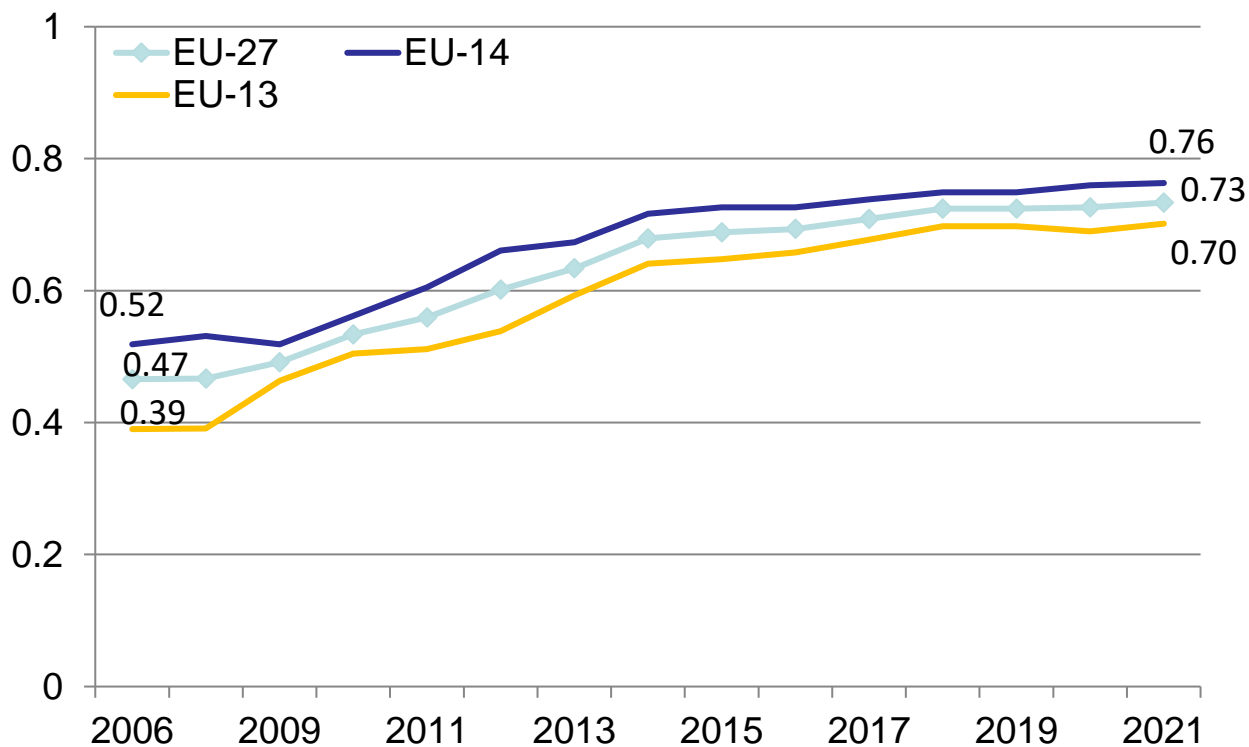
Institutional policy instruments that allow the extension of the horizon for fiscal policy-making beyond the annual budgetary calendar.

Benefits:

- Enhance transparency budgetary objectives and inform economic agents
- Improve predictability of fiscal policy
- Improve quality and stability of policy making
- Enhance fiscal discipline

Medium-term budgetary frameworks (2)

MTBF index: gradual rise in recent years



Medium term budgetary framework index

Coverage

Connectedness to annual budget

Involvement of parliament

Involvement of independent fiscal institution

Level of detail

Source: European Commission Fiscal Governance Database

Independent fiscal institutions (1)

DEFINITION:

Non-partisan public bodies aimed at promoting **sustainable public finances** through various functions, including monitoring compliance with fiscal rules, production or endorsement of macroeconomic forecasts for the budget, and/or advising the government on fiscal policy matters.

Independent fiscal institutions (2)

Rationale	Desired features
Can enhance transparency of public finances	Statutory regime grounded in law
Can educate the general public on fiscal policy issues	Freedom from interference
Can increase reputation cost	Nomination based on experience and competence
	Capacity to communicate publicly
	Adequacy of resources
	Access to information

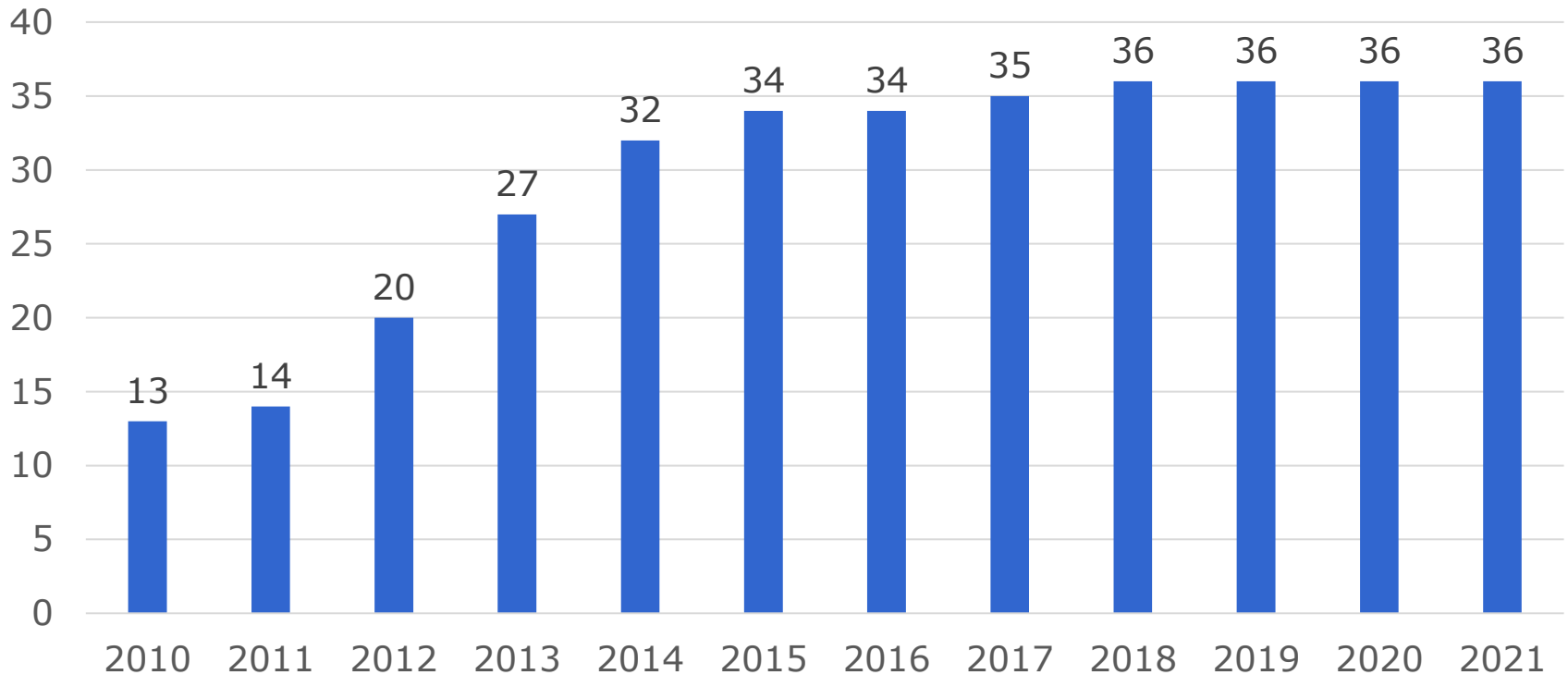
Independent Fiscal Institutions (3)

Typical tasks

- Macroeconomic and budgetary forecasting (production/endorsement)
- Assessment of compliance with fiscal rules
- (Quantitative) Policy costing
- Promotion of fiscal transparency
- Analysis of long-run sustainability of public finances
- Normative recommendations on fiscal policy

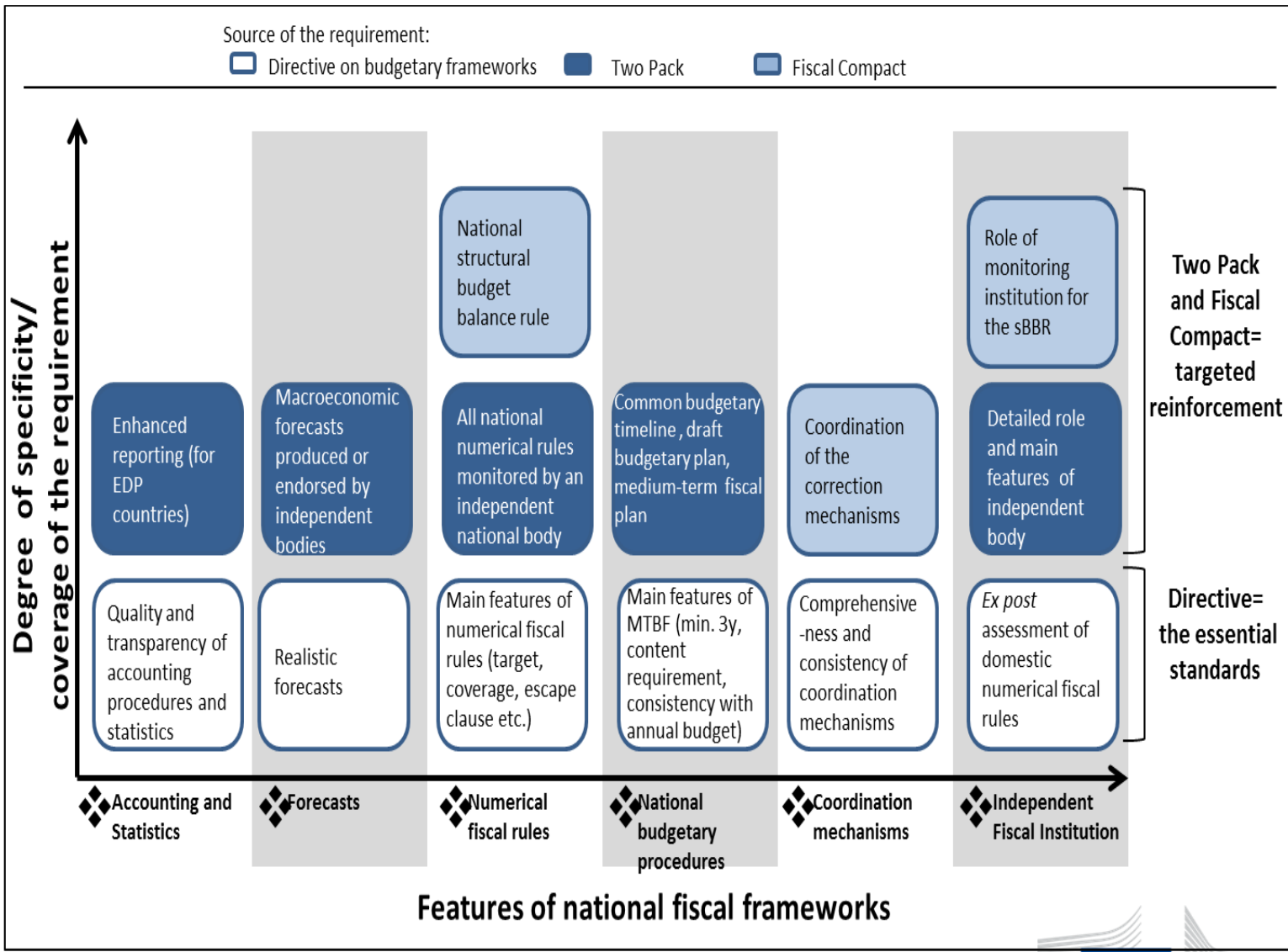
Independent Fiscal Institutions (4)

The rise of IFIs in the EU



Source: European Commission Fiscal Governance Database

Overview of supranational requirements



Cooperation beyond the legal framework



Green budgeting

**Disaster risk
financing**

Spending reviews

**Public investment
management**

Green budgeting activities

- *Survey on GB practices in Member States, every two years*
- *Annual Conference*
- *Training (together with DG REFORM)*
- *Network of experts from national authorities*
- *Green Budgeting Reference Framework*
- *Analysis*
- *Outreach*

Disaster risk financing

Why does it matter?	Key elements
Increasing frequency and severity of natural disasters	Better information Disclosure of contingent liabilities in budgetary documents Transparency on disaster-related financing
Public authorities often as insurers of last resort	Risk sharing Public/private insurance schemes
Sustainability of public finances	Public sector arrangements/rules Dedicated budgetary funds, explicit provisions for emergency situations Compensation rules and beneficiaries

Spending reviews

Definition

A spending review is the process of identifying and weighing saving options, based on the systematic scrutiny of baseline expenditure (OECD 2016).

Rationale



Enhancing policy prioritization: is the current expenditure still a priority?



Improving cost-efficiency: is the current expenditure effective in reaching its goals?



Addressing consolidation needs: can the same goals be achieved with fewer resources?

Public investment management

Why does it matter?	Key elements
Evidence of inefficiencies in managing public investment (usually complex, long-term, politically sensitive projects)	Strategic planning Transparent appraisal/selection methods
Can improve cost-effectiveness by obtaining same goal with less resources	Capital availability over the project's lifetime Effective monitoring systems Effective ex-post reviews and asset management
Can support stronger economic growth	Information that flows in a timely manner and is made public Governance and accountability

Economic governance review

**IMPLICATIONS FOR NATIONAL FISCAL
FRAMEWORKS**

Key objectives and principles of the reform

- *The key objective of the reform is to strengthen debt sustainability and promote sustainable and inclusive growth through reforms and investment.*
- *Key principles:*
 - *Medium-term approach bringing together fiscal policy, investments and reform*
 - *Gradual and credible debt reduction thanks to prudent fiscal policy and underpinned by growth enhancing investment and reforms for EU priorities*
 - *More national ownership, based on common EU rules, and better enforcement*
 - *Simpler rules taking account of different fiscal challenges*

Content of the legislative package

1. Proposal for a new Regulation on the effective coordination of economic and multilateral budgetary surveillance (repealing EC No1466/97)

2. Proposal for *amending* the Regulation on speeding up and clarifying the implementation of the excessive deficit procedure (EC No 1467/97)

3. Proposal for *amending* the Council Directive on requirements for budgetary frameworks of the Member States (2011/185/EU)

Amendments to the Directive mainly aim at:

Reinforcing ownership and medium-term orientation, consistent with EGR spirit;

Enhancing IFIs and MTBFs in line with ECA 2019 recommendations;

Addressing weaknesses from transposition and implementation checks, as reported in COM 2020 suitability review;

Improving quality of public finances by inserting climate, environmental and distributional considerations in line with EU policies.

1. A stronger role for IFIs

Safeguards for independence -Art 8(1), 8(2) and 8(3):

- **IFIs established by binding provisions; members appointed transparently and based on competences;**
- **Adequate and stable resources; adequate and timely access to information; ability to communicate publicly.**

New tasks -Art 8(4):

- **Produce or endorse (macroeconomic and) budgetary forecasts, debt sustainability assessments, impacts of policies on fiscal sustainability and sustainable and inclusive growth;**
- **Monitor compliance with (national fiscal rules and) EU rules; conduct regular reviews of the national fiscal framework; participate in regular hearings at the national parliament.**

Higher accountability -Art 8(5):

- **Comply-or-explain principle for IFIs' assessments and opinions;**

2. A clearer mid-term orientation

- *Extending forecast requirements to multi-annual period – Art 4*
- *Clarifying the link between annual budgeting and multi-annual budgeting –Art 10:*

Annual budget legislation shall be consistent with the national budgetary objectives over the medium term referred to in Article 2, point (e). ~~the provisions of the medium-term budgetary framework.~~

3. A greener and more inclusive budgeting

Recital 19 calls for greener and more inclusive budgetary processes:

'Green budgeting tools can help redirect public revenue and expenditure to green priorities. (...)

Member States should publish the information on how the relevant elements of their budgets contribute to achieving climate and environmental national and international commitments and the methodology used (...)

Member States are invited to publish information on the distributional impact of budgetary policies and take into account employment, social and distributional aspects in the development of green budgeting.'

New elements in MTBFs – Art 9(2)d requires:

- assessing the medium- and long-term impacts of policies on sustainable and inclusive growth.*

4. A more climate-resilient budgeting

New elements in MTBFs – Art 9(2)d requires:

- *specifying, to the extent possible, the macrofiscal risks from climate change as well as environmental and distributional impacts, and the implications on public finances of climate-related policies.*

New reporting requirements – Art 14(3) requires MS to publish:

- *information on disaster and climate-related contingent liabilities to the extent possible;*
- *information on economic losses incurred due to disasters and climate-related shocks, including the fiscal costs borne by the public sector and the instruments used to mitigate or cover them.*

State of play

- *Common Approach of the Council*
- *Position of the European Parliament*
- *Trilogues*

Preliminary- please do not
quote



**Thank you
for your attention!**

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- **Directive on budgetary frameworks**

<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>

- **Fiscal Compact**

https://www.consilium.europa.eu/media/20399/st00tscg26_en12.pdf

Note on Fiscal Compact

https://ec.europa.eu/info/publications/fiscal-compact-taking-stock_en

- **Regulation no 473/2013 (of so-called Two-pack)**

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- **Green budgeting website**

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https://economy-finance.ec.europa.eu/publications/disaster-risk-financing-limiting-fiscal-cost-climate-related-disasters_en

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- **Note on Public Investment Management**

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