



EU Acquis

National Fiscal Frameworks

9-10 January 2019

DG Economic and Financial Affairs - European
Commission

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose.
Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union'

What are fiscal frameworks?

Fiscal frameworks \equiv Budgetary frameworks

'budgetary framework' means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government

Why do we need fiscal frameworks?

- To foster **sound** and **responsible** public management by establishing **incentives** and **constraints** on policy discretion:
 - Contain the **deficit bias**
 - Reduce the **pro-cyclicality** of budget making
-
- To contribute to medium-term **predictability**
-
- To help preserve long-term **sustainability**

Legislative Provisions

Acquis

EU Acquis

Budgetary Frameworks Directive 2011 (2011/85/EU)

European System of Accounts 2010 (Reg No 549/2013)

EDP Statistics (Protocol 12 of TFEU)

Euro Area Acquis

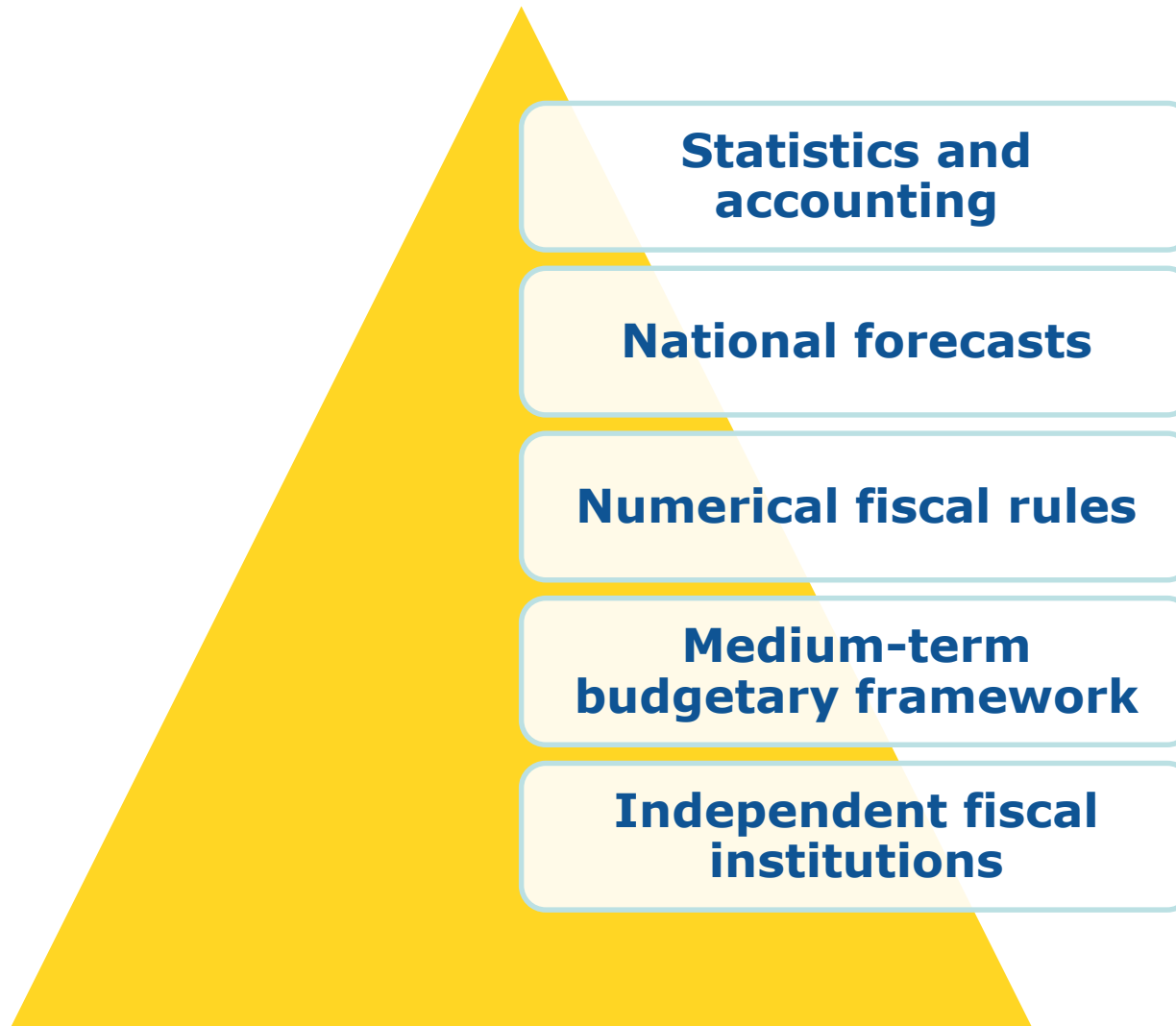
Two-Pack 2013 Regulation EU (473/2013)

Intergovernmental Treaty

Fiscal Compact 2012, Title III of Treaty of Stability Coordination and Governance in the Economic and Monetary Union

(Euro Area + Bulgaria, Denmark and Romania)

Key components



Statistics and accounting

Statistics and accounting: Rationale

Why do we need good data?

Enhance **comparability** between member states

A sound base for => **preparation of annual budgets**

Reliable (real-time) **monitoring** of budget execution

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

Statistics and accounting: EU Acquis (1)



**Statistics and
accounting**

**European System of Accounts
2010**

**Excessive Deficit Procedure
Statistics**

Budgetary Frameworks Directive

Statistics and accounting: EU Acquis (2)

European System of Accounts 2010 (Reg No 549/2013)

- Consistent with global national accounts agreement (SNA 08)
- Defines how economy is divided into institutional sectors
- Defines units, transactions, stocks etc.
- Defines rules for statistical recording (notably accrual principle)

EDP Statistics (Protocol 12 of TFEU)

- Defines EDP reference values: 3% for deficit and 60% for debt
- Also defines what 'deficit' and 'debt' mean

Statistics and accounting: EU Acquis (3)

Budgetary Frameworks Directive

Requirements on statistics and accounting

- **High frequency data**
- Cover **contingent liabilities**
 - Government guarantees; Off-balance PPPs; Non-performing loans (government assets); Liabilities of public corporations classified outside general government
- **Extra-budgetary funds**
- Information on **tax expenditure**

Statistics and accounting: In practice (1)

Bulgaria National Statistical Institute data

Fiscal data on deficit / surplus under Directive EU 85/2011

Monthly fiscal data

Quarterly fiscal data

Annual data on non-performing loans

Annual data on liabilities of public corporations

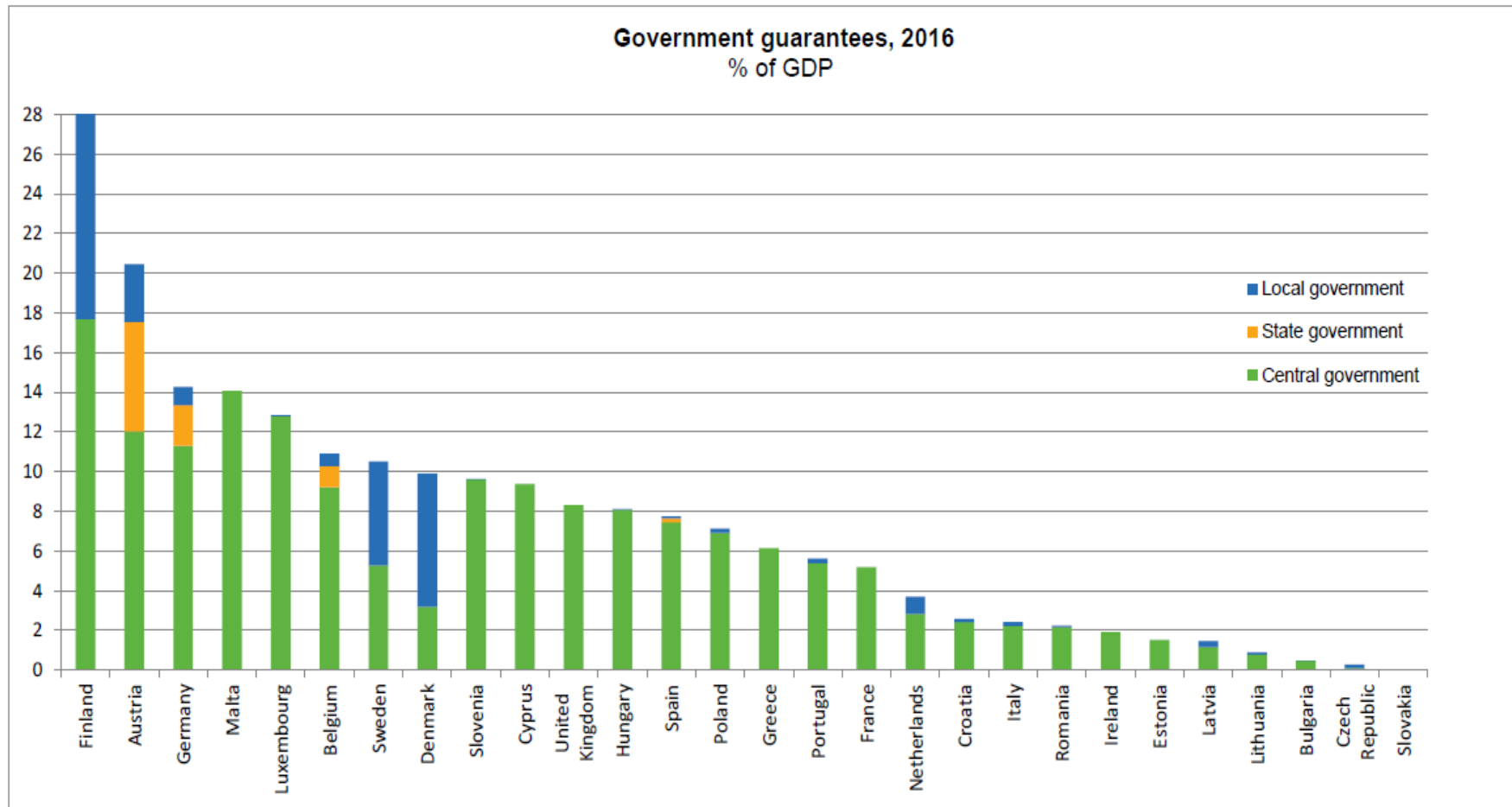
Annual data on participation of government in the capital of corporations

Annual data on Public-Private Partnerships

GFS_monthly_fiscal_data_EN.xls [Protected View] [Compatibility]							
File Home Insert Page Layout Formulas Data Review View Developer							
E34 fx							
	A	B	C	D	E	F	G
1							
2	DEFICIT/SURPLUS OF CENTRAL GOVERNMENT SUBSECTOR						
3	BY MONTHS OF 2018						
4							
5	INDICATORS	January	February	March	April	May	June
6	OVERALL BALANCE (1-2)	956.87	-421.48	-275.84	591.53	140.83	303.88
7	1. TOTAL REVENUE	2,989.22	1,742.31	2,112.41	2,720.05	2,217.81	2,409.40
8	2. TOTAL EXPENDITURE	2,032.35	2,163.78	2,388.25	2,128.52	2,076.98	2,105.52
9							
10	* Under Article 3 (2) of Directive 2011/85 on requirements for EU budgetary frameworks data are formed on the basis						
11	of monthly cash reports of central budget and autonomous budgets (without accumulation) and estimations for public corporations,						
12	reclassified in Central government subsector - hospitals, NC "Railway infrastructure", BDZ "Passenger services", etc.						
13							
14							

<http://www.nsi.bg/en/content/13360/monthly-fiscal-data>

Statistics and accounting: In practice (2)



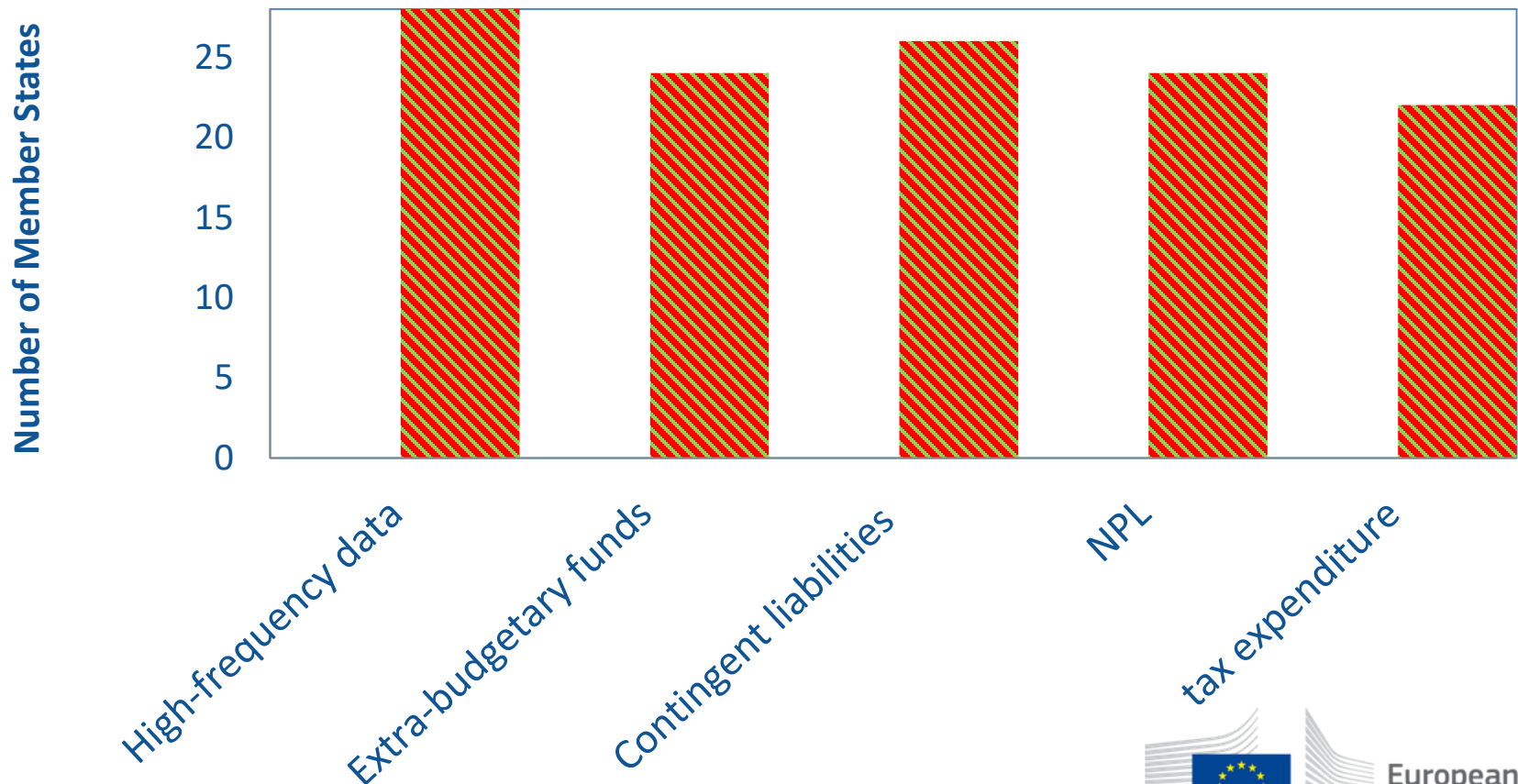
Source: Eurostat 2018

<https://ec.europa.eu/eurostat/documents/2995521/8624398/2-29012018-AP-EN.pdf/ee504046-6ccc-4b79-8dfb-7a5e1d38328f>

Statistics and accounting: In practice (3)

Main challenges in the transposition:

Compliance with Directive's statistical requirements





National forecasts

National forecasts: Rationale

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

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

National forecasts: Acquis

National forecasts

- Fiscal planning based on **most realistic** macro forecast.
- **Mandatory comparison** of national projections with Commission forecasts + **explanation** of significant differences.
- Transparency of **methodologies**.

An **independent** body shall either **produce** or **endorse** the macroeconomic forecasts used for budgetary planning.

Budgetary Frameworks Directive

EU
Acquis

Two-Pack

EA Acquis

National forecasts: In practice (1)

6. Comparison of the projections of Lithuanian macroeconomic and fiscal indicators and the projections of the economic development scenario and medium-term fiscal indicators developed by the European Commission

The projections of the economic development scenario of the Ministry of Finance published in September 2017 are based on the latest statistics and other information available up to 1 September.

Comparison of the latest projections of the most recently established macroeconomic indicators produced by the Ministry of Finance, the Bank of Lithuania and the European Commission

Indicator	Years	Authority name		
		Ministry of Finance (September 2017)	Bank of Lithuania ¹ (September 2017)	European Commission (May 2017)
% change in GDP	2017	3,6	3,6	2,9
	2018	2,9	2,8	3,1
GDP deflator change, in%	2017	3,7	3,0	2,9
	2018	2,4	2,2	2,5
	2017	6,2	5,5	6,0

Source: Lithuania 2018 Budget (Commission services translation)

National forecasts: In practice (2)

European Commission: 2019 Draft Budgetary Plans assessments

compared to spring.⁴ The macroeconomic scenarios contained in the Draft Budgetary Plans are generally very similar to Commission forecasts for individual Member States, partly reflecting the fact that all Member States are required to base the draft budgets on independently endorsed or produced macroeconomic forecasts. For Germany, the macroeconomic forecast was endorsed for the first time by the Joint Economic Forecast project group, as part of a new forecasting arrangement. The macroeconomic assumptions underlying the Italian Draft Budgetary Plan have not been endorsed by the Member State's independent fiscal institution. Moreover, the Belgian Draft Budgetary Plan is not based on the most recent independent forecast of the Federal Planning Bureau. The Commission

Link: https://ec.europa.eu/info/sites/info/files/economy-finance/comm_chapeau_211118.pdf

National forecasts: In practice (3)

The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of macroeconomic projections prepared by the Department of Finance for *Budget 2019* for the years 2018 and 2019.

Source: IFAC 2018

<https://www.fiscalcouncil.ie/wp-content/uploads/2018/10/October-2018.pdf>



**Irish Fiscal
Advisory Council**

www.fiscalcouncil.ie | info@fiscalcouncil.ie | (+353 1) 8632005
Whitaker Square, Sir John Rogerson's Quay, Dublin D02 K138, Ireland.

2nd October 2018

Dear Secretary General Moran,

The Council has a statutory obligation to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which *Budget 2019* will be based.¹ The Department provided its *Budget 2019* forecasts—which cover a five-year-ahead forecast horizon—to the Council on 20th September 2018. The Council discussed these forecasts with Department of Finance staff on 28th September 2018, ahead of the Council's endorsement meeting.

The Council's approach to endorsement of the macroeconomic forecasts has three elements:

- a comparison of the Department of Finance's macroeconomic forecasts to the Council's Benchmark projections;
- a consideration of the methodology used to produce the forecasts; and
- a review of past forecast errors for evidence of systematic bias.

The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of macroeconomic projections prepared by the Department of Finance for *Budget 2019* for the years 2018 and 2019.

The Council is satisfied that the forecasts are within an endorsable range, taking into account the methodology and the plausibility of the judgements made.

The Council welcomes the Department's supply-side estimates based on their own methodology and consistent with their own assessment of the economy. These are to be published in *Budget 2019* as part of its main economic assessment, while estimates produced under the EU Commonly Agreed Methodology (CAM) are to be reported in an annex for compliance purposes.² The Council verified the Department's mechanical application of the CAM to estimate trend supply-side variables.

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Fiscal Assessment Report, due in November 2018.

Yours sincerely,

Seamus Coffey, Chairperson.

¹ The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

² The CAM is primarily a tool used for fiscal surveillance by the European Commission. As highlighted by the Council in previous Fiscal Assessment Reports and on numerous occasions by the Department of Finance, the CAM is not well equipped to estimate the supply side of the Irish economy. Furthermore, the results do not reflect the Department's own views regarding the cyclical position of the economy.

Council: Seamus Coffey (Chairperson) · Sebastian Barnes · Íde Kearney · Michael G. Tutty · Martina Lawless.



**European
Commission**

Numerical fiscal rules

Numerical Fiscal Rules: Rationale

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

Objectives

Counteracting deficit bias

Promoting anti-cyclical fiscal policy

Types of rules

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

Numerical Fiscal Rules: Types

Expenditure rules	Budget balance rules	Debt rules
<ul style="list-style-type: none">• Expenditure = aggregate most directly under the control of government• Particularly efficient within a medium-term perspective	<ul style="list-style-type: none">• Easy to monitor/communicate• Specified in either nominal (e.g. 3%) or structural terms (e.g. surplus target of 1%)• In response to Fiscal Compact, all EA plus BG, DK, RO have in place a structural budget balance rule	<ul style="list-style-type: none">• Directly linked to the main objective of keeping debt at sustainable levels• Set of thresholds of debt as % of GDP triggering certain sanctions

Numerical Fiscal Rules: Features

What makes fiscal rules effective?

Level of commitment to the rule

Fixed and binding targets

Independent monitoring

Correction mechanism

Some flexibility to shocks outside government's control

Numerical Fiscal Rules: Acquis (1)

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

Numerical Fiscal Rules

Budgetary Frameworks Directive

Two-Pack

EA Acquis

EU Acquis

Numerical Fiscal Rules: Acquis (2)

Budgetary Frameworks Directive

- Promote compliance with **EU budgetary obligations**
- Include **specifications** about:- **target** (i.e. budgetary aggregate and limit); **scope** of the rules (i.e. coverage), **independent monitoring** of rules, **consequences** in the event of non-compliance.
- If there are **escape clauses**, they should be well-defined and limited.

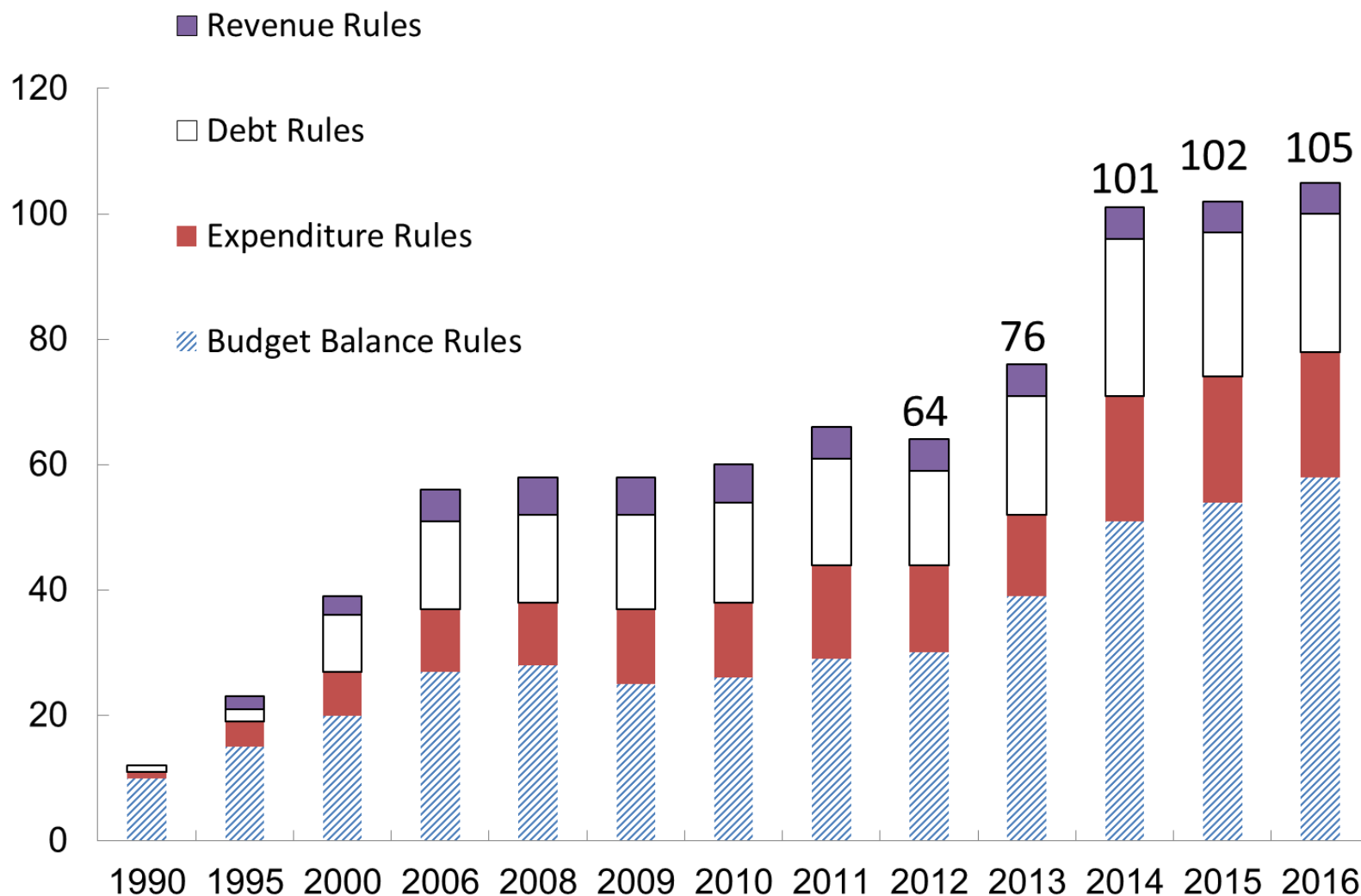
Two pack

- All domestic rules to be monitored by independent bodies.

Numerical Fiscal Rules: Fiscal Compact

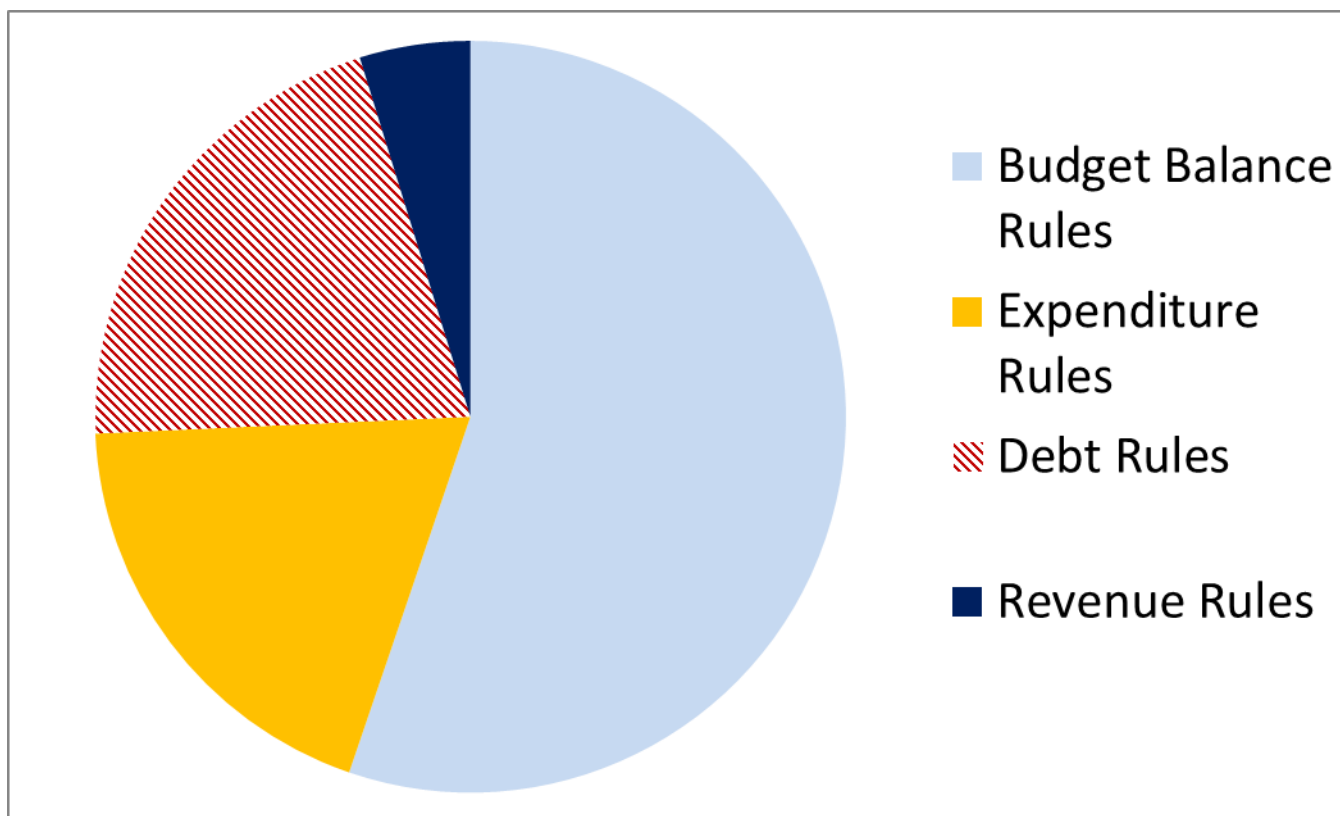
- General government budget shall be **balanced** or in **surplus**
 - [if annual structural balance is at medium-term objective or is converging to it].
- Deviations allowed under **exceptional circumstances** and shall be corrected **automatically**.
- Enforcement: provisions of "**binding** force and permanent character, preferably **constitutional**..."
- Compliance with the national rule monitored at the national level by independent institutions.

Fiscal rules across Member States



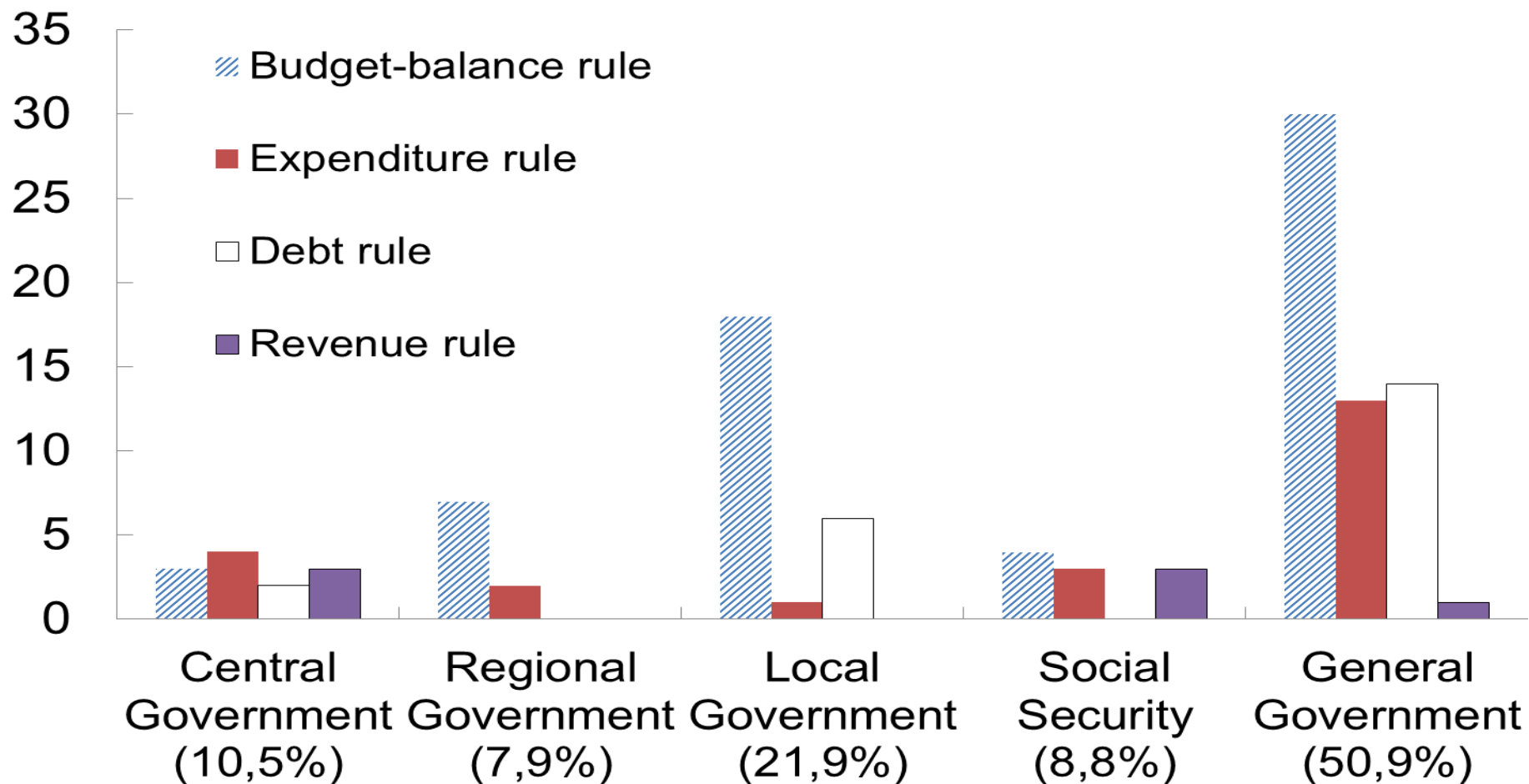
Source: European Commission Fiscal Governance Database

Fiscal rules across Member States



Source: European Commission Fiscal Governance Database

Fiscal rules across Member States



Source: European Commission Fiscal Governance Database

Assessment of rule compliance in Austria

Debt rule complied with in 2017 and 2018

In **2016**, the increase in the structural deficit ratio amounted to a substantial 1.0 percentage point but still remained below the requirement under the debt rule. To ensure compliance with the future-oriented debt benchmark, i.e. the **debt rule, at the end of the transition period** (2016), Austria needed to achieve a **minimum adjustment of its structural budget balance** of -2.2% of GDP in 2016. Given the better-than-expected performance with regard to the structural budget requirements in 2014 and 2015, even a marked deterioration of the structural budget balance in 2016 would not have caused a breach of the debt rule in the transition period. **This means that Austria was in compliance with the debt rule in the transition period.**

From 2017, the debt rule under the SGP will be applied. According to the **Fiscal Advisory Council's spring forecast, from 2017**, Austria will fulfill all three debt rule benchmarks (the backward-looking, the forward-looking and the cyclically adjusted benchmark). Accordingly, the **general government debt path as assessed by the Fiscal Advisory Council** and as assessed by the **federal government in its stability program update** **complies with the debt rule.**

Source: **FiskalRat Austria**, AUSTRIA'S COMPLIANCE WITH EU FISCAL RULES IN THE YEARS 2016 – 2018

Link: <https://fiskalrat.at/en/publications/fiscal-rules-compliance-report.html>

Medium-term budgetary framework

Medium-term budgetary frameworks

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 quality and stability of decision making
- Enhance fiscal discipline

Medium-term budgetary framework: Acquis (1)

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

**Medium-term
budgetary framework**

**Budgetary
Frameworks Directive**

Two-Pack

Medium-term budgetary framework: Acquis (2)

Budgetary Frameworks Directive

CHAPTER V

MEDIUM-TERM BUDGETARY FRAMEWORKS

Article 9

1. Member States shall establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.

Medium-term budgetary framework: Acquis (3)

Budgetary Frameworks Directive (cnt'd)

- Revenue and expenditure projections in the MTBF should be the basis for the **annual budget**.
- Comprehensive and transparent multiannual budgetary objectives (GG deficit, debt), **consistent with fiscal rules**.
- Projections of major expenditure and revenue item for the budget year and beyond, based on **unchanged policies**.
- Description of **medium-term policies** envisaged with their impact, also for long-term sustainability.

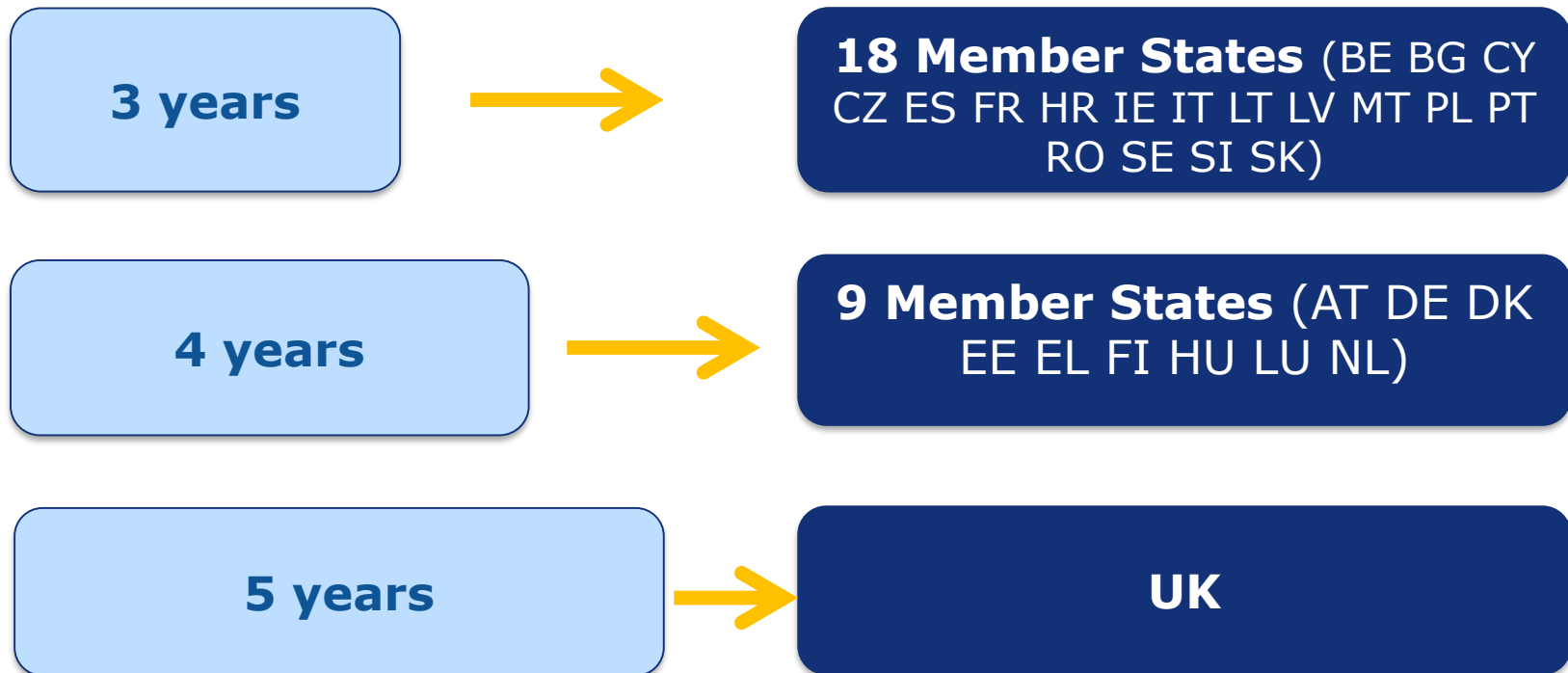
Medium-term budgetary framework: Acquis (4)

Two-pack

- Common budgetary **timeline** for national medium-term fiscal plans and annual budgets.
- **Independent** macroeconomic forecast.

Medium-term budgetary framework: In practice (1)

Time horizons



Medium-term budgetary framework: In practice (2)

Table 9: alternative presentation of exchequer position, € millions

	2017	2018	2019	2020	2021
Revenue	64,780	67,680	70,375	72,730	75,635
: tax revenue	50,735	54,180	56,950	59,710	62,725
- Income tax	20,010	21,445	22,420	23,650	24,940
- VAT	13,305	14,090	15,015	15,800	16,735
- Corporation tax	8,200	8,505	8,985	9,445	9,890
- Excise duties	5,925	5,820	6,030	6,175	6,305
- Stamp duties	1,205	1,675	1,805	1,920	2,025
- LPT	475	0	0	0	0
- Motor tax	0	990	950	905	935
- Customs	330	345	360	375	390
- Capital gains tax	825	845	885	925	965
- Capital acquisitions tax	460	470	495	520	540
: A-in-As (inc. PRSI, NTF and balances)	12,260	12,125	12,250	12,370	12,495
: non-tax revenue	1,750	1,300	1,120	600	365
: capital resources	30	75	60	50	50
Expenditure	66,995	70,780	73,455	75,280	77,005
: gross voted current expenditure	53,970	55,940	57,295	58,745	60,185
: gross voted capital expenditure	4,585	5,830	7,270	7,850	8,605
: non-voted current expenditure	8,445	9,010	8,895	8,685	8,215
- debt servicing	6,225	6,020	5,695	5,500	4,895

Source: Ireland' stability programme:

<https://www.finance.gov.ie/wp-content/uploads/2018/04/spu-final-final.pdf>



Independent Fiscal Institutions

Independent fiscal institutions: Rationale

Why do we need independent fiscal institutions?

IFIs are an essential ingredient of comprehensive national fiscal governance frameworks

IFIs enhance transparency of public finances and help educate the general public on fiscal policy issues

Independent Fiscal Institutions:

Desired features

Independence

- Statutory regime grounded in law
- Freedom from interference
- Capacity to communicate publicly
- Nomination procedures based on experience and competence
- Adequacy of resources
- Appropriate access to information

Independent Fiscal Institutions

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 : Acquis (1)

Non-partisan public bodies aimed at promoting sustainable public finances through various functions, including monitoring compliance with fiscal rules, production or endorsement of forecasts...

Independent fiscal institutions

Budgetary Frameworks Directive

Two-Pack

Independent fiscal institutions: Acquis (2)

Budgetary Frameworks Directive

- Independent body (or with functional autonomy) to monitor compliance with national fiscal rules.

Two pack

- ***'Independent bodies'*** : bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability
- Monitor compliance with all national fiscal rules.
- Produce or endorse macroeconomic forecasts (independent forecasters: AT, BE, LU, NL, SI).

Independent fiscal institutions: Acquis and other provisions

Two pack (cnt'd)

- Desired features:
 - Statutory regime grounded in law;
 - Freedom from interference;
 - Capacity to communicate publicly;
 - Nomination procedures based on experience and competence;
 - Adequacy of resources;
 - Appropriate access to information.

Fiscal Compact

Independent body to monitor compliance with the structural balanced budget rule.

Independent Fiscal Institutions: In practice (1)

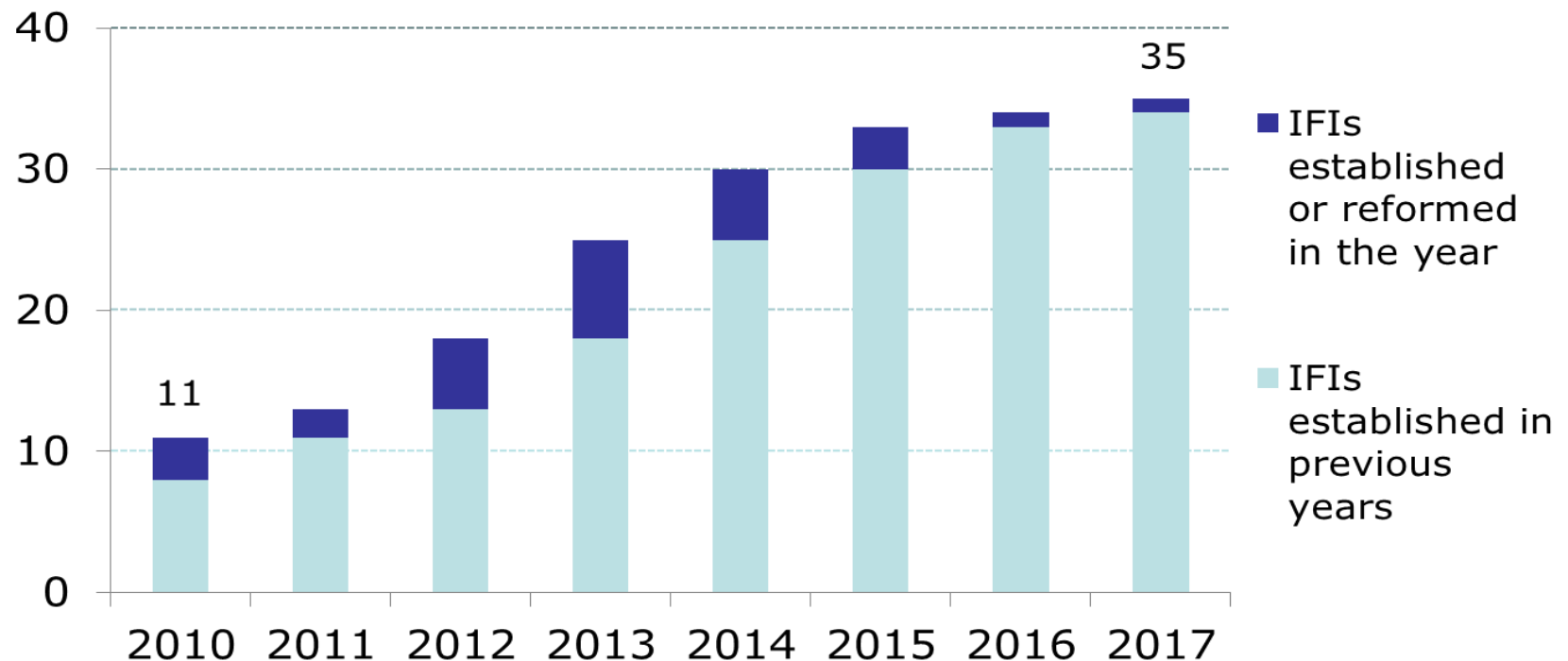
Tasks	Member States
<ul style="list-style-type: none">• Monitoring of national fiscal rules to be conducted by independent bodies (R+D)• Monitoring flanked with a correction mechanism for the structural balanced-budget rule (FC)• Production or endorsement of macroeconomic forecasts used in annual budget and medium-term fiscal plans (R)	AT, BE, CY, DE, EE, EL, ES, FI, FR, IE, IT, LT, LU, LV, MT, NL, PT, SK, SI
<ul style="list-style-type: none">• Monitoring of national fiscal rules to be based on independent analysis (D)• Monitoring flanked with a correction mechanism for the structural balanced-budget rule (FC)	BG, DK, RO
<ul style="list-style-type: none">• Monitoring of national fiscal rules to be based on independent analysis (D)• No requirements	CZ, HR, HU, PL, SE UK

Notes: (D) = Council Directive 2011/85; (FC) = Fiscal Compact; (R) = Regulation (EU) No 473/2013

Source: Jankovics and Sherwood (2017), 'Independent Fiscal Institutions in the EU Member States: The Early Years', European Commission, Discussion Paper 067

Independent Fiscal Institutions: In practice (2)

The rise of IFIs in the EU



Source: European Commission Fiscal Governance Database

Independent Fiscal Institutions: Impact



PREMIUM NOTÍCIAS NO MINUTO COTAÇÕES MERCADOS EMPRESAS

FINANÇAS PÚBLICAS

CFP: Défice vai cair mas é à conta do crescimento da economia





Sanchez y calcula que la subida del salario mínimo a 900 euros inyectará 1.750 millones a las familias

La Autoridad Fiscal calcula que llegarán a España entre 7 y 10 millones de inmigrantes en los próximos 30 años



NS | FABULOUS | MONEY | MOTORS | TRAVEL | TECH | DEAR DEIDRE

IAIN MARTIN Official forecasts for Britain's economy should be taken with a pinch of salt after a Budget overshadowed by the OBR's gloomy outlook

The Office for Budget Responsibility's forecasts about the prospects for the British economy have been wrong before

L'Upb e Bankitalia bocciano il Def: "Previsioni troppo ottimistiche"

UK Budget

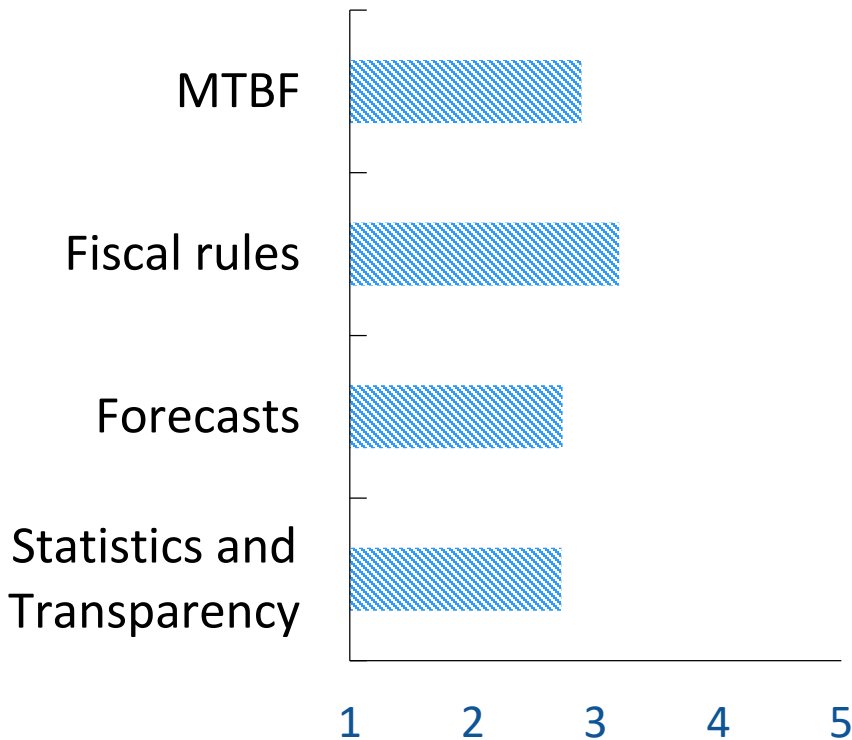
OBR casts doubt on Hammond's austerity pledge

Watchdog questions whether finalisation of a Brexit deal will bring any fiscal upside

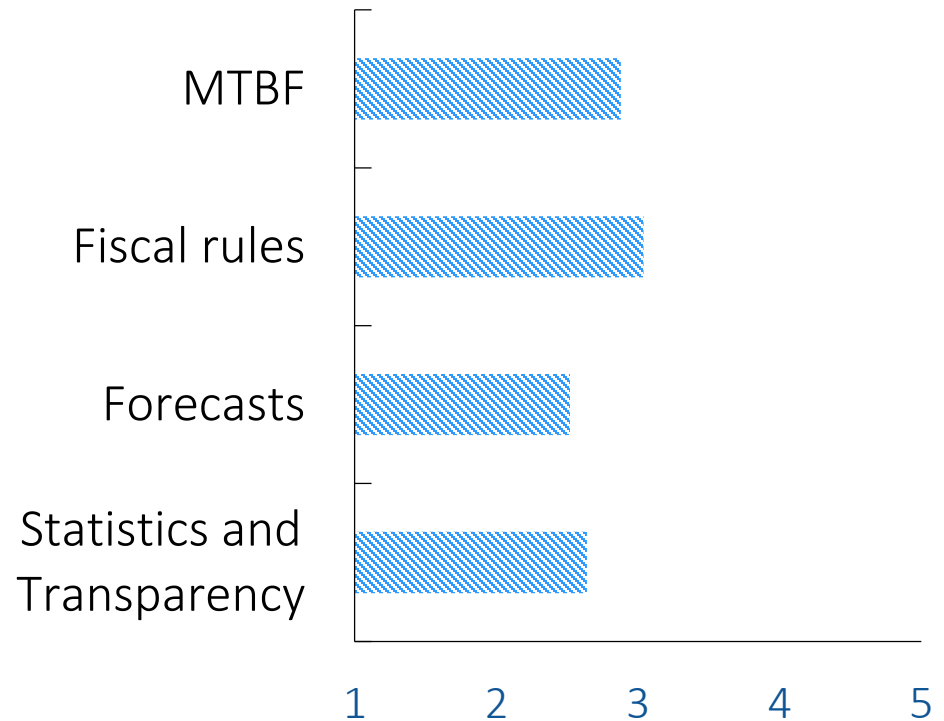
General comments

Directive's transposition and implementation in Member States

Transposition challenges



Implementation challenges



Note: answers range from 1 (not challenging) to 5 (very challenging).

REFERENCES

- **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

- **TWO-Pack**

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0473&from=EN>

- **ECFIN Fiscal Governance Database**

https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states_en

- **Note on Medium-Term Budgetary Frameworks**

http://ec.europa.eu/economy_finance/publications/eedp/dp021_en.htm

- **Note on Independent Fiscal Institutions**

https://ec.europa.eu/info/publications/economy-finance/independent-fiscal-institutions-eu-member-states-early-years_en



**Thank you
for your attention!**

Supplementary slides

Numerical Fiscal Rules: In practice

Nature	Sector	In force since
Expenditure Rule	CG	01/01/2002
Debt Rule	LG	01/10/2004
Budget Balance Rule	LG	01/01/2005
Debt Rule	GG	01/01/2012
Budget Balance Rule	GG	01/01/2014

Fiscal rules in Slovenia 2017
(debt to GDP 73.6%)

Source: **European Commission Fiscal Governance Database**

https://ec.europa.eu/info/publications/fiscal-rules-database_en

Budget Balance Rule	GG	01/01/2014	The general government structural deficit shall be equal or lower than 0.5% of GDP. If the general government debt is considerably lower than 60% of GDP and long term sustainability risks are low, the structural deficit may not be higher than 1% of GDP. Additionally, an adequate trajectory must be established to achieve the medium term objective (MTO). The rule has been transposed in line with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG).
---------------------	----	------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------