

Economic governance: requirements for budgetary frameworks of the Member States.

'Six pack'

2010/0277(NLE) - 07/10/2010 - Legislative proposal

PURPOSE: to complement the reform of the Stability and Growth Pact by setting out detailed rules concerning the characteristics of the budgetary frameworks of the Member States that are necessary to ensure the effectiveness of the excessive deficit procedure.

PROPOSED ACT: Council Directive.

BACKGROUND: the global economic and financial crisis revealed gaps and weaknesses in the existing instruments and methods of co-ordination and surveillance of economic policies in the Economic and Monetary Union (EMU). There is broad agreement that the framework for EMU should be urgently strengthened in order to anchor macroeconomic stability and the sustainability of public finances.

The key instrument for fiscal policy co-ordination and surveillance is the Stability and Growth Pact (SGP), which implements the Treaty provisions on budgetary discipline. **Strengthening the Pact** is important for both increasing the credibility of the agreed co-ordinated fiscal exit strategy and avoiding a repetition of past mistakes.

This proposal is part of **legislative package** comprising six texts which seeks to strengthen the pact by improving its provisions in the light of experience, not least of the crisis:

- 1) A [Regulation](#) amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97);
- 2) A [Regulation](#) amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97);
- 3) A [Regulation](#) on the effective enforcement of budgetary surveillance in the euro area;
- 4) A **new Council Directive** on requirements for the budgetary framework of the Member States;
- 5) A [new Regulation](#) on the prevention and correction of macroeconomic imbalances;
- 6) A [Regulation](#) on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

The outlines of these proposals were announced by the Commission in two communications on economic governance: “[Reinforcing economic policy coordination](#)” (12 May 2010) and “[Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance](#)” (30 June 2010).

In June 2010, the European Council agreed on the urgent need to reinforce the coordination of economic policies. In particular, it agreed on:

- strengthening both the preventive and corrective parts of the SGP, including with sanctions and taking due account of the particular situation of euro-area Member States;
- giving, in budgetary surveillance, a much more prominent role to levels and evolutions of debt and overall sustainability;
- ensuring that all Member States have national budgetary rules and medium term budgetary frameworks in line with the SGP;
- ensuring the quality of statistical data.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASE: the third subparagraph of Article 126(14) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the particular decentralised nature of fiscal policy-making in the EU and the general need for national ownership of EU rules make it essential that the objectives of the EMU budgetary coordination framework are reflected in the national budgetary frameworks. A national budgetary framework is the set of elements that form the basis of national fiscal governance, i.e. the country-specific institutional policy setting that shapes fiscal policy-making at national level. This includes public accounting systems, statistics, forecasting practices, numerical fiscal rules, budgetary procedures governing all stages of the budget process and medium term budgetary frameworks in particular, and fiscal relations across government sub-sectors.

While Member States' specific needs and preferences must be respected, **a number of features stand out as being needed in terms of ensuring minimum quality and consistency with the EMU budgetary framework.**

These are the subject of this Directive on national budgetary frameworks that is being proposed to complement the reform of the SGP. To this end:

- it must be ensured that the most primary elements of national budgetary frameworks, namely accounting and statistical issues and forecasting practices, work in line with minimum European standards to facilitate transparency and the monitoring of fiscal developments;
- domestic budgetary frameworks need also to adopt a multi-annual fiscal planning perspective so as to ensure the achievement of the medium-term objectives set at EU level;
- in addition, Member States must have in place numerical fiscal rules conducive to compliance with the deficit and debt thresholds. They must ensure that these features apply to all general government sub-sectors;
- national authorities must also guarantee the transparency of the budget process by providing detailed information on existing extra-budgetary funds, tax expenditures and contingent liabilities.

BUDGETARY IMPLICATION: the proposal has no implication for the EU budget.