

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

'Six pack'

2010/0277(NLE) - 14/12/2012 - Follow-up document

The Commission presents an interim progress report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

The Directive entered into force in December 2011. It is an important component of the legislative package on the strengthening of economic governance (the 'six-pack'), and provided the first opportunity for the European Union to set minimum requirements for budgetary frameworks, ensuring legal certainty, on top of the country-specific recommendations issued under the European semester process.

Overall, Member States reported **substantial but uneven progress in transposing the Directive**.

Statistical coverage: (Chapter II): with regard to Chapter II of the Directive, the report states that **Member States have still some way to go** to ensure timely and comprehensive statistical coverage for all general government sub-sectors. Reported forecasting provisions lack detail in quite a few Member States. The report recalls that the Directive provides a major opportunity to harmonise accounting conventions within general government, streamline reporting lines, and ensure an effective data feed to decision-makers and external observers.

Almost all reporting Member States make monthly data for the central government bodies available in cash or in other accounting basis. However, fiscal data availability in compliance with the Directive is markedly lower for social security entities and on-going reforms are not yet completed for State government entities in three Member States. At the local level, for which the Directive requires relatively lower standards (quarterly reporting on a cash basis or equivalent), only eleven Member States report some data. Consequently, there is still a great deal to be done in most Member States for non-central government sub-sectors. This is especially topical given the sizeable share they represent in total public expenditure, especially in highly decentralised states.

National numerical fiscal rules (Chapter IV of the Directive): progress is somewhat more advanced regarding numerical fiscal rules as specified in Chapter IV of the Directive: a wide array of national instruments is being prepared to buttress national fiscal policy-making. The mutually-reinforcing nature of all pieces of legislation contained in the 'six-pack' that relate to the reform of the Stability and Growth Pact, combined with the additional impetus brought by the intergovernmental Treaty on Stability, Coordination and Governance (TSCG), has helped to place these issues high on the Member States' reform agenda.

Major reforms leading to an overhaul of fiscal rules have been unveiled or are reportedly already completed in twenty Member States. Including proposed legislation, new budget balance rules have been unveiled in eleven Member States. Furthermore, budget-balance rules are being updated with a view to strengthening them in five Member States. Some budget-balance rules will fully enter in force only after a transitional period. This is the case for Germany (2016 for the federal government, 2020 for the Länder), Austria (2017), and Spain (2020). Expenditure rules are being established in ten Member States and reformed in five other Member States. The creation or strengthening of national debt rules is a new

development in twelve Member States. In addition, Member States under an adjustment programme are subject to a multi-annual, multi-target framework constraining their fiscal policy as a de facto fiscal rule with enhanced features for monitoring and enforcement.

Many Member States declare that the new or updated rules will have features in line with the Directive's requirements. In particular, several Member States report that monitoring institutions will be tasked with assessing the implementation of fiscal rules. Escape clauses have been defined in several Member States. The scope of fiscal rules is being expanded to include other sub-sectors of general government outside central government. Local or regional government is being subjected to fiscal rules, whether budget-balance rules, debt rules, or expenditure rules. Overall, the establishment of national numerical fiscal rules appears to be on the right track. However, their specific features and overall consistency would eventually have to be assessed against the requirements of the Directive's Articles 5 and 6.

Medium-Term Budgetary Frameworks (Chapter V of the Directive): while many Member States report that MTBFs in the sense of Chapter V of the Directive are in place or planned, the details given are sometimes scarce and do not provide enough evidence that they will fully comply with the Directive's specifications. Only a few Member States report that multi-annual projections are presented under a no-policy change basis, although it is crucial to establish a baseline scenario in combination with policy measures to ensure achievement of the policy targets or values implied by existing fiscal rules.

The report notes that it is important not to see the drafting of a national MTBF in isolation. The timing of the preparation of the MTBF and its integration within the annual budget cycle have to be carefully considered so that it can fully serve as a strategic document for the state, functioning in tandem with regular annual budget documents. Wherever necessary, the MTBF should replace existing planning documents or consolidate them into a single, well-identified, strategic document.

Mechanisms of coordination across government sub-sectors (Articles 12 and 13 of the Directive): work on effective coordination arrangements for sub-national governments is being carried out in many Member States, but the positive intentions reported need to be turned into **concrete and enforceable arrangements**. A number of Member States considered good fiscal performers have reported fewer completed reforms at this stage, but are considering formalising part of their currently informal framework for increased efficiency.

The Commission will continue implementing the Directive for the sections it is responsible for and, after the transposition deadline, will **conduct a full-fledged compliance assessment** in accordance with standard EU procedures.