Economic governance: requirements for budgetary frameworks of the Member States

2023/0136(NLE) - 26/04/2023 - Legislative proposal

PURPOSE: to reform the EU economic governance framework.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the proposed changes to Council Directive 2011/85/EU on requirements for Member States' budgetary frameworks are part of a package which also includes:

- a proposal for a regulation replacing Regulation (EC) No 1466/972 (preventive arm of the Stability and Growth Pact) and

- amendment of Regulation (EC) No 1467/973 (corrective arm of the Stability and Growth Pact).

The Directive and the preventive and corrective arms of the Stability and Growth Pact are part of the EU's economic governance framework.

In order to ensure Member States' compliance with the obligations under the Treaty on the Functioning of the European Union (TFEU) in the area of budgetary policy, and in particular with regard to avoiding excessive government deficits, Council Directive 2011/85/EU laid down detailed rules concerning the characteristics of the budgetary frameworks of the Member States. Building upon the experience gained with the economic and monetary union since Directive 2011/85/EU came into force, it is necessary to amend its requirements regarding the rules and procedures forming the budgetary frameworks of the Member States.

In 2019, the European Court of Auditors published a report in which it identified weaknesses in the effectiveness of medium-term budgeting and independent budgetary institutions and recommended that the Commission strengthen the requirements for medium-term budgetary frameworks and independent budgetary institutions in line with international standards.

In its Communication of 9 November 2022, the Commission presented its guidelines for a reform of the EU economic governance framework. These guidelines provided for **greater ownership of the framework by the Member States, its simplification and increased targeting in the medium term**, while ensuring stricter and more consistent application of the rules. They also aimed to improve the structure and performance of independent fiscal institutions.

CONTENT: the proposed amendments to Council Directive 2011/85/EU aim to **strengthen national ownership and the medium-term orientation of budgetary planning**. Amendments should also address provisions on transparency and statistics, forecasting and medium-term budgeting to address weaknesses identified during implementation.

Specifically, the objectives of the changes are:

Simplification of existing legislation

Provisions on the submission of monthly cash-based fiscal data are not useful for strengthening national budgetary frameworks. Some provisions will become redundant if these requirements are included in the proposed preventive arm regulation.

Clarification of provisions

With regard to the macroeconomic and budgetary forecasts drawn up for the purposes of budgetary programming, it is proposed that the directive now makes specific reference to the independent bodies in charge of the ex-post evaluation of the forecasts. The directive should also better specify reporting requirements on general government bodies and funds that are not part of the regular national budgets, requirements on tax expenditure and contingent liabilities.

Strengthening national ownership

It is proposed to add or clarify requirements on independent fiscal institutions. In some cases, the proposed new provisions already applied to the euro area Member States as well as to Denmark, Bulgaria and Romania, as contracting parties to the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (the TSCG).

Other proposed provisions aim to add tasks that would give independent fiscal institutions a role in the surveillance of the EU fiscal framework at national level. These include the preparation or endorsement of budgetary forecasts as well as assessing sustainability analyses and the impact of policies.

Lastly, some of the proposed provisions ensure the independence and accountability of IFIs to reflect standards identified by international organisations.

Promoting a medium-term orientation

It is proposed that the multiannual budgetary dimension in the forecasts is more systematically specified and so would be the link between the annual budget and medium-term planning.

Improving the quality of public finance

Provisions are proposed to promote the accountability of public budgets and increase the transparency of fiscal risks vis-à-vis climate change. The directive would now require assessing the risks deriving from climate change and the implications of climate policies on public finances.

It would also require Member States to publish data to the extent possible on disaster and climate-related contingent liabilities as well as on economic losses incurred from natural disasters and climate-related shocks. For these shocks, the fiscal costs borne by the public sector and the instruments used to mitigate or cover the shocks would also be reported.