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Proposal for a

**COUNCIL DIRECTIVE**

**on requirements for budgetary frameworks of the Member States**

## **EXPLANATORY MEMORANDUM**

### **1. CONTEXT OF THE PROPOSAL**

The global economic and financial crisis has exposed and amplified the need for greater co-ordination and enhanced surveillance of economic policies in the economic and monetary union (EMU). Existing instruments and methods of co-ordination and surveillance enabled the EU to weather a storm that no Member State could have withstood on its own. The European institutions and Member States reacted quickly and are continuing to work together to recover from a crisis that has no precedent in our generation.

However, these recent experiences also revealed remaining gaps and weaknesses in the current system of coordination and in the existing surveillance procedures. There is a broad agreement that the framework for EMU should be urgently strengthened in order to anchor macroeconomic stability and the sustainability of public finances, which are preconditions for durable output and employment growth.

The crisis has drastically reversed the favourable economic and financial conditions that prevailed until 2007 and made clear yet again that windfalls accumulated during good times had not been sufficiently used to create room for manoeuvre when times turn bad. Very sizeable consolidation will be necessary in most Member States to bring public debt back onto a downward path. This is all the more urgent as European societies and economies are facing the effects of ageing populations, which will put further pressure on labour supply and public budgets. Reducing debt levels is highly relevant for most countries in view of their negative effects on economic incentives and growth through higher taxes and risk premia.

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. The set of proposals now being presented aims to strengthen the Pact by: (i) improving its provisions in the light of experience, not least of the crisis; (ii) equipping it with more effective enforcement instruments; and (iii) complementing it with provisions on national fiscal frameworks. This set of proposals is part of a broader reform of economic governance under the umbrella of the Europe 2020 strategy, which includes proposals for addressing macroeconomic imbalances through stronger surveillance, including alert and sanction mechanisms. The different strands of economic policy coordination, including surveillance of structural reforms, are to be integrated in a new surveillance cycle, the European Semester, which will bring together existing processes under the SGP and the Broad Economic Policy Guidelines, including simultaneous submission of stability and convergence programmes and national reform programmes.

### **2. RESULTS OF CONSULTATIONS WITH INTERESTED PARTIES**

The outlines of the present proposals were announced by the Commission in two communications: Reinforcing economic policy coordination of 12 May 2010 and Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance of 30 June 2010. In opting for a formal communication, the Commission wished to demonstrate its commitment to fostering dialogue with Member States, the European

Parliament and all stakeholders, while at the same time delivering concrete proposals for action.

In June 2010, the European Council agreed on the urgent need to reinforce the coordination of our economic policies. The agreement included first orientations as regards the SGP and budgetary surveillance. In particular, the European Council agreed on: (i) 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; (ii) giving, in budgetary surveillance, a much more prominent role to levels and evolutions of debt and overall sustainability; (iii) ensuring that all Member States have national budgetary rules and medium term budgetary frameworks in line with the SGP; (iv) ensuring the quality of statistical data.

The European Council invited the Task Force on economic governance chaired by its President and established in March 2010 and the Commission to rapidly develop further and make operational these orientations. A constructive relationship developed between the Commission and the Task Force. The Commission contributed to the work of the Task Force through the Communications referred to above and through ad hoc contributions.

### **3. LEGAL ELEMENTS OF THE PROPOSAL**

The legal basis for the SGP is laid down in Articles 121 and 126 of the Treaty on the Functioning of the European Union. The SGP consists of: Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (referred to as preventive part); Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (referred to as corrective part); and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact. These Regulations were amended in 2005 by Regulations (EC) No 1055/2005 and (EC) No 1056/2005 and complemented by the Council Report of 20 March 2005 on 'Improving the implementation of the Stability and Growth Pact'. The present proposals seek further amendments to Regulations No 1466/97 and (EC) No 1467/97. Additional enforcement instruments are proposed in a new Regulation of the European Parliament and the Council on the effective enforcement of budgetary surveillance in the euro area, based on Article 136 of the Treaty, in combination with Article 121(6). The requirements for the budgetary frameworks of the Member States are the subject of a new Council Directive based on Article 126(14): the Directive aims in particular to specify the obligations of national authorities to comply with the provisions of Article 3 of Protocol No 12 to the Treaties on the excessive deficit procedure.

The preventive part of the SGP is meant to ensure that Member States follow prudent fiscal policies so that there is no need to adopt more stringent forms of coordination to avoid public finance sustainability being put at risk, with potential negative consequences for EMU as a whole. Accordingly, Member States are required to present stability and convergence programmes outlining their plans to achieve medium-term budgetary objectives (MTOs), which are defined as a percentage of GDP in structural terms (i.e. adjusting for the effect of the cycle and excluding one-off and temporary measures) and are differentiated across countries around a close-to-balance position to reflect the level of public debt and liabilities related to ageing. Member States not having reached their MTO are expected to converge towards it at an annual pace of 0.5% of GDP in structural terms.

However, progress towards MTOs has been generally insufficient, leaving public finances badly exposed to the economic downturn. Moreover, the structural balance has in practice proved an insufficient measure of a country's underlying fiscal position, owing to the difficulty of assessing the cyclical position of the economy in real time and to insufficient account being taken of revenue windfalls and shortfalls not directly related to the economic cycle (in particular housing and financial market developments). As a result, in a number of countries, even apparently sound budgetary positions before the crisis masked a strong reliance on windfall revenues to finance expenditure, the reversal of which contributed to soaring budget deficits.

To respond to these shortcomings the reform of the preventive part that is being proposed, while retaining the current MTOs and the 0.5% of GDP annual convergence requirement, makes them operational in terms of a new principle of prudent fiscal policy-making. This principle implies that annual expenditure growth should not exceed – and if the MTO has not been achieved should be clearly below – a prudent medium-term rate of growth of GDP, unless the MTO has been significantly overachieved or the excess of expenditure growth over the prudent medium-term rate is matched by discretionary measures on the revenue side. The essential aim is to ensure that revenue windfalls are not spent but are instead allocated to debt reduction. The new principle will provide the benchmark against which countries' fiscal plans in the stability and convergence programme will be examined. Additionally, failure to respect keep to the agreed rate of growth of expenditure, in conjunction with the stipulated revenue measures, will make the Member State concerned liable to a warning from the Commission and, if persistent and/or particularly serious, a Council recommendation to take corrective action issued under Article 121 of the Treaty. Such a recommendation, while being issued in the context of the preventive part, would be backed, for the first time and for euro-area countries only, by an enforcement mechanism under Article 136 of the Treaty, in the form of an interest-bearing deposit, amounting to 0.2% of GDP. A procedure of 'reverse voting' mechanism is introduced for imposing the interest-bearing deposit: on the issue of a recommendation, the deposit would become due on proposal by the Commission, unless the Council decides to the contrary by qualified majority within ten days. The Council could reduce the amount of the deposit only unanimously or based on a Commission proposal and a reasoned request from the Member State concerned. The deposit will be returned with the accrued interest once the Council is satisfied that the situation giving rise to it has come to an end.

The corrective part of the SGP is meant to avoid gross errors in budgetary policies, which might put at risk the sustainability of public finances and potentially endanger EMU. This translates into the obligation for Member States to avoid excessive government deficits, which are defined against a numerical threshold for deficit (3% of GDP) and debt (60% of GDP or sufficiently declining toward it). The excessive deficit procedure (EDP) that implements the ban on excessive deficits provides for a sequence of steps, which, for euro-area countries, include the eventual imposition of financial sanctions.

The EDP has been regularly applied in line with the relevant provisions, even against the background of the exceptional circumstances of the financial crisis, thereby contributing to anchoring expectations of its orderly resolution. However a number of shortcomings have emerged. While the deficit and the debt criterion are in principle on an equal footing, and persistently high levels of debt arguably represent a more serious threat to public finance sustainability than occasionally high deficits, in practice the '3% of GDP' threshold has been the almost exclusive focus of the EDP, with debt playing a marginal role so far. This owes to the less straightforward nature of the debt threshold compared to the deficit, including the

ambiguity of the notion of sufficiently diminishing pace of reduction and the greater impact on the debt ratio of variables outside the control of the government, notably inflation. The EDP is backed in principle by a strong enforcement mechanism, as financial sanctions can, and should be, imposed in the event of persistent failure to correct an excessive deficit. However, such sanctions arguably come into play too late in the process to represent an effective deterrent against gross fiscal policy errors, not least because the financial situation of the country concerned may have deteriorated so much as to make the threat of a fine less credible at the very time when it should become real. Finally, the recent crisis has highlighted that if the obligation to correct excessive deficits contributes to anchoring the expectation that government solvency will be maintained, the timeline of the correction and the profile of the adjustment may have to reflect EMU-wide considerations.

To respond to these shortcomings the following key proposals for the reform of the corrective part are being put forward.

The debt criterion of the EDP is to be made operational, notably through the adoption of a numerical benchmark to gauge whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold. Specifically, a debt-to-GDP ratio above 60% is to be considered sufficiently diminishing if its distance with respect to the 60% of GDP reference value has reduced over the previous three years at a rate of the order of one-twentieth per year. Non-compliance with this numerical benchmark is not, however, necessarily expected to result in the country concerned being placed in excessive deficit, as this decision would need to take into account all the factors that are relevant, in particular for the assessment of debt developments, such as whether very low nominal growth is hampering debt reduction, together with risk factors linked to the debt structure, private sector indebtedness and implicit liabilities related to ageing. In line with the greater emphasis on debt, more consideration should be given to relevant factors in the event of non-compliance with the deficit criterion, if a country has a debt below the 60% of GDP threshold.

The more flexible approach put forward with respect to considering the relevant factors in the steps of determining the existence of an excessive deficit could also benefit countries undertaking systemic pension reforms, beyond the currently foreseen five-year transitory period. The special provisions of the SGP for systemic pension reforms with regards the deficit criterion are also extended to the debt criterion; through establishing the same five-year transitory period for considering the net costs of such reforms when assessing the compliance with the debt criterion. Finally, equal consideration shall be given to the partial or total reversal of previously implemented systemic pension reforms, during both the launch and the abrogation of an EDP.

Enforcement is strengthened by introducing a new set of financial sanctions for euro-area Member States, which would apply much earlier in the process according to a graduated approach. Specifically, a non-interest-bearing deposit amounting to 0.2% of GDP would apply upon a decision to place a country in excessive deficit, which would be converted into a fine in the event of non-compliance with the initial recommendation to correct the deficit. The amount is equal to the fixed component of the sanctions already provided for in the final step of the EDP. It also bears a link with the EU budget, which should facilitate the envisaged move to a system of enforcement based on the EU budget as outlined in the above-mentioned Commission Communication of 30 June 2010. Further non-compliance would result in the sanction being stepped up, in line with the already existing provisions in the SGP. To reduce discretion in enforcement, the 'reverse voting' mechanism is envisaged for imposing the new sanctions in connection with the successive steps of the EDP. Specifically, at each step of the

EDP, the Commission will make a proposal for the relevant sanction, and this will be considered adopted, unless the Council decides to the contrary by qualified majority within ten days. The size of the non-interest-bearing deposit or the fine could only be reduced or cancelled by the Council unanimously or based on a specific proposal from the Commission on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned.

Moreover, the criteria for assessing compliance with the recommendations at each step, including the possibility of allowing an extension of the deadlines for the correcting the excessive deficit, are clarified by placing explicit emphasis on the fiscal variables that can be assumed to be under the direct control of the government, in particular expenditure, by analogy with the approach proposed for the preventive part. Beyond these country-specific circumstances, the possibility is introduced of extending the deadlines also in the event of a general economic crisis.

Effective enforcement of the EMU budgetary coordination framework cannot be expected to derive only from provisions laid down at EU level. 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 the Directive on national budgetary frameworks that is being proposed to complement the reform of the SGP. Such features firstly require 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. Additionally, Member States must have in place numerical fiscal rules conducive to compliance with the deficit and debt thresholds. Member States 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.

Proposal for a

**COUNCIL DIRECTIVE**

**on requirements for budgetary frameworks of the Member States**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the third subparagraph of Article 126(14) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Parliament<sup>1</sup>,

Whereas:

- (1) There is a need to build upon the experience gained during the first decade of functioning of economic and monetary union. Recent economic developments have posed new challenges to the conduct of fiscal policy across the Union and have in particular highlighted the need for uniform requirements as regards the rules and procedures forming the budgetary frameworks of the Member States. In particular it is necessary to specify what national authorities must do to comply with the provisions of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaties, and in particular Article 3 thereof.
- (2) Member State governments and government sub-sectors maintain public accounting systems which include elements such as bookkeeping, internal control, financial reporting, and audit. These should be distinguished from statistical data which relate to the outcomes of government finances based on statistical methodologies, and from forecasts or budgeting actions which relate to future government finances.
- (3) Complete and reliable public accounting practices for all sectors of general government are a precondition for the production of high quality statistics that are comparable across Member States.
- (4) The availability of fiscal data is crucial to the proper functioning of the budgetary surveillance framework of the Union. Regular availability of timely and reliable fiscal data is the key to proper and well-timed monitoring, which in turn allows prompt action in the event of adverse budgetary developments. A crucial element in ensuring the quality of fiscal data is transparency, which must entail regular public availability of such data.

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<sup>1</sup> OJ C , , p .



- (5) With regard to statistics, Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European Statistics<sup>2</sup> established a legislative framework for the production of European statistics with a view to the formulation, application, monitoring and assessment of the policies of the Union. That Regulation also laid down the principles governing the development, production and dissemination of European statistics: professional independence, impartiality, objectivity, reliability, statistical confidentiality and cost-effectiveness, giving precise definitions of each of these principles. Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community<sup>3</sup>, as amended, strengthened the Commission's powers to verify statistical data used for the excessive deficit procedure.
- (6) The definitions of 'government', 'deficit' and 'investment' are laid down in the Protocol on the excessive deficit procedure by reference to the European System of Integrated Economic Accounts (ESA), replaced by the European system of national and regional accounts in the Community (adopted by Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community<sup>4</sup> and hereinafter referred to as 'ESA 95').
- (7) Biased and unrealistic macroeconomic and budgetary forecasts may considerably hamper the effectiveness of fiscal planning and consequently impair commitment to budgetary discipline, while transparency and validation of forecasting methodologies may significantly increase the quality of macroeconomic and budgetary forecasts for fiscal planning.
- (8) A crucial element in ensuring the use of realistic forecasts for the conduct of budgetary policy is transparency, which must entail public availability of the methodologies, assumptions and parameters on which the official macroeconomic and budgetary forecasts are based.
- (9) Alternative forecast scenarios and corresponding budgetary projections supplementing the central macroeconomic scenario allow analysis of how fiscal variables would evolve under different economic assumptions and thus greatly reduce the risk of budgetary discipline being jeopardised by forecast errors.
- (10) Commission forecasts provide Member States with a useful benchmark for their central scenario, enhancing the validity of the forecasts used for budgetary planning, although the extent to which Member States can be expected to take the Commission forecasts into consideration will vary according to the timing of forecast preparation and the comparability of the forecast methodologies and assumptions.
- (11) The quality of official macroeconomic and budgetary forecasts is critically enhanced by auditing them at the planning stage. Thorough auditing includes scrutiny of the economic

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<sup>2</sup> Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities, OJ L 87, 31.03.2009, p. 164.

<sup>3</sup> OJ L 145, 10.6.2009, p. 1.

<sup>4</sup> OJ L 310, 30.11.1996, p. 1.

assumptions, comparison with forecasts prepared by other institutions, and evaluation of past forecast performance.

- (12) Considering the documented effectiveness of rules-based budgetary frameworks of the Member States in promoting budgetary discipline, strong national fiscal rules that are consistent with the budgetary objectives at the level of the Union must be a cornerstone of the strengthened budgetary surveillance framework of the Union. Strong fiscal rules should be equipped with well-specified target definitions together with mechanisms for effective and timely monitoring. In addition, policy experience has shown that for numerical rules to work effectively, consequences must be attached to non-compliance, where the costs involved may be simply reputational.
- (13) Member States should avoid pro-cyclical fiscal policies and fiscal consolidation efforts should be greater in good times. Well-specified numerical fiscal rules are conducive to these objectives.
- (14) National fiscal planning can only be consistent with both the preventive and the corrective parts of the Stability and Growth Pact if it adopts a multi-annual perspective and pursues the achievement of the medium-term budgetary objectives in particular. Medium-term budgetary frameworks are strictly instrumental in ensuring that budgetary frameworks of the Member States are consistent with the legislation of the Union. In the spirit of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>5</sup> and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>6</sup>, the preventive and corrective parts of the Stability and Growth Pact should not be regarded in isolation.
- (15) Although approval of annual budget legislation is the key step in the budget process in which important budgetary decisions are adopted in the Member States, most fiscal measures have budgetary implications that go well beyond the yearly budgetary cycle. A single-year perspective therefore provides a poor basis for sound budgetary policies. In order to incorporate the multi-annual budgetary perspective of the budgetary surveillance framework of the Union, planning of annual budget legislation should be based on multiannual fiscal planning stemming from the medium-term budgetary framework.
- (16) Provisions of the budgetary surveillance framework established by the Treaty and in particular the Stability and Growth Pact apply to general government as a whole, which comprises the sub-sectors central government, state government, local government, and social security funds, as defined in Regulation (EC) No 2223/96.
- (17) A significant number of Member States have experienced a sizeable fiscal decentralisation with the devolution of budgetary powers to sub-national governments. The role of such sub-national governments in ensuring that the Stability and Growth Pact is adhered to has thereby increased considerably, and particular attention should be paid to ensuring that all general government sub-sectors are duly covered by the scope of the obligations and procedures laid down in

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<sup>5</sup> OJ L 209, 2.8.1997, p. 1.

<sup>6</sup> OJ L 209, 2.8.1997, p. 6.

domestic budgetary frameworks, specifically, but not exclusively, in such more decentralised Member States.

- (18) To be effective in promoting budgetary discipline and the sustainability of public finance, budgetary frameworks should comprehensively cover public finances. For this reason, operations of extra-budgetary funds and bodies that have an immediate or medium-term impact on Member States' budgetary positions should be given particular consideration.
- (19) Since the objective of the action to be taken, namely uniform compliance with budgetary discipline as required by the Treaty, cannot be sufficiently achieved by the Member States and can be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective,

HAS ADOPTED THIS DIRECTIVE:

## **CHAPTER I**

### **Subject matter and definitions**

#### *Article 1* *Subject matter*

This Directive sets 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.

#### *Article 2* *Definitions*

For the purposes of this Directive the definitions of 'government', 'deficit' and 'investment' set out in Article 2 of Protocol (No 12) on the excessive deficit procedure annexed to the Treaties shall apply.

In addition the following definition shall apply:

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

- (a) systems of budgetary accounting and statistical reporting;
- (b) rules and procedures governing the preparation of forecasts for budgetary planning;
- (c) numerical fiscal rules, which establish a permanent constraint on the conduct of fiscal policy expressed in terms of a summary indicator of budgetary performance, such as the government budget deficit, borrowing, debt, or a major component thereof;
- (d) budgetary procedures comprising procedural rules that regulate the budget process at all stages;

- (e) medium-term budgetary frameworks as a specific set of national budgetary procedures that extend the horizon for fiscal policy making beyond the annual budgetary calendar, including the setting of policy priorities and of medium-term budgetary objectives;
- (f) arrangements for analysis to enhance the transparency of elements of the budget process, including inter alia the mandate of independent national budget offices or institutions acting in the field of budgetary policy;
- (g) mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors of general government.

## **CHAPTER II**

### **Accounting and statistics**

#### *Article 3*

1. As concerns national systems of public accounting, Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government as defined by Regulation (EC) No 2223/96 (ESA 95), and containing the information needed to compile ESA 95-based data. Those public accounting systems shall be subject to internal control and audit.
2. Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government. In particular Member States shall publish
  - (a) cash-based fiscal data at a monthly frequency, covering government with each sub-sector thereof separately identified, before the end of the following month,
  - (b) a detailed reconciliation table showing the elements of transition between cash based and ESA 95-based data.

## **CHAPTER III**

### **Forecasts**

#### *Article 4*

1. Member States shall ensure that fiscal planning is based on realistic macroeconomic and budgetary forecasts using the most up-to-date information. Budgetary planning shall be based on the most likely macro-fiscal scenario or on a more prudent scenario that highlights in detail deviations from the most likely macro-fiscal scenario. The macroeconomic and budgetary forecasts shall be prepared taking into account the Commission forecasts as appropriate. Differences between the chosen macro-fiscal scenario and the Commission forecast shall be explained.
2. Macroeconomic and budgetary forecasts for fiscal planning shall comprise alternative macroeconomic scenarios to examine the path of fiscal variables under different economic

conditions. The range of alternative scenarios used in macroeconomic and budgetary forecasts shall be guided by past forecast performance.

3. Member States shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions, and parameters used.
4. Member States shall have the macroeconomic and budgetary forecasts for fiscal planning regularly audited, including *ex post* evaluation. The result of this auditing shall be made public.

## **CHAPTER IV**

### **Numerical fiscal rules**

#### *Article 5*

Member States shall have in place numerical fiscal rules that effectively promote compliance with their respective obligations deriving from the Treaty in the area of budgetary policy. Such rules shall include in particular:

- (a) compliance with the reference values on deficit and debt set in accordance with the Treaty;
- (b) the adoption of a multi-annual fiscal planning horizon, including respect of the medium-term budgetary objectives.

#### *Article 6*

Without prejudice to the Treaty provisions of the budgetary surveillance framework of the Union, numerical fiscal rules shall contain specifications on the following elements:

- (a) the target definition and scope of the rules;
- (b) effective and timely monitoring of compliance with the rules, such as by independent national budget offices or institutions acting in the field of budgetary policy;
- (c) consequences in the event of non-compliance;
- (d) escape clauses, setting out a limited number of specific circumstances in which temporary non-compliance with the rule is permitted.

#### *Article 7*

The annual budget legislation of the Member States shall reflect the constraints imposed by their numerical fiscal rules in force.

## **CHAPTER V**

### **Medium-term budgetary frameworks**

#### *Article 8*

1. Member States shall establish an effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least three years to ensure that national fiscal planning follows a multiannual fiscal planning perspective.
2. Medium-term budgetary frameworks shall include procedures for establishing the following items:
  - (a) comprehensive and transparent multi-annual budgetary objectives in terms of the general government deficit, debt, and any other summary fiscal indicator, ensuring that these are consistent with any fiscal rules as provided for in Chapter IV in force,
  - (b) detailed projections of each major expenditure and revenue item, by general government sub-sector, for the budget year and beyond, based on unchanged policies,
  - (c) a statement of the government's medium-term priorities broken down by major revenue and expenditure item and by general government sub-sector, showing how the adjustment towards the medium-term budgetary objective is achieved compared to projections under unchanged policies.
3. Projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts in accordance with Chapter III.

#### *Article 9*

Annual budget legislation shall be consistent with the provisions stemming from the medium-term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium-term budgetary framework as specified in Article 8(2) shall constitute the basis for the preparation of the annual budget. Any departure from these provisions shall be duly justified.

## **CHAPTER VI**

### **Transparency of general government finances and comprehensive scope of budgetary frameworks**

#### *Article 10*

Member States shall ensure that any measures taken to comply with Chapters II, III and IV are consistent across, and comprehensive in coverage of, all sub-sectors of general government. This shall in particular imply consistency of accounting rules and procedures, data publication schedules, and the integrity of their underlying data collection and processing systems.

### *Article 11*

Member States shall establish appropriate mechanisms of co-ordination across sub-sectors of general government to provide for consistent coverage of all sub-sectors of general government in fiscal planning and in the preparation of budgetary forecasts and setting up multi-annual planning as laid down in the multi-annual budgetary framework in particular.

### *Article 12*

1. All sub-sectors of general government shall be covered by numerical fiscal rules.
2. In order to promote fiscal accountability, the budgetary responsibilities of public authorities in different sub-sectors of general government shall be clearly laid down.

### *Article 13*

1. All the operations of extra-budgetary funds and bodies shall be integrated into the regular budgetary process. This shall comprise the inclusion of detailed information on these funds and operations in the standard budgetary documentation disseminated for fiscal planning, particularly for the purpose of discussion of the medium-term budgetary framework and annual budget legislation.
2. Member States shall publish detailed information on the impact of tax expenditures on revenues.
3. For all sub-sectors of general government, Member States shall publish information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including their extent and likelihood and potential due date of expenditure.

## **CHAPTER VII**

### **Final provisions**

### *Article 14*

1. Member States shall bring into force the provisions necessary to comply with this Directive by 31 December 2013 at the latest. They shall forthwith communicate to the Commission the text of those provisions and a correlation table between those provisions and this Directive.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions which they adopt in the field covered by this Directive.

*Article 15*

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

*Article 16*

This Directive is addressed to the Member States.

Done at ,

*For the Council  
The President*



## LEGISLATIVE FINANCIAL STATEMENT FOR PROPOSALS

### 1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

#### 1.1. Title of the proposal/initiative

Council Directive on requirements for the budgetary frameworks of the Member States

#### 1.2. Policy area(s) concerned in the ABM/ABB structure<sup>7</sup>

Economic and Financial Affairs

#### 1.3. Nature of the proposal/initiative

The proposal/initiative relates to **a new action**

The proposal/initiative relates to **a new action following a pilot project/preparatory action**<sup>8</sup>

The proposal/initiative relates to **the extension of an existing action**

The proposal/initiative relates to **an action redirected towards a new action**

#### 1.4. Objectives

##### 1.4.1. *The Commission's multiannual strategic objective(s) targeted by the proposal/initiative*

To foster EU growth, employment creation and sustainable development

##### 1.4.2. *Specific objective(s) and ABM/ABB activity(ies) concerned*

Specific objectives: No.1 and 3.

- To ensure effective policy co-ordination and overall policy consistency in developing an EU response to the economic crisis, in the context of achieving the EU 2020 agenda and sustainable development and in order to raise the growth potential of Member States and make the EU more competitive;

- To promote the pursuit by Member States of sound budgetary positions and of public finances that are sustainable and of high quality in terms of their contribution to growth.

ABM/ABB activity(ies) concerned

Economic and Monetary Union

<sup>7</sup> ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

<sup>8</sup> As referred to in Article 49(6)(a) or (b) of the Financial Regulation.

#### 1.4.3. *Expected result(s) and impact*

*Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.*

The Commission's Communication COM(2010)367 emphasised the need for a well defined EU policy approach in order to (i) revigorate the economic recovery, (ii) put public finances back on a sound footing and (iii) actively promote sustainable growth and jobs.

The proposed directive forms part of the formal legislative proposals announced in the abovementioned Communication. It aims at integrating the EU budgetary framework into the domestic fiscal governance regimes of the Member States such as to foster compliance with the Stability and Growth Pact.

#### 1.4.4. *Indicators of results and impact*

*Specify the indicators for monitoring implementation of the proposal/initiative.*

The achievement of the Commission's general objective of fostering EU growth, employment creation and sustainable development is measured through the following impact indicators:

- the degree to which Member States record budgetary outturns in line with the SGP;
- potential growth/output.

### **1.5. Grounds for the proposal/initiative**

#### 1.5.1. *Requirement(s) to be met in the short or long term*

The legislative proposal constitutes part of the measures announced by the Commission in its Communication (2010)367 of 30 June 2010, which further develops the policy ideas set out in the Commission's Communication COM(2010)250 of 12 May 2010 and builds on the orientations agreed at the 17 June 2010 European Council.

#### 1.5.2. *Added value of EU involvement*

The coordination of Member States' economic policies form an integral part of the EU's remit as reflected in Title VIII (on economic and monetary policy) of the Treaty on the Functioning of the European Union.

#### 1.5.3. *Lessons learned from similar experiences in the past*

Past experience suggests that insufficient adherence to the Stability and Growth Pact is among others rooted in the lack of ownership of the Pact, which is sought to be remedied by the legislative proposal.

#### 1.5.4. *Coherence and possible synergy with other relevant instruments*

The legislative proposal constitutes one of the elements of a comprehensive economic reform package presented in Communication (2010)367 of 30 June 2010.

## 1.6. Duration and financial impact

- Proposal/initiative of **limited duration**
  - Proposal/initiative in effect from [DD/MM]YYYY to [DD/MM]YYYY
  - Financial impact from YYYY to YYYY

- Proposal/initiative of **unlimited duration**

- Implementation with a start-up period from YYYY to YYYY,
- followed by full-scale operation.

## 1.7. Management mode(s) envisaged<sup>9</sup>

- Centralised direct management** by the Commission

- Centralised indirect management** with the delegation of implementation tasks to:

- executive agencies
- bodies set up by the Communities<sup>10</sup>
- national public-sector bodies/bodies with public-service mission
- persons entrusted with the implementation of specific actions pursuant to Title V of the Treaty on European Union and identified in the relevant basic act within the meaning of Article 49 of the Financial Regulation

- Shared management** with the Member States

- Decentralised management** with third countries

- Joint management** with international organisations (*to be specified*)

*If more than one management mode is indicated, please provide details in the "Comments" section.*

Comments

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<sup>9</sup> Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: [http://www.cc.cec/budg/man/budgmanag/budgmanag\\_en.html](http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html)  
<sup>10</sup> As referred to in Article 185 of the Financial Regulation.

## **2. MANAGEMENT MEASURES**

### **2.1. Monitoring and reporting rules**

*Specify frequency and conditions.*

N/A
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### **2.2. Management and control system**

#### *2.2.1. Risk(s) identified*

N/A
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#### *2.2.2. Control method(s) envisaged*

N/A
-----

### **2.3. Measures to prevent fraud and irregularities**

*Specify existing or envisaged prevention and protection measures.*

N/A
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### 3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

#### 3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

The legislative proposal does not require any additional human or financial resources.

- Existing expenditure budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description.....]	DA/NDA <sup>(11)</sup>	from EFTA <sup>12</sup> countries	from candidate countries <sup>13</sup>	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
	[XX.YY.YY.YY]	DA/DN A	YES/N O	YES/N O	YES/N O	YES/NO

- New budget lines requested : **None**

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Heading.....]	Diff./non-diff.	from EFTA countries	from candidate countries	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
	[XX.YY.YY.YY]		YES/N O	YES/N O	YES/N O	YES/NO

<sup>11</sup> DA= Differentiated appropriations / DNA= Non-Differentiated Appropriations

<sup>12</sup> EFTA: European Free Trade Association.

<sup>13</sup> Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

### 3.2. Estimated impact on expenditure

#### 3.2.1. Summary of estimated impact on expenditure

EUR million (to 3 decimal places)

<b>Heading of multiannual financial framework:</b>	Number	[Heading .....]
--	--------	-----------------

DG: <.....>			Year N <sup>14</sup>	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)			TOTAL
• Operational appropriations										
Number of budget line	Commitments	(1)	N/A							
	Payments	(2)								
Number of budget line	Commitments	(1a)	N/A							
	Payments	(2a)								
Appropriations of an administrative nature financed from the envelop of specific programs <sup>15</sup>			N/A							
Number of budget line		(3)								
<b>TOTAL appropriations for DG &lt;.....&gt;</b>		Commitments	=1+1a +3							
		Payments	=2+2a +3							

<sup>14</sup> Year N is the year in which implementation of the proposal/initiative starts.

<sup>15</sup> Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

• TOTAL operational appropriations	Commitments	(4)								
	Payments	(5)								
• TOTAL appropriations of an administrative nature financed from the envelop of specific programs		(6)								
<b>TOTAL appropriations under HEADING &lt;....&gt; of the multiannual financial framework</b>	Commitments	=4+ 6								
	Payments	=5+ 6								

**If more than one heading is affected by the proposal / initiative:**

• TOTAL operational appropriations	Commitments	(4)								
	Payments	(5)								
• TOTAL appropriations of an administrative nature financed from the envelop of specific programs		(6)								
<b>TOTAL appropriations under HEADINGS 1 to 4 of the multiannual financial framework (Reference amount)</b>	Commitments	=4+ 6								
	Payments	=5+ 6								

<b>Heading of multiannual financial framework:</b>	<b>5</b>	" Administrative expenditure "
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EUR million (to 3 decimal places)

		Year N	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)		<b>TOTAL</b>
DG: <.....>								
• Human resources								
• Other administrative expenditure								
<b>TOTAL DG &lt;.....&gt;</b>	Appropriations							

<b>TOTAL appropriations under HEADING 5 of the multiannual financial framework</b>	(Total commitments = Total payments)							
--	--------------------------------------	--	--	--	--	--	--	--

EUR million (to 3 decimal places)

		Year N <sup>16</sup>	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)		<b>TOTAL</b>
<b>TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework</b>	Commitments							
	Payments							

<sup>16</sup> Year N is the year in which implementation of the proposal/initiative starts.



3.2.2. *Estimated impact on operational appropriations*

- The proposal/initiative does not require the use of operational appropriations
- The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to 3 decimal places)

Indicate objectives and outputs  ↓			Year N	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)										<b>TOTAL</b>			
	<b>OUTPUTS</b>																			
	Type of output <sup>17</sup>	Average cost of the output	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Total number of outputs	Total cost
SPECIFIC OBJECTIVE No 1 <sup>18</sup> ...																				
- Output																				
- Output																				
- Output																				
Sub-total for specific objective N°1																				
SPECIFIC OBJECTIVE No 2...																				
- Output																				
Sub-total for specific objective N°2																				
<b>TOTAL COST</b>																				

<sup>17</sup> Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).  
<sup>18</sup> As described in Section 1.4.2. "Specific objective(s)..."

### 3.2.3. Estimated impact on appropriations of an administrative nature

#### 3.2.3.1. Summary

- The proposal/initiative does not require the use of administrative appropriations
- The proposal/initiative requires the use of administrative appropriations, as explained below:

EUR million (to 3 decimal places)

	Year N <sup>19</sup>	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)	TOTAL
--	----------------------	----------	----------	----------	---	-------

<b>HEADING 5 of the multiannual financial framework</b>								
Human resources								
Other administrative expenditure								
<b>Subtotal HEADING 5 of the multiannual financial framework</b>								

<b>Outside HEADING 5<sup>20</sup> of the multiannual financial framework</b>								
Human resources								
Other expenditure of an administrative nature								
<b>Subtotal outside HEADING 5 of the multiannual financial framework</b>								

<sup>19</sup> Year N is the year in which implementation of the proposal/initiative starts.

<sup>20</sup> Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

<b>TOTAL</b>								
--------------	--	--	--	--	--	--	--	--

### 3.2.3.2. Estimated requirements of human resources

- The proposal/initiative does not require the use of human resources
- The proposal/initiative requires the use of human resources, as explained below:

*Estimate to be expressed in full amounts (or at most to one decimal place)*

	Year N	Year N+1	Year N+2	Year N+3		... enter as many years as necessary to show the duration of the impact (see point 1.6)
<b>• Establishment plan posts (officials and temporary agents)</b>						
XX 01 01 01 (Headquarters and Commission's Representation Offices)						
XX 01 01 02 (Delegations)						
XX 01 05 01 (Indirect research)						
10 01 05 01 (Direct research)						
<b>• External personnel (in Full Time Equivalent unit: FTE)<sup>21</sup></b>						
XX 01 02 01 (CA, INT, SNE from the "global envelope")						
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)						
<b>XX 01 04 yy</b> <sup>22</sup>	- at Headquarters <sup>23</sup>					
	- in delegations					
XX 01 05 02 (CA, INT, SNE - Indirect research)						
10 01 05 02 (CA, INT, SNE - Direct research)						
Other budget lines (specify)						
<b>TOTAL</b>						

**XX** is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any

<sup>21</sup> CA= Contract Agent; INT= agency staff ("Intérimaire"); JED= "Jeune Expert en Délégation" (Young Experts in Delegations); LA= Local Agent; SNE= Seconded National Expert;  
<sup>22</sup> Under the ceiling for external personnel from operational appropriations (former "BA" lines).  
<sup>23</sup> Essentially for Structural Funds, European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary agents	
External personnel	

3.2.4. *Compatibility with the current multiannual financial framework*

- Proposal/initiative is compatible the current multiannual financial framework.
- Proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

Explain what reprogramming is required, specifying the budget lines concerned and the corresponding amounts.

- Proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework<sup>24</sup>.

Explain what is required, specifying the headings and budget lines concerned and the corresponding amounts.

3.2.5. *Third-party contributions*

- The proposal/initiative does not provide for co-financing by third parties
- The proposal/initiative provides for the co-financing estimated below:

Appropriations in EUR million (to 3 decimal places)

	Year N	Year N+1	Year N+2	Year N+3	... enter as many years as necessary to show the duration of the impact (see point 1.6)			Total
<i>Specify the co-financing body</i>								
TOTAL appropriations cofinanced								

<sup>24</sup> See points 19 and 24 of the Interinstitutional Agreement.

### 3.3. Estimated impact on revenue

- Proposal/initiative has no financial impact on revenue.
- Proposal/initiative has the following financial impact:
  - on own resources
  - on miscellaneous revenue

EUR million (to 3 decimal places)

Budget revenue line:	Appropriations available for the ongoing budget exercise	Impact of the proposal/initiative <sup>25</sup>					... insert as many columns as necessary in order to reflect the duration of the impact (see point 1.6)		
		Year N	Year N+1	Year N+2	Year N+3				
Article .....									

For miscellaneous assigned revenue, specify the budget expenditure line(s) affected.

Specify the method for calculating the impact on revenue.

<sup>25</sup> As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 25% for collection costs.