21.6.2011

Amendment 2
Sharon Bowles
on behalf of the Committee on Economic and Monetary Affairs

Report
Vicky Ford
Requirements for budgetary frameworks of Member States

Proposal for a directive

AMENDMENTS BY PARLIAMENT*

to the Commission proposal

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 position of the European Parliament¹,

Having regard to the opinion of the European Central Bank²,

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

* Amendments: new or amended text is highlighted in bold italics; deletions are indicated by the symbol ▌.

¹ OJ C ... .
² OJ C 150, 20.5.2011.
particular highlighted the need for *strengthening national ownership and having* 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 subsectors 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. *Internal control should make sure that existing rules are enforced throughout the general government sector. Independent audit conducted by public institutions such as Courts of Auditors or private auditing bodies should encourage best international practices.*

(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 *unexpected* 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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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 Community1 and hereinafter referred to as 'ESA 95').

The availability and quality of ESA 95 data is crucial to ensure a proper functioning of the EU fiscal surveillance framework. ESA 95 relies on information provided on an accrual basis. However, these accrual fiscal statistics rely on the previous compilation of cash data, or their equivalent. These can play a relevant role in enhancing timely budgetary monitoring, so to avoid the late detection of significant budgetary errors. The availability of cash data time series on budgetary developments can reveal patterns warranting closer surveillance. The cash-based fiscal data (or equivalent figures from public accounting if cash-based data are not available) to be published should at least include an overall balance, total revenue and total expenditure. In justified cases, for example where there are a large number of local government bodies, timely publication of data can rely on suitable estimation techniques based on a sample of bodies, with a subsequent revision using complete data.

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 discussion of forecasting methodologies may significantly increase the quality of macroeconomic and budgetary forecasts for fiscal planning.

A crucial element in ensuring the use of realistic forecasts for the conduct of budgetary policy is transparency, which must entail public availability not only of the official macroeconomic and budgetary forecast prepared for fiscal planning, but also of the methodologies, assumptions and relevant parameters on which such forecasts are based.

Sensitivity analysis and corresponding budgetary projections supplementing the most likely macro-fiscal scenario allow analysis of how main fiscal variables would evolve under different growth and interest rates assumptions and thus greatly reduce the risk of budgetary discipline being jeopardised by forecast errors.

Commission forecasts and information regarding the models on which they are based can provide Member States with a useful benchmark for their most likely macro-fiscal scenario, enhancing the validity of the forecasts used for budgetary planning, although the extent to which Member States can be expected to compare the forecasts used for budgetary planning with the Commission forecasts will vary according to the timing of forecast preparation and the comparability of the forecast methodologies and assumptions. Forecasts from other independent bodies can also provide useful benchmarks.

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(10a) Significant differences between the chosen macro-fiscal scenario and the Commission forecast should be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values retained in the Commission’s forecasts.

(10b) Given the interdependence between Member States’ budgets and the Union’s budget, in order to support Member States in preparing their budgetary forecasts, the Commission should provide forecasts for EU expenditure based on the level of expenditure programmed within the multiannual financial framework.

(10c) In order to facilitate the production of the forecasts used for budgetary planning and clarify differences between the Commission’s and Member States’ forecasts, on a yearly basis each Member State should have the opportunity to discuss with the Commission the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.

(11) The quality of official macroeconomic and budgetary forecasts is critically enhanced by regular, unbiased and comprehensive evaluation based on objective criteria. Thorough evaluation includes scrutiny of the economic 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 enhancing national ownership of EU fiscal rules and promoting budgetary discipline, strong country-specific numerical 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 numerical fiscal rules should be equipped with well-specified target definitions together with mechanisms for effective and timely monitoring. This should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States. In addition, policy experience has shown that for numerical fiscal rules to work effectively, consequences must be attached to non-compliance, where the costs involved may be simply reputational.

(12a) Considering that by virtue of Protocol (No 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland, the reference values mentioned in Protocol (No 12) on the excessive deficit procedure are not directly binding on the United Kingdom, the obligation to have in place numerical fiscal rules that effectively promote compliance with the specific reference values for the excessive deficit, and related obligation for the multi-annual objectives in medium-term budgetary frameworks to be consistent with such rules, should not apply to the United Kingdom.

(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 and should be reflected in the annual budget legislation of the Member States.
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 and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, the preventive and corrective parts of the Stability and Growth Pact should not be regarded in isolation.

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.

This medium-term budgetary framework should contain, inter alia, projections of each major expenditure and revenue item for the budget year and beyond based on unchanged policies. Each Member State should be able to appropriately define unchanged policies and the definition should be made public together with the involved assumptions, methodologies and relevant parameters.

This Directive shall not prohibit a Member State's new government to update its medium-term budgetary framework to reflect its new policy priorities provided the Member State highlights the differences with the previous medium-term budgetary framework.

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 subsectors central government, state government, local government, and social security funds, as defined in Regulation (EC) No 2223/96.

A significant number of Member States have experienced a sizeable fiscal decentralisation with the devolution of budgetary powers to subnational governments. The role of such subnational 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 subsectors are duly covered by the scope of the obligations and procedures laid down in domestic budgetary frameworks, specifically, but not exclusively, in such more decentralised Member States.

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(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 general government bodies and funds which do not form part of the regular budgets at subsector level that have an immediate or medium-term impact on Member States’ budgetary positions should be given particular consideration. Their combined impact on general government balances and debts should be presented in the framework of the annual budgetary processes and the medium-term budgetary plans.

(18a) Likewise, the existence of contingent liabilities deserves due attention. More specifically, contingent liabilities encompass possible obligations depending on whether some uncertain future event occurs, or present obligations where payment is not probable or the amount cannot be measured reliably. They comprise for instance relevant information on government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including, where appropriate, the likelihood and potential due date of expenditure of contingent liabilities. Market sensitivities should be duly taken into account.

(18b) The Commission should regularly monitor the implementation of this Directive. Best practices should be identified and shared concerning the provisions of the five chapters dealing with the different aspects of national budgetary frameworks.

(18c) In accordance with point 34 of the Interinstitutional Agreement on better law-making\(^1\), Member States are encouraged to draw up, for themselves and in the interests of the Union, their own tables illustrating, as far as possible, the correlation between this Directive and the transposition measures, and to make them public.

(19) Since the objective of this Regulation, 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 compliance with the Treaty obligations of the Member States with regard to the avoidance of excessive government

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. The definition of subsectors of general government set out by Regulation (EC) No 2223/96 (ESA 95) shall apply.

In addition, the following definition shall apply:

'budgetary framework' means the set of arrangements, procedures, rules 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) country-specific numerical fiscal rules, which contribute to the consistency of Member States' conduct of fiscal policy with their respective obligations under the Treaty 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 to underpin 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 independent monitoring and analysis to enhance the transparency of elements of the budget process;
(g) mechanisms and rules that regulate fiscal relationships between public authorities across subsectors 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 subsectors of general government and containing the information needed to generate accrual data with a view to preparing ESA 95-based data. Those public accounting systems shall be subject to
internal control and independent audit.

2. Member States shall ensure timely and regular public availability of fiscal data for all subsectors of general government as defined in Regulation (EC) No 2223/96 (ESA 95). In particular Member States shall publish:

(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:

- monthly for central government, state government and social security subsectors, before the end of the following month, and

- quarterly, for the local government subsector, before the end of the following quarter;

(b) a detailed reconciliation table showing the methodology of transition between cash based (or the equivalent figures from public accounting if cash-based data are not available) 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. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macro-fiscal scenario and the Commission forecast shall be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values retained in the Commission's forecasts.

1a. The Commission shall make public the methodologies, assumptions, and relevant parameters that underpin its macroeconomic and budgetary forecasts.

1b. In order to support Member States in preparing their budgetary forecasts, the Commission shall provide forecasts for EU expenditure based on the level of expenditure programmed within the multiannual financial framework.

2. In the framework of a sensitivity analysis, the macroeconomic and budgetary forecasts shall examine paths of main fiscal variables under different growth and interest rates assumptions. The range of alternative assumptions used in macroeconomic and budgetary forecasts shall be guided by past forecast performance and shall endeavour to take into account relevant risk scenarios.

3. Member States shall specify which institution is responsible for producing macroeconomic and budgetary forecasts and shall make public the official macroeconomic and...
and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions, and relevant parameters underpinning those forecasts. At least every year Member States and the Commission shall engage in a technical dialogue on the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.

4. The macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including ex post evaluation. The result of this evaluation shall be made public and taken into account appropriately in future macroeconomic and budgetary forecasts. If the evaluation detects a significant bias affecting macroeconomic forecasts over a period of at least four consecutive years, the concerned Member State shall take the necessary action and make it public.

4a. Member States' quarterly debt and deficit levels shall be published by the Commission (Eurostat) every three months.

CHAPTER IV
Numerical fiscal rules

Article 5

Member States shall have in place country-specific numerical fiscal rules that effectively promote compliance over a multi-annual framework for the general government as a whole with their respective obligations deriving from the Treaty in the area of budgetary policy. Such rules shall promote 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 Member State's medium-term budgetary objectives.

Article 6

1. Without prejudice to the Treaty provisions of the budgetary surveillance framework of the Union, country-specific 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 based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member State;

(c) consequences in the event of non-compliance;
2. If numerical fiscal rules contain escape clauses, these shall set out a limited number of specific circumstances consistent with the Member State’s obligations deriving from the Treaty in the area of budgetary policy and stringent procedures in which temporary non-compliance with the rule is permitted.

Article 7

The annual budget legislation of the Member States shall reflect their country-specific numerical fiscal rules in force.

Article 7a

Articles 5 to 7 shall not apply to the United Kingdom.

CHAPTER V
Medium-term budgetary frameworks

Article 8

1. Member States shall establish a credible, 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 such as expenditure, ensuring that these are consistent with any numerical fiscal rules as provided for in Chapter IV in force;

(b) projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies;

(c) a description of medium-term foreseen policies with an impact on general government finances broken down by major revenue and expenditure item showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;

(c) an assessment as to how in the light of their direct long-term impact on general government finances the above-mentioned foreseen policies are likely to affect the long-term sustainability of the public finances.

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 explained.

Article 9a

This Directive shall not prohibit a Member State's new government to update its medium-term budgetary framework to reflect its new policy priorities provided the Member State highlights the differences with the previous medium-term budgetary framework.

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 subsectors of general government. This shall in particular imply consistency of accounting rules and procedures and the integrity of their underlying data collection and processing systems.

Article 11

1. Member States shall establish appropriate mechanisms of co-ordination across subsectors of general government to provide for comprehensive and consistent coverage of all subsectors of general government in fiscal planning, country-specific numerical fiscal rules, and in the preparation of budgetary forecasts and setting up multi-annual planning as laid down in the multi-annual budgetary framework in particular.

2. In order to promote fiscal accountability, the budgetary responsibilities of public authorities in different subsectors of general government shall be clearly laid down.
Article 13

1. All general government bodies and funds which do not form part of the regular budgets at subsector level shall be identified and presented, together with other relevant information in the framework of the annual budgetary processes. Their combined impact on general government balances and debts shall be presented in the framework of the annual budgetary processes and the medium-term budgetary plans.

2. Member States shall publish detailed information on the impact of tax expenditures on revenues.

3. For all subsectors of general government, Member States shall publish relevant 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. Member States shall also publish information on general government participations in the capital of private and public corporations for economically significant amounts.

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. The Council encourages the Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures and to make them public.

1a. The Commission shall provide an interim progress report on the implementation of the main provisions of this Directive on the basis of relevant information from Member States, which shall be submitted no later than one year after the date of entry into force of the Directive.

1b. 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 14a

1. Five years after the transposition date referred to in Article 14(1), the Commission shall publish a review of the suitability of the Directive provisions.
2. The review shall assess, inter alia, the suitability of:

(a) statistical requirements for all subsectors of government;
(b) the design and effectiveness of numerical fiscal rules in Member States;
(c) the general level of transparency of public finances in Member States.

3. The Commission shall conduct no later than the end of 2012 an assessment of the suitability of the International Public Sector Accounting Standards for Member States.

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

Or. en