Economic governance: requirements for budgetary frameworks of the Member States

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PURPOSE: to reform the EU economic governance framework.

PROPOSED ACT: Council Directive (Agreement in principle with a view to consulting the European Parliament).

ROLE OF THE EUROPEAN PARLIAMENT: Council may adopt the act only if Parliament has given its consent to the act.

Parliament is being consulted again on the proposed amendments to Council Directive 2011/85/EU on the requirements for the budgetary frameworks of the Member States.

The proposed Directive is part of a package together with a Regulation of the Parliament and of the Council replacing Regulation (EC) No 1466/979 (the preventive arm of the Stability and Growth Pact) and Council Regulation amending Council Regulation (EC) No 1467/97 (the corrective arm of the Stability and Growth Pact). Together, they establish a reformed Union economic governance framework that incorporates into Union law the substance of Title III ‘Fiscal Compact’ of the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union.

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 proposed to amend its requirements regarding the rules and procedures forming the budgetary frameworks of the Member States.

The proposal includes the following aspects:

- specific provisions in Member States' law to strengthen national ownership beyond those currently required by Directive 2011/85/EU, in order to improve compliance with the provisions of the TFEU and, in particular, to prevent the occurrence of excessive government deficits;

- improve the collection of accrual data and information needed to generate accrual-based statistics in a way that is comprehensive and consistent across all subsectors of general government;

- oblige Member States to ensure that their annual and multiannual budgetary planning is based on realistic macroeconomic and budgetary forecasts, using the most up-to-date information. To improve baseline assumptions, Member States should compare their macroeconomic and budgetary forecasts with the most updated ones of the Commission and, if appropriate, those of other independent bodies;

- ensure that macroeconomic and budgetary forecasts for annual and multiannual fiscal planning for the general government should be subject to regular, objective and comprehensive ex post evaluations performed by an independent body or other bodies with functional autonomy vis-à-vis the fiscal authorities of the Member States different from the one producing the forecast in order to enhance their quality;

- provide that independent fiscal institutions should have a high degree of operational independence, the necessary resources to perform their tasks and extensive and timely access to necessary information in order to achieve strengthened responsibility in fiscal policy;

- improve budgetary planning, due attention should be paid, to the extent possible, to the macro fiscal risks from climate change, including its environmental and distributional impacts;

- oblige Member States to publish: (i) information on how the relevant elements of their budgets contribute to achieving climate and environmental national and international commitments and the methodology used; (ii) data and descriptive information separately for expenditure, tax expenditure and revenue items; (iii) information on the distributional impact of budgetary policies and take into account employment, social and distributional aspects in the development of green budgeting;

- pay particular attention to government obligations and risks to government finances stemming from natural disasters and climate-related shocks, starting with collecting and publishing information on the fiscal cost of past events to the extent possible.