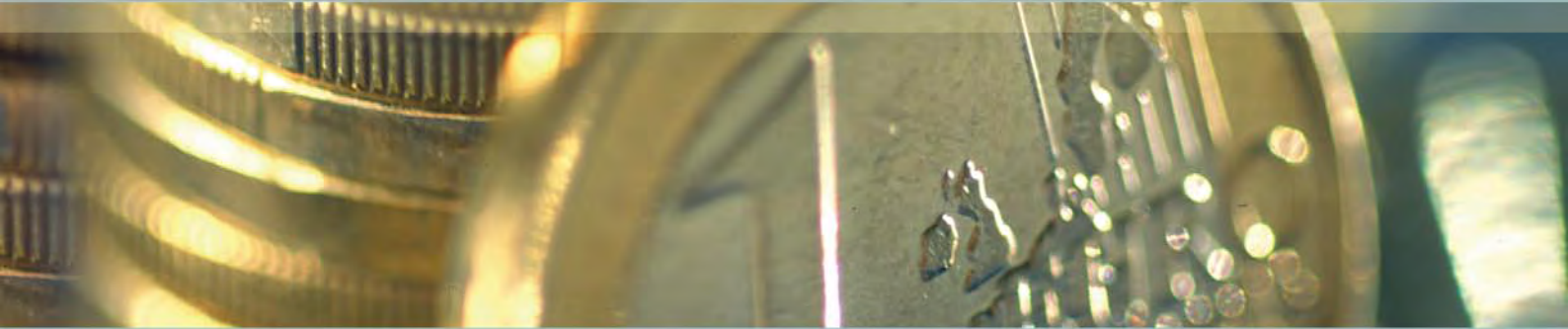


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National fiscal governance reforms across EU Member States

Analysis of the information contained
in the 2009 2010 Stability and Convergence Programmes

Directorate-General for Economic and Financial Affairs

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European Commission
Directorate-General for Economic and Financial Affairs
Publications
B-1049 Brussels
Belgium
E-mail: <mailto:Ecfin-Info@ec.europa.eu>

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European Commission

Directorate-General for Economic and Financial Affairs

National fiscal governance reforms across EU Member States.

**Analysis of the information contained
in the 2009-2010 Stability and Convergence Programmes**

National fiscal governance reforms across EU Member States

Analysis of the information contained in the 2009-2010 Stability and Convergence Programmes

by **Joaquim Ayuso-i-Casals**

(Directorate-General Economic and Financial Affairs)

July 2010

Abstract:

Following the invitation contained in the October 2009 Council Conclusions, 21 EU Member States included in their respective 2009-2010 Stability and Convergence Programmes (SCPs) information related to the reform of domestic fiscal frameworks. However, detailed information on the scope of these measures and/or an implementation calendar was only provided in 10 cases. By type of measure, changes to the existing budgetary procedures were the most frequent policy initiatives and were foreseen by 19 Member States. As for reforms related to numerical fiscal rules, they were envisaged in 13 SCPs, and the amendment of medium-term budgetary frameworks or the introduction of new frameworks was reported by 10 countries. Policy initiatives in relation to independent institutions were limited to 3 Member States. In spite of the significant number of recent or announced reforms of domestic fiscal frameworks, compliance in relation to the previous year's policy invitations is rather limited (i.e. policy invitations by the Council in the context of the 2008 2009 SCPs). Only in 7 cases measures contained in the 2009 2010 SCPs follow (at least partly) last year's invitations. Finally, the Macro Financial Assessments of the programmes were somewhat mixed with respect the measures included in the SCPs of 11 Member States. By contrast, the evaluation of the recently implemented or envisaged measures is rather positive in other 11 EU countries. However, the Commission considers that supplementary policy initiatives would be needed with a view to effectively strengthening fiscal governance. Finally, only in 5 Member States, the existing frameworks do not seem to present major weaknesses.

Key words: National fiscal governance, domestic fiscal frameworks, public finances, fiscal rules, independent fiscal institutions, medium-term budgetary frameworks, budgetary procedures,

JEL classification: E62, H11, H19, H29, H61, H62,

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Executive summary

Following the invitation contained in the October 2009 Council Conclusions, a majority of Member States included in their respective 2009-2010 Stability and Convergence Programmes (SCPs) information related to the reform of domestic fiscal frameworks. Specifically, 21 EU countries reported recent and/or future changes to be implemented in the next years. However, detailed information on the scope of these measures and/or an implementation calendar was only provided in 10 cases.

By type of measure, changes to the existing budgetary procedures were the most frequent policy initiatives and were foreseen by 19 Member States. As for reforms related to numerical fiscal rules, they were envisaged in 13 SCPs, and the amendment of MTBFs or the introduction of new frameworks was reported by 10 countries. Finally, policy initiatives in relation to independent institutions were limited to 3 Member States.

Most measures targeting the upgrading of the existing budgetary procedures were related to transparency issues, programme and performance budgeting and monitoring mechanisms. By contrast, those elements of the budget process most conducive to fiscal discipline (i.e. the centralisation of the budget process and top-down budgeting) were hardly addressed.

The announced reforms of fiscal rules were for the most part based on the introduction of 19 new rules, while only 2 countries announced the reform of existing rules. 8 of these new rules establish constraints on expenditure developments while new budget balance and debt rules amounted to 6 and 5, respectively. No new revenue rules were announced in this year's SCPs.

Changes to MTBFs consisted of both the reform of the existing frameworks and the introduction of new ones (4 and 6 Member States respectively). Three countries not having in place a MTBF in 2008 introduced a new framework. Overall, the total number of MTBFs currently amounts to 25.

The resort to independent fiscal institutions was by far the less frequent policy initiative according to the updated programmes. In only 2 Member States the introduction of such bodies acting in the field of fiscal policy was announced.

Similarly to the previous round of the SCPs, the draft Council Opinions on the 2009-2010 SCPs continued to show a majority of policy invitations targeting the improvement of the prevailing budgetary procedures. However, there has been now a significant increase in recommendations requesting a reinforcement of monitoring and enforcement mechanisms of fiscal targets. In addition, the sum of those policy invitations more directly linked to fiscal discipline (i.e. rules, monitoring and enforcement procedures and the overseeing of spending developments) represents by far the main area of the 2010 policy invitations.

In spite of the significant number of recent or announced reforms of domestic fiscal frameworks, compliance in relation to the previous year's policy invitations is rather limited (i.e. policy invitations by the Council in the context of the 2008-2009 SCPs). Only in 7 cases measures contained in the 2009-2010 SCPs follow (at least partly) last year's invitations.

To conclude, the Macro Financial Assessments of the programmes are somewhat mixed with respect the measures included in the SCPs of 11 Member States. By contrast, the evaluation of the recently implemented or envisaged measures is rather positive in other 11 EU countries. However, the Commission considers that supplementary policy initiatives would be needed with a view to effectively strengthening fiscal governance. Finally, only in 5 Member States, the existing frameworks do not seem to present major weaknesses.

1. - Introduction

The Maastricht Treaty and the Stability and Growth Pact (SGP) impose budgetary obligations on Member States. In order to ensure the respect of objectives, they also stress the importance of *national rules and institutions* for budgetary discipline. The report on the SGP reform endorsed by the European Council on 22 March 2005 says that *national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact*. It also says that *national institutions could play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level*. This political orientation has been reiterated in subsequent Council conclusions and statements.

In the context of the current crisis, the role national fiscal frameworks may play in sustaining budgetary retrenchment is gaining more importance in the fiscal policy debate. For instance, the last year's EFC report on fiscal exit strategy acknowledges that *fiscal frameworks can provide suitable incentives and constraints for policy makers to commit to lasting fiscal consolidation and sustainable policies, and invites Member States, the Commission, the EPC and the EFC to further work on this issue and promote an exchange of best practices*.

In the same vein, in the October 2009 Council Conclusions, the Ecofin stated that *important flanking policies to the fiscal exit will include strengthened national budgetary frameworks for underpinning consolidation strategies and support long-term sustainability*. In the same conclusions, the Council also recalled that *this should be reflected in the SCPs to be transmitted by Member States to the Commission by the end of January 2010*.

More recently, in its May 2010 Conclusions, the Council calls for a regular assessment and peer review of Member States' fiscal framework, including an analysis of policy experiences in reforming national fiscal governance.

Against this background, the Commission has been carrying out a number of analyses and research projects in the area of fiscal governance over the latest years. For instance, recent past issues of the PFR include several analytical chapters dealing with different aspects of domestic fiscal frameworks. Most of this research is based on information provided directly by Member States, and has notably led to the dissemination of a comprehensive database on domestic fiscal rules, independent institutions and medium term budgetary frameworks across EU countries, which is now available at the external DG Ecfm website. The 2010 PFR also deals with these issues in the analysis included in Chapter 3 of Part II, which provides policy guidelines related to the appropriate and desirable institutional reforms more conducive to the strengthening of fiscal governance at national level.¹

This occasional paper also focuses on fiscal governance but from a different perspective. Specifically, it takes stock of recent and envisaged reforms of domestic fiscal frameworks that have been included by Member States in the last round of the SCPs submitted in January 2010, and presents and discusses the main features of these announced measures. In line with previous analyses, domestic fiscal frameworks are defined as the set of elements that form national fiscal governance, i.e. the overall system of arrangements, procedures and institutions that underlies the planning and implementation of budgetary policies. The main elements of domestic fiscal frameworks are numerical fiscal rules, independent public institutions acting in the field of budgetary policies, medium-term budgetary frameworks for multiannual fiscal planning (MTBFs) and budgetary procedures governing the preparation, approval and implementation of the budget.

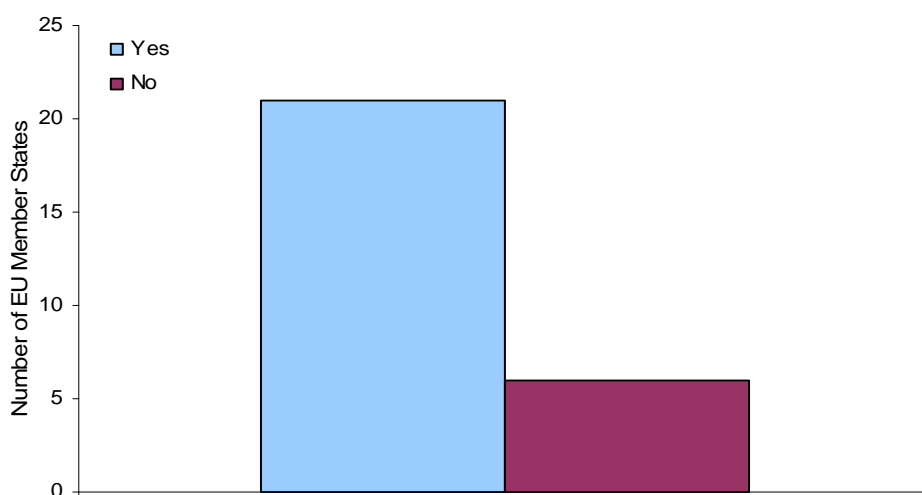
¹ Actually, the 2010 PFR also contains the main part of this occasional paper in Chapter V of Part I.

The paper is structured as follows. Section 2 provides an overview of the informational content of the 2009-2010 SCPs as regards the reform of national fiscal governance. For those countries that included this information in their updates, Section 3 describes more in detail these measures according to the elements of domestic fiscal framework (i.e. rules, institutions, MTBFs and budgetary procedures). Section 4 focus on the link between the recommendations included in the Council Opinions and the policy initiatives announced in the SCPs. Finally, the annex contains all the relevant country-specific information on fiscal governance reforms stemming from the 2009-2010 SCPs.

2. - Overview of the information contained in the 2009-2010 SCPs.

A majority of Member States included in their 2009-2010 SCPs information related to the reform of national fiscal frameworks.² Specifically, 21 countries have already implemented and/or envisage to implement changes in their respective systems of fiscal governance, which can only be considered a positive feature of the last round of SCPs (see graph 1).³ As for those countries that do not foresee any substantial reform of the fiscal framework in the coming years, most of them declare to stick to the prevailing fiscal framework to redress the current fiscal imbalances (e.g. BE, DK and ES) while others announce future reform or strengthening measures but no details are provided (LU, MT and FI).

Graph 1: **Information on national fiscal frameworks included in the 2009-2010 updates of the SCPs**



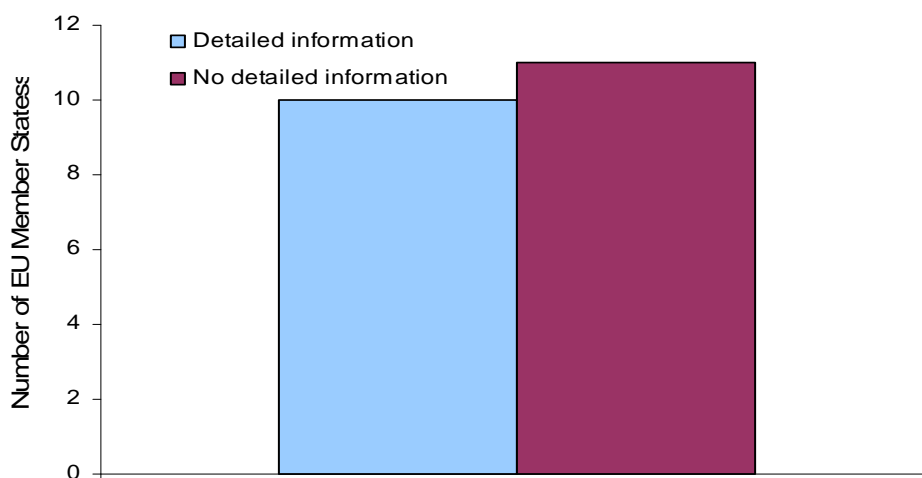
Source: Commission services, 2009-2010 updated SCPs.

However, both the level of detail of this information and the stage of implementation or the degree of advancement of reform plans vary widely across countries (see graph 2 below). Thus, only 10 Member States included detailed information in terms of concrete measures and calendars. While the updates of DE, EE, IT, HU, NL, AT, PL SI, SE and UK contain exhaustive information about ongoing and future reforms, the programmes of BG, CZ, EI, EL, FR, CY, LV, LT, PT, RO and SK only provide scant and generic information.

² This note is based on the programmes submitted by the 27 Member States of the EU submitted in the 1st half of 2010. Most of them were released in January 2010.

³ Changes in national fiscal frameworks reported in the SCPs represent all innovations relative to the information set in the fiscal governance database of DG Ecfm that currently covers effectively implemented reforms up to 2008.

Graph 2: Detailed information on reform plans included in the 2009-2010 updates of the SCPs



Source: Commission services, 2009-2010 updated SCPs.

Arguably, the level of detail provided in the SCPs is somewhat related to the degree of implementation. Indeed, among the 10 Member States giving comprehensive information only one of them (NL) reports the introduction of reform measures from 2011 onwards, while all the remaining countries have already put into operation (at least partially) the announced policy initiatives between 2009 and the 1st quarter of 2010.

By contrast, most Member States reporting a limited amount of information announce the introduction of their reform actions only from 2010 or 2011 onwards.

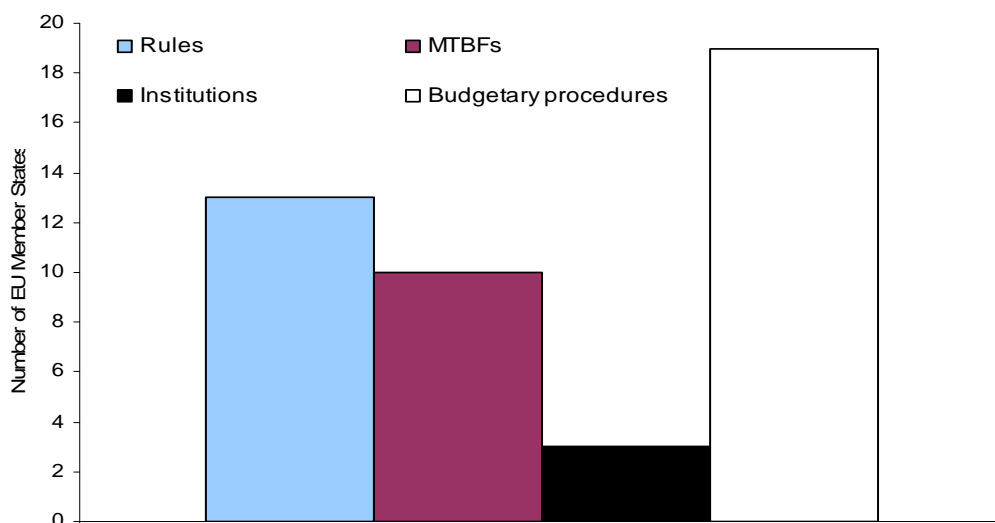
3. - Type of measures according to the main elements of domestic frameworks.

As said in the previous section, 21 Member States report recent and/or future changes to their national fiscal frameworks. These measures address the reform of different elements of these frameworks, namely rules, independent institutions, MTBFs and budgetary procedures.

According to this classification, changes to the existing budgetary procedures are the most frequent policy initiatives and are foreseen by 19 member States. These are closely followed by the reform and/or introduction of numerical fiscal rules in 13 EU countries.⁴ Finally, reforms to MTBFs and institutions rank more distantly with 10 and 3 Member States envisaging changes, respectively (see graph 3).

⁴ In 2 of these 13 Member States (SK and UK) two additional rules are planned to be introduced. In the case of the UK, these two new rules replace the former golden and debt rules. As for PL and RO, according to their SCPs, they plan to introduce 4 and 3 new fiscal rules. Specifically, RO plans to implement 1 budget balance and 2 expenditure rules, while PL announces the establishment of 1 budget balance rule, 1 debt rule and 2 expenditure rules.

Graph 3: Type of reforms according to the main elements of domestic fiscal frameworks



Source: Commission services, 2009-2010 updated SCPs.

Table 1 in next page provides a general overview of the measures considered by Member States in their respective Stability and Convergence Programmes. These policy actions are classified both according to the elements of the fiscal framework and by country.

Subject to the comprehensiveness of the information submitted by Member States, the next sub-sections describe more in detail these reform measures for each building block of domestic frameworks.

Table 1: Measures included in the 2009-2010 SCPs to reform domestic fiscal frameworks

	<i>Numerical rules</i>			<i>MTBF</i>			<i>Independent institutions</i>			<i>Budgetary procedures</i>		
	<i>Number of rules in 2008</i>	<i>Reform existing rules</i>	<i>New rules</i>	<i>Already in place in 2008</i>	<i>Reform existing MTBF</i>	<i>New MTBF</i>	<i>Number in place in 2008</i>	<i>Reform current bodies</i>	<i>New bodies</i>	<i>Measures upgrading procedures</i>	<i>of which higher centralisation</i>	<i>of which top-down budgeting</i>
BE	4	0	0	Yes	No	No	2	No	No	No	—	—
BG	2	0	0	Yes	No	No	0	—	No	No	No	—
CZ	2	0	0	Yes	No	No	0	—	No	Yes	No	No
DK	3	0	0	Yes	No	No	1	No	No	No	—	—
DE	5	0	1 ⁽⁴⁾	Yes	No	No	4	No	No	Yes	No	Yes
EE	2	1	0	Yes	No	No	1	No	No	Yes	No	No
EI	3	0	0	Yes	No	No	0	—	No	Yes ⁽⁵⁾	—	—
EL	0	—	— ⁽¹⁾	No	—	— ⁽²⁾	1	No	— ⁽³⁾	Yes	Yes	Yes
ES	4	0	0	Yes	No	No	2	No	No	No	—	—
FR	5	0	1	Yes	No	No	2	No	No	Yes	No	No
IT	4	0	1	Yes	Yes	No	1	No	No	Yes	Yes	No
CY	0	—	0	No	No	Yes	0	—	No	Yes	No	No
LV	2	0	0	Yes	No	No	0	—	No	Yes	No	No
LT	4	0	0	Yes	No	No	1	No	No	Yes	Yes	No
LU	3	0	0	No	—	—	1	No	No	No	—	—
HU	2	0	1	No	—	Yes	1	No	Yes	Yes	Yes	No
MT	0	—	0	Yes	No	No	0	—	No	No	—	—
NL	2	0	1	Yes	No	No	1	No	No	Yes	No	No
AT	1	0	1	Yes	No	Yes	3	No	No	Yes	No	No
PL	1	1	4	Yes	Yes	No	0	—	No	Yes	No	No
PT	3	0	1	No	—	Yes	2	No	No	Yes	No	No
RO	2	No	3	Yes	No	Yes	0	—	Yes	Yes	No	No
SI	2	0	1	Yes	No	No	1	No	Yes	Yes	No	No
SK	2	0	2	Yes	Yes	No	0	—	No	Yes	No	No
FI	4	0	0	Yes	No	No	0	—	No	No	—	—
SE	3	0	0	Yes	Yes	No	2	No	No	No	—	—
UK	2	0	2 ⁽⁶⁾	Yes	No	Yes	1	No	No	Yes	No	No
Total	67	2	19	22	4	6	27	0	3	19	4	2

Source: 2009-2010 SCPs

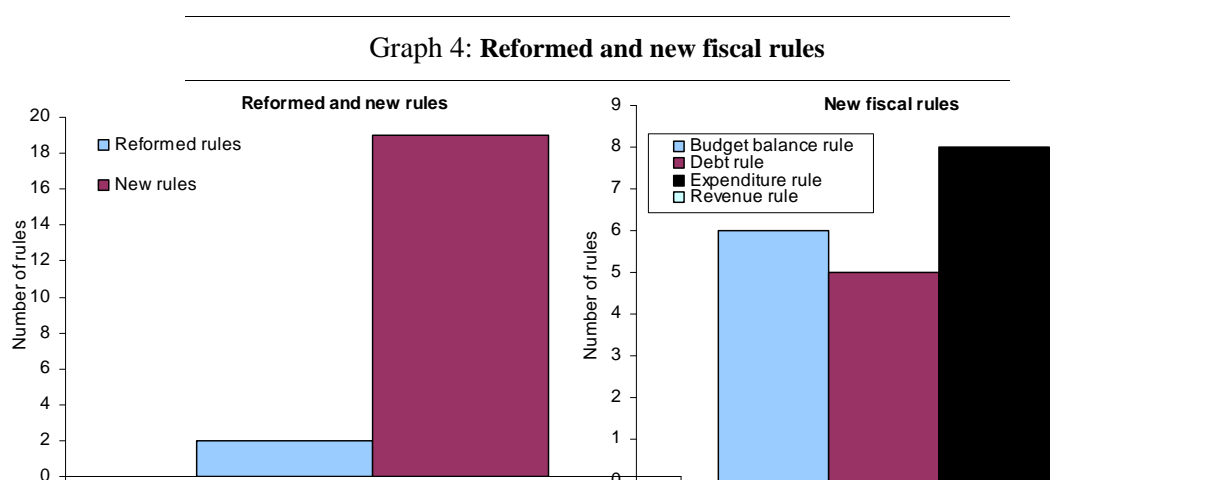
(1) The programme announces the introduction of new rules but neither the number nor their features are specified. (2) The programme does not specify whether some multiannual measures strengthening fiscal planning and monitoring constitute the basis for introducing an effective MTBF. (3) The programme does not clarify whether a new body to be implemented in the next future can be considered an independent fiscal institution. (4) The existing golden rule for the Federal Government was abolished in 2009 and replaced by a new cyclically-adjusted balance rule. (5) Inclusion of multiannual budgetary targets in the annual budgetary documentation. (6) The two prevailing fiscal rules in 2008 were replaced as of 2010 by binding balance and debt targets over the period from 2009-10 to 2010-16. As a result the total number of fiscal rules in place remains unchanged between 2008 and 2010.

3.1- Reforms of numerical fiscal rules

Measures addressing reforms in the field of fiscal rules are primarily implemented through the establishment of 19 new rules constraining the conduct of fiscal policy, whereas only 2 of the prevailing rules are expected to be reformed (see graph 4 below)⁵.

The degree of implementation of these reforms diverges across Member States. For instance, DE and HU have already introduced, respectively, a budget balance rule on a cyclically-adjusted basis for the Federal government and the Länders; and a debt rule defined in real terms for the central government. In both cases, not only the target definition and the coverage of the rules are known but also their monitoring mechanisms. By contrast, FR announces its intention of establishing a new budget balance rule on a multiannual basis for the whole of the general government sector. A working group, analyzing and assessing various forms of rules, has been established in order to adopt this new rule over the next years. This working group is expected to provide its report by next summer. Similarly to FR, SK announces the introduction of expenditure limits and a debt brake with a strong legal basis but no further information on these policy initiatives is contained in the update. Finally, other countries such as EL also envisage the introduction of fiscal rules in the short-term but neither details nor calendars are provided.

By type of rule, 8 out of the 19 new numerical fiscal rules are expenditure rules, whereas new budget balance and debt rules amount to 6 and 5, respectively. No new revenue rule obliging the government to allocate higher-than-expected revenues to debt reduction is announced (see Graph 4 below).



Source: Commission services, 2009-2010 updated SCPs.

Finally, two countries, PL and EE, plan to reform their existing fiscal rules. In the case of PL, the reform of the existing debt rule for the general government through more stringent corrective mechanisms is accompanied by the establishment of four new rules according to the update: a budget balance rule and a debt rule both for local governments to be implemented in 2011 and 2014 respectively, and two expenditure rules constraining non-mandatory expenditure.⁶

⁵ In the case of Greece, the update announces the implementation of new fiscal rules in 2010. However, no details about the type of rules and calendar implementation are provided. As a result, Greece has not been included in graph 4 of this sub-section.

⁶ For these two expenditure rules, however, the programme does not provide a concrete calendar and is not fully clear whether the rule is applied to the general government sector or only to the State budget.

3.2 Reforms of medium-term budgetary frameworks (MTBFs).

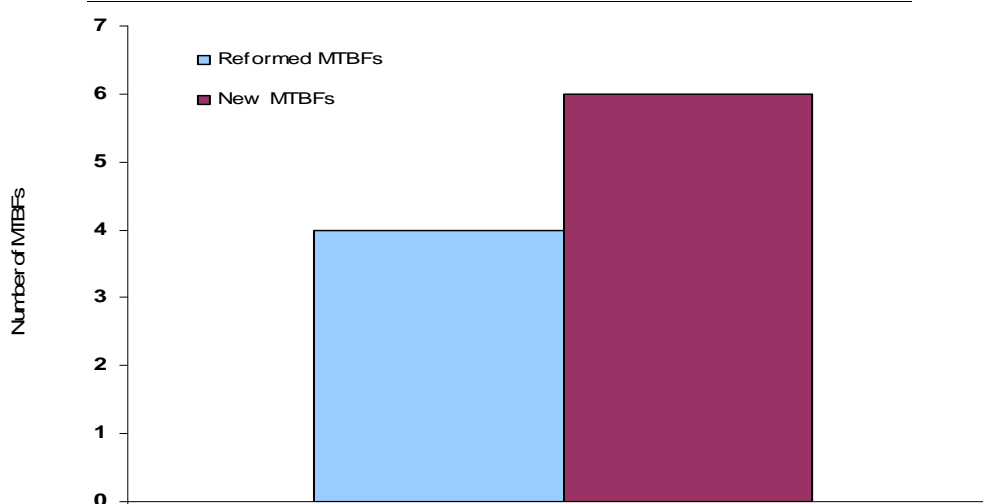
In 2008, a large majority of Member States declared to have in place a domestic MTBF for fiscal planning, and only EL, CY, LU, HU and PT reported not to have such fiscal arrangement in their respective fiscal governance systems.

According to the information provided so far by the 2009-2010 SCPs, 10 Member States report changes to their national MTBFs. Specifically, in 4 Member States the existing MTBF is being reformed while in the remaining 6 countries a new framework is announced (see Graph 5 below).

In 3 cases (AT, RO and UK), newly introduced MTBFs replace the existing frameworks. In the case of HU, by contrast, a new MTBF has been set for the first time in the form of a fiscal responsibility law introducing medium-term fiscal plans covering at least three years. This is also the case for CY and PT, which did not have such fiscal arrangement in place and now announce its implementation. By contrast, neither EL nor LU envisage the establishment of a domestic MTBF.

As a result, the total number of domestic frameworks is expected to increase from 22 in 2008 to 25 at present.

Graph 5: Reformed and new MTBFs according to the SCPs



Source: Commission services, 2009-2010 updated SCPs.

Finally, the 5 reforms of the existing frameworks (IT, PL, SK and SE) mainly consist of the reinforcement of the binding nature of fiscal targets and the extension of the period covered by the framework. The latter applies particularly to SE, which has recently reintroduced a three-year framework.

3.3 – Reforms related to independent public institutions.

The resort to independent public institutions acting in the field of fiscal policy is by far the less popular policy option to reform national fiscal governance. Thus, only 2 new independent bodies have been set up compared to the situation prevailing in 2008, when the number of these institutions in the EU amounted to 27. Besides, no reforms of the existing institutions in 2008 are announced in the 2009-2010 SCPs.

The newly introduced independent bodies have been established in HU and SI. In HU, the new body has been entrusted with the mandate of assuring the transparency of fiscal planning and is supported by a secretariat. In turn, the new institution in SI acts as a consultative body for the assessment of fiscal policy and budgetary developments as well as structural reforms (see the country specific annex for further information). Finally, the recently approved Fiscal Responsibility Law in RO will entail the establishment of a new independent institution.

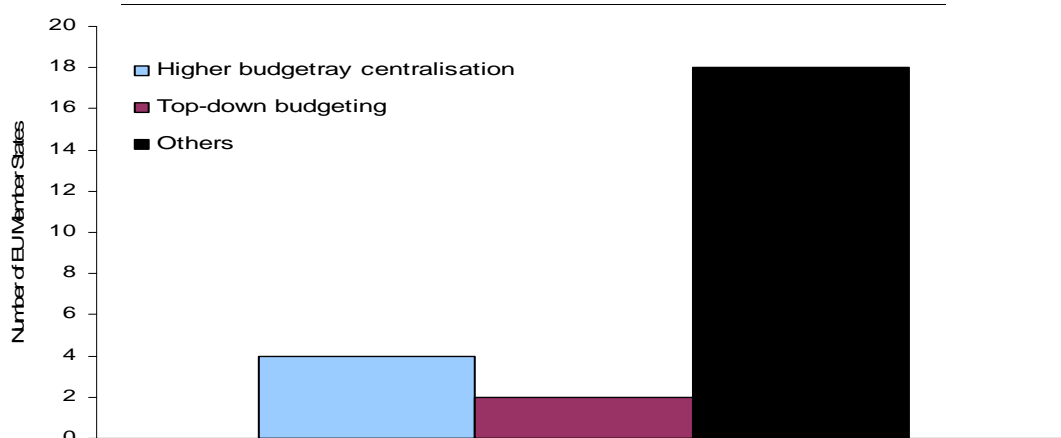
Overall, these 3 new institutions help rebalance to some extent the earlier uneven distribution of these bodies across the EU. In 2008, the 27 existing institutions were spread across 17 EU countries, of which 13 belonged to the former EU15. At that time, SI was one of the four new Member States having already introduced an independent body (i.e. the IMAD, which notably provides independent forecasts for the budget preparation).

3.4 Changes to domestic budgetary procedures.

Changes to domestic budgetary procedures account for the largest number of measures addressing the reform of national fiscal governance, particularly at the planning stage.⁷ According to the 2009-2010 SCPs, 19 Member States have already implemented, or will do it in the next future, policy measures targeting the upgrading of the current budget process.

However, only a limited number of countries report having designed and/or implemented measures strengthening the centralisation of the budget process or the introduction of top-down budgeting (see graph 6). These are the two elements of domestic budgetary procedures most conducive to fiscal discipline as they act to address the common-pool problem. Finally, the other reported measures aim mainly at performance and programme budgeting and, to a lesser extent, the reinforcement of monitoring mechanisms and the improvement of reporting procedures to increase transparency.

Graph 6: Reforms of domestic budgetary procedures in the SCPs



Source: Commission services, 2009-2010 updated SCPs.

⁷ The other two dimensions of the budget process are the approval and the implementation stages.

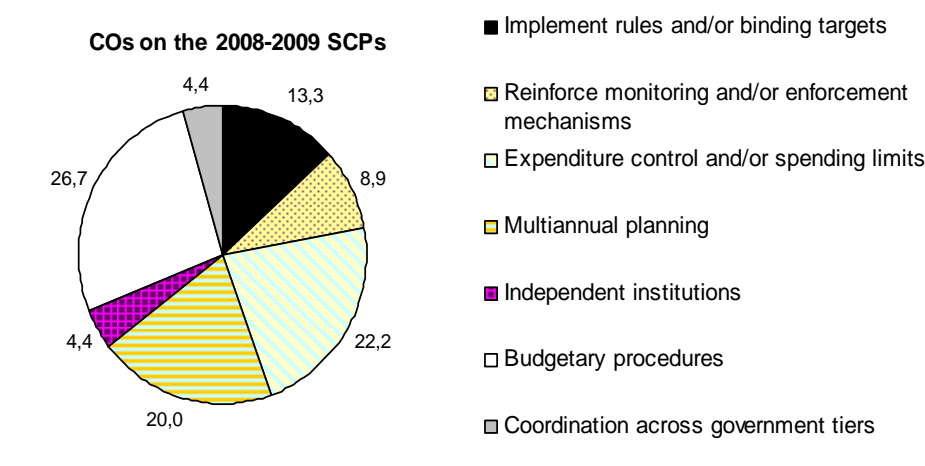
4. – The assessment of the domestic fiscal frameworks reforms by the Commission and the COs.

This section summarises key features of the assessment on the domestic fiscal frameworks reforms. It does so, first, by comparing policy invitations in the Council Opinions (COs) made on the two last rounds of SCPs. It then compares the reforms reported in the 2009-2010 SCPs with the policy invitations issued by the Council on the previous round of SCPs. Finally, it briefly summarises the Commission services' Macro Fiscal Assessments (see Table 2 at the end of this section containing all this information).

4.1- Last year’s COs and the current recommendation for a CO.

This sub-section looks at the nature of the policy invitations issued by the Council on the last two rounds of SCPs. Graph 7 shows how the policy invitation issued last year, on the 2008-09 SCPs, were distributed by type of measure. Overall, the graph shows that over 25% of the invitations concerned weaknesses in domestic budgetary procedures. These policy invitations mainly referred to concerns about the transparency, the performance and programme budgeting and the level of centralisation of the budgetary process. 20% of the invitations concerned multi-annual planning while 22% of the invitations related to issues of expenditure control and/or expenditure limits. Grouping together the invitations concerning expenditure with those on the implementation of rules and binding targets and those on the reinforcement of monitoring and/or enforcement mechanisms, shows that 45% of the advice given was directly concerned with fiscal discipline.

Graph 7: Council policy invitations on last year’s SCPs by type of measure (as a % of total measures)

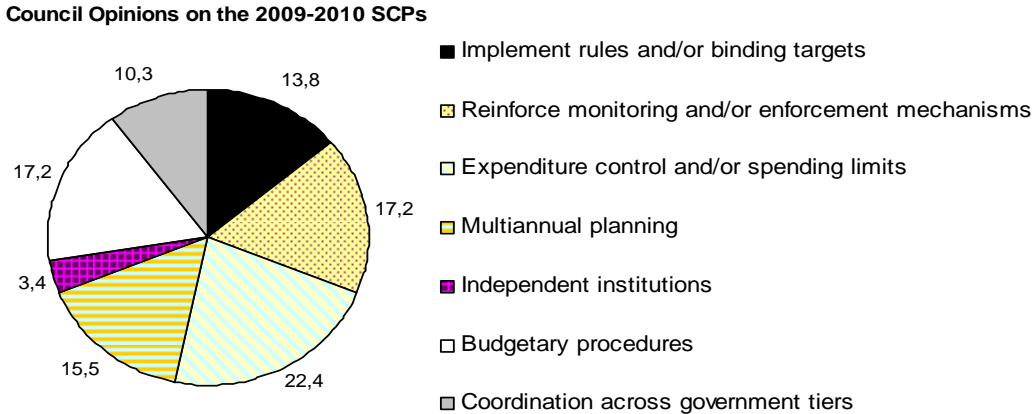


Source: Commission services, 2008-2009 updated SCPs.

Graph 8 shows the distribution of policy invitations issued on the current round of SCPs, by type of measure. Compared with the previous year, there is a significant increase in the share of invitations concerning a reinforcement of the monitoring or enforcement mechanisms (from 9% to 17%) and the coordination across government tiers (from 4% to 10%). There is a countervailing decrease in the share of recommendations requesting a strengthening of budgetary procedures and those concerning multiannual planning. However, in absolute terms, the number of invitations falling in these two categories remained roughly the same between last year and this.

The group of measures addressing fiscal discipline more directly, i.e. the invitations on rules, monitoring and enforcement procedures and the overseeing of public spending developments, increased further. In this year's round, 55% of the advice given covered these issues, compared with 45% last year.

Graph 8: Council policy invitations on this year's SCPs by type of measure (as a % of total measures)



Source: Commission services, 2009-2010 updated SCPs.

4.2- Last year's COs and policy initiatives contained in this year's SCPs.

A relevant question when analysing and assessing the reform measures included in the 2009-2010 SCPs is to what extent they follow the policy invitations issued by the Council in last year's COs.

Last year, 19 Member States received a policy invitation relating to the reform of fiscal frameworks.⁸ Of these, 7 Member States included measures in the 2009-2010 SCPs which follow (at least partly) their policy invitations, while the initiatives of the remaining 12 Member States are not in line with the recommendations.

In conclusion, in spite of the significant number of invitations addressing the reform of domestic fiscal frameworks, the fulfilment of the policy invitations included in the last round of Council Opinions is rather limited.

4.3- The 2009-2010 SCPs and the Commission's assessments.

Finally, an additional interesting exercise consist of looking at the Macro Financial Assessment of the last round of SCPs to see how the Commission has evaluated the reforms announced in the updates.⁹

⁸ Those Member States that did not receive any policy recommendation in the field of fiscal governance were CZ, DK, ES, CY, LU, NL, FI and SE.

⁹ In the case of Portugal, its macro-financial assessment was not available at the time this paper was being prepared. As a result, the assessment included in the Council Opinion on the Portuguese update was considered for this section.

The assessment is somewhat negative (or mixed in some cases) with respect the measures included in the SCPs of 11 Member States. For instance, the assessment of the recent initiatives in BG points to likely counterproductive effects in terms of transparency. While in the case of BE, ES and MT the update does not foresees major reforms, the assessment underlies the need for further improvements in their national fiscal frameworks. As for CZ, EI, EL, FR, LV, PT and UK the assessment considers that progress has been made recently. However, in all these countries there is significant room for additional improvements and the assessment puts forward some policy proposals to strengthen the current framework.

Although there is still margin for further progress to effectively strengthen fiscal governance, the Commission concludes that significant improvements have been achieved (or can be achieved if the envisaged measures are implemented) in 11 Members States (i.e. DE, EE, IT, CY, HU, AT, LT, PL, RO, SI, and SK).

Finally, no significant weaknesses are identified in the case of DK, LU, NL, FI and SE.

Table 2: Council Opinions and recent policy actions related to the reform of fiscal framework

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
BE	Adopt a more stringent budgetary framework encompassing binding, multiannual expenditure ceilings and budgetary agreements among the different government tiers, including the establishment of enforcement mechanisms to ensure the respect of the fiscal targets.	No actions or plans	While Belgium benefits from the existence of independent fiscal institutions, fiscal rules and the domestic MTBF appear to be weak, which has contributed to frequent slippages in the past. Need for enforceable expenditure rules and effective medium-term fiscal planning extended to all general government tiers. A multiannual budgetary agreement should be concluded between the different government layers covering a time span of around 5 years and including new mechanisms to enforce compliance	Adopt a more stringent budgetary framework, encompassing the creation of enforceable, multi-annual expenditure ceilings.
BG	Fully implement programme-based budgeting.	The 90% margin in the budget law was replaced by the discretionary power of the Council of Ministers to reduce primary expenditure below the appropriations adopted in the budget in case of adverse economic developments.	Current budgetary framework has a good track. However, discretionary powers of the government undermine transparency and credibility, and medium-term expenditure targets are not binding. The new discretionary powers of the government to cut budgetary appropriations would need some clarifications to facilitate transparency and predictability.	No recommendations
CZ	No recommendations ¹⁰	New integrated information system of the State Treasury to increase transparency and improve the budget process at the planning and implementation stages.	The budget preparation is rather decentralised while there are no strong fiscal rules and spending efficiency is hardly assessed. The prevailing MTBF includes expenditure ceilings for the State budget funds. Experience, however, shows that the spending limits have been revised upwards frequently in the past beyond the existing escape clauses. Other shortcomings of the MTBF include low enforceability, limited ex-post monitoring, operational complexity and scant public scrutiny. There are no specific proposals to improve the enforcement of the MTBF. The new integrated information system of the State Treasury will improve the management of public finances	Take action to improve budgetary procedures and to enforce and monitor more rigorously the medium-term budgetary targets; in particular, avoid upward revisions of expenditure ceilings beyond the revisions permitted by the budgetary rules.
DK	No recommendations	No actions or plans	The current fiscal framework benefits from its wide coverage, and the transparency and visibility of fiscal rules. However, public consumptions is prone to exceeding targets. New measures entailing sanctions could enhance incentives for local governments to adhere to agreed targets. The current tax-freeze may be seen as an instrument to control spending. This however renders major tax-reforms difficult and locks in tax inefficiencies.	No recommendations

¹⁰ The assessment of the 2008-2009 SCP underlined, however, the non-binding character of the fiscal targets considered in the existing MTBF, and highlighted that initial expenditure ceilings were repeatedly exceeded. Besides, on 2 December 2009, the Council recommended to the Czech Republic to enforce rigorously its medium-term framework and improve the monitoring of the budget execution throughout the year to avoid expenditure overruns compared to plans.

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
DE	Strengthen the institutional fiscal framework by implementing the new (cyclically-adjusted) balance budget rule as envisaged in the 2008-2010 SCP.	<p>New cyclically-adjusted budget balance rule applied to the Federal government and Länders.</p> <p>New governmental body (i.e. the Stability Council that replaces the former Financial Planning Council) responsible for monitoring federal and regional budgets and the respect of fiscal targets.</p> <p>Gradual introduction of a new budgeting system including performance and top-down budgeting.</p>	<p>Domestic fiscal framework has been reinforced by the reform of the federal fiscal relations.</p> <p>The recently introduced budget balance rule follows the structure of the preventive arm of the SGP. However, no borrowing limits are specified for local governments and social security funds, which entails a potential risk.</p> <p>The new Stability Council is not entitled to impose sanctions or issue binding recommendations. In the past, expenditure targets for federal and regional governments set by the former Fiscal Planning Council were frequently breached due to their imprecise definition, opaque monitoring and the lack of a sanction device.</p>	Ensure full implementation of the new budgetary rule at all levels of government.
EE	Reinforce the medium-term budgetary framework, particularly by improving expenditure planning and efficiency.	<p>Performance and accrual budgeting to be integrated in the budget process through the State budget in 2010 and 2011.</p> <p>The current debt rule for local governments is now more stringent requiring the authorisation of the Ministry of Finance for new borrowing plans.</p>	<p>Since 1993 the existing budget balance rule for the general government has been instrumental in registering a positive fiscal track record. However, the absence of expenditure and/or revenue rules has facilitated additional spending through windfall revenues.</p> <p>The debt rule for local governments was strengthened by a temporary requirement of ex-ante approval of borrowing plans.</p> <p>The current MTBF suffers from a lack of monitoring and corrective mechanisms in case of deviation from the initial targets.</p>	Strengthen the medium-term budgetary framework, particularly by improving expenditure planning, and further strengthen the system of monitoring the strategic targets and reporting on them.
EI	In order to limit risks to the adjustment, strengthen the binding nature of the medium-term budgetary frameworks as well as closely monitoring adherence to the budgetary targets throughout the year.	<p>Over recent years, Ireland has implemented a number of measures to strengthen the medium-term budgetary framework. This includes, the introduction of non-binding multiannual plans in the Supplementary Budget (April 2009) to restore fiscal stability.</p> <p>A set of measures released by the Special Group on Public Service Numbers and Expenditure Programmes to cut down expenditure and reduce staff.</p> <p>Possible use of windfall revenues to reduce debt burden.</p> <p>The introduction of binding multiannual envelopes for current expenditure in the future will be considered in the future.</p>	<p>High growth in the past masked the flaws of the fiscal framework.</p> <p>Budgetary targets set in the medium-term framework for the outer years, especially spending envelopes, can be changed in next budgets. This also applies to the newly introduced multiannual plans, and makes more difficult to maintain a prudent fiscal stance in case of windfall revenues. At the same time, this also limits the margin to implement a medium-term consolidation in downturns. The MTBF should be strengthened to provide a more binding and stability-oriented planning tool. This should include stronger monitoring and corrective mechanisms throughout the year.</p> <p>The update contains a vague announcement about the use of higher-than-expected revenues for debt reduction (i.e. no clear whether this will entail the adoption of a formal rule).</p> <p>The resort to an independent body entrusted with some fiscal policy-related tasks (e.g. forecasts for the budget preparation) may be beneficial as in other EU countries.</p> <p>The budget process could be improved in terms of transparency, centralisation and performance budgeting.</p>	To limit the risks to the adjustment, strengthen the enforceable nature of the medium-term budgetary framework, as well as closely monitor adherence to the budgetary targets throughout the year.

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EL ¹¹	Further improve the budget process by increasing its transparency, spelling out the budgetary strategy within a longer time perspective and set up mechanisms to monitor, control and improve the efficiency of primary current expenditure.	<p>Adoption of fiscal rules in 2010 (No details on number and type of rules).</p> <p>Line Ministries will submit 3-year expenditure proposals.</p> <p>A new Budget Office attached to Parliament to monitor fiscal accounts on a monthly basis.</p> <p>Full introduction of programme-based budgeting (2012).</p> <p>Strengthening of the Ministry of Finance in the budget process.</p>	<p>The shortcomings in government finance statistics remain a recurrent issue and a serious problem. This has been detrimental for timely and effective revenue and expenditure control. Given the persistent failures, fiscal consolidation efforts in future years need to be monitored not only on the basis of the government deficit figures but also through an assessment of government debt developments.</p> <p>The lack of a MTBF for a time-consistent fiscal planning has contributed to the poor track record in terms of budgetary outcomes. The recurrent deviation of budgetary developments from the initial plans was aggravated by the scant centralisation of the budgetary process, a weak monitoring of public expenditure and lack of accountability at the level of line ministries. These shortcomings coupled with systematic upbeat revenue projections have repeatedly led to miss the envisaged fiscal targets.</p>	<p>Strengthen the position of the Ministry of Finance in relation to the line ministers in the course of the budget preparation and reinforce its control mechanisms during budgetary execution.</p> <p>Ensure, in addition, the implementation of programme-based budgeting.</p> <p>Pursue the reform of the General Accounting Office, including by setting up a fully accountable budget department, which should set multi-annual expenditure targets and operate within monitoring assessment systems of performance; allocate the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information-sharing systems, which should have sufficient safeguards against political interference.</p> <p>Adopt a medium-term budgetary framework, including binding spending ceilings based on a multi-annual expenditure rule.</p> <p>Set up an independent fiscal agency, reporting publicly on the budgetary plans and execution of all public spending entities of the general government on a timely basis.</p>
ES	No recommendations	No actions or plans	<p>Although the current MTBF has promoted multiannual fiscal planning and shows an overall good track record, the latter has worsened since 2008.</p> <p>In 2009 the margin of flexibility of this framework was pushed to the limits, as exceptionally, territorial governments have been allowed to present higher deficits than initially planned within the budgetary framework.</p> <p>This takes place together with the introduction of a new funding system for regional governments entailing a higher fiscal decentralisation.</p> <p>In this context, a proper regulation of the relations across government layers is crucial to support the achievement of the ambitious consolidation plans.</p>	<p>Ensure that the budgetary framework effectively supports the achievement of the outlined medium-term fiscal plans at all levels of the general government sector, and closely monitor adherence to the budgetary targets throughout the year.</p>

¹¹In the case of Greece, the information contained in the column of the macro fiscal assessment corresponds to the explanatory memorandum to address a Council Opinion on the January 2010 SCP. Similarly, the policy measures included in the column of the Council Opinion on the 2009-2010 SCP is taken from the Council Decision giving notice to Greece to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit.

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FR	Effectively enforce existing expenditure rules and take further steps in order to guarantee the respect of the multiannual expenditure reduction targets of the general government by all sub-sectors.	<p>Preparatory work to implement a new fiscal rule to restore a medium term budgetary balance.</p> <p>Measures promoting a result-oriented budgeting.</p>	<p>The prevailing fiscal rules include expenditure norms for the general government sub-sectors. While the "zero volume increase in expenditure" applied to central government has sometimes been respected thanks to a change in the coverage of the rule, the national health spending rule has only been fulfilled once since its introduction in 1997. As a result, the existence of these rules has not prevented from missing the fiscal targets contained in the successive SCPs due notably to spending slippages.</p> <p>In 2009, the first multi-year public finance act was adopted by the Parliament, setting out expenditure targets for all general government sub-sectors and establishing the principle of neutrality for tax exemptions (i.e. the cost of new exemptions must be offset by other measures). However, this principle of neutrality is not compulsory and has not been met in 2009.</p>	Ensure that the budgetary framework is reinforced, in particular on the expenditure side, and effectively supports the achievement of the outlined medium-term fiscal plans at all sub-government levels, as planned by the French government.
IT	Continue the progress made to improve fiscal governance and the work on a new framework for fiscal federalism that ensures the accountability of local governments and underpins fiscal discipline.	<p>The internal stability pact is the pillar of Italy's fiscal framework. It sets a budget balance rule for local governments and an expenditure rule for regional authorities. While some exclusions and exceptions have been temporary agreed to give more flexibility in the context of the current crisis, new mechanisms to control debt growth at local government level are in place since 2010. This internal pact is supplemented by the health pact, which is gradually shifting towards joint governance between central and territorial governments. Finally, there is also a ceiling on pharmaceutical expenditure.</p> <p>Reform of the prevailing budgetary procedures through the Public Finance and Accounting Law introduced in January 2010. This includes unified budgetary systems and procedures for all general government in line with EDP methodology, a three-year budgetary plan, programme-based budgeting and tighter expenditure monitoring. The reform is also linked to the process of fiscal decentralisation by the setting-up of a database collecting relevant information on all public budgets of general government entities so as to ensure an effective and timely monitoring. In this respect, some institutional mechanisms are in place to involve all government tiers as well as the national Parliament in the setting of fiscal targets.</p> <p>The biggest improvements of current reforms are expected from the implementation of fiscal federalism, which should have an impact on both the expenditure side (application of standard costs) and revenue side (fight against tax evasion through the involvement of local governments).</p>	<p>Fiscal governance has considerably improved since joining the euro area. However, there is margin to further improve. This current rule-based framework mainly relies on the domestic stability pact and the health pact. These rules, however, have several shortcomings, such as the annual target revisions, heterogeneity of accounting systems and ineffective monitoring and corrective mechanisms. As a result, fiscal targets have not always been met.</p> <p>A reform of the budget process entered in force in January 2010. This entails a new three-year planning cycle in the budget process, more effective monitoring (i.e. spending reviews at the level of ministries) and a simpler State budget, which allows a more policy-oriented allocation of resources. This reform should help modernise the fiscal framework and provide credibility to medium-term targets. However, it remains to be seen the practical results of its implementation.</p> <p>Significant challenges in the implementation of this reform could arise from its interplay with the parallel introduction of fiscal federalism since 2009, which involves a gradual devolution of tax-raising powers to territorial governments. This in turn will require stronger rules to ensure accountability and discipline at sub-central level. The involvement of sub-national governments and the national Parliament in the setting of fiscal targets should reinforce commitment to fiscal discipline and credibility.</p>	Ensure that the implementation of the reform of the budgetary process improves the conditions for expenditure control and helps sustain the objective of sound public finances and that the rules governing fiscal federalism improve the accountability of local governments and fosters efficiency.

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CY	No recommendations ¹²	<p>New MTBF to be fully implemented in 2012. However, no details on the main features of this new budgetary framework are provided.</p> <p>Gradual introduction of performance budgeting, which should be completely operative in 2012.</p>	<p>The fiscal framework has recently been improved by the adoption of new accounting system, a 3-year MTBF and of performance budgeting. However, supplementary budgets increasing spending remain a problem. New framework to be fully introduced in 2012 is expected to cease this practice. Its timely implementation is critical for lasting consolidation.</p>	<p>Implement, as envisaged, an effective multi-annual budgetary framework in order to ensure adherence to the budgetary targets and to firmly contain expenditure over the medium-term.</p>
LV	Strengthen fiscal governance and transparency, by improving the medium-term budgetary framework and reinforcing Ministry of Finance spending controls.	<p>The Ministry of Finance has now the right to reallocate resources across programmes and sub programmes during the budgetary execution of the State budget.</p> <p>The State budget is split into spending projects co-financed by the EU and expenditure on basic State functions, which should facilitate monitoring.</p> <p>In order to ensure transparency, line ministries should provide more information on their spending programmes (beneficiaries, agencies or institutions in charge of implementation, wage costs etc).</p> <p>New methodology for developing and analysing results and performance measures.</p>	<p>Strengthening the binding nature of the current MTBF is an essential measure. To support consolidation, there is a need to put in place effective sanctions for misuses of public funds, improving the collection and processing of budgetary data (notably as regards local governments) and reinforcing the monitoring of spending commitments (inter alia ex-ante control).</p> <p>Close monitoring of EU funds has been supported by the new State budget structure.</p> <p>The Ministry of Finance committed to prepare a draft fiscal discipline law, which would be a highly desirable measure.</p> <p>The Ministry of Finance is now entitled to reallocate resources across programmes, sub-programmes and expenditure categories, which should remove unnecessary rigidities during the budgetary execution. Some broad reviews are likely to improve the prioritisation and the decision-making process prior to the design of next budgets.</p>	<p>Improve fiscal governance and transparency, inter alia by adopting the draft fiscal discipline law, by strengthening the binding nature of the medium-term budgetary framework and by putting in place effective sanction procedures for individuals' misuses of public funds.</p> <p>Strengthen control, coordination and sanction mechanisms aiming at tackling the grey economy.</p>
LT	Strengthen fiscal governance and transparency, by enhancing the medium-term budgetary framework and reinforcing expenditure discipline.	<p>A new results-oriented management model that will ensure efficient use of resources, restructure the system and principles of strategic and State budget planning aiming at higher efficiency and rationality of spending by linking this to apparent results.</p> <p>Implementation of accounting reform.</p> <p>Reinforcement of monitoring and enforcement mechanisms and higher centralisation of the budget process.</p> <p>Mechanisms to ensure that EU Council policy recommendations and invitations are considered before adoption of an annual budget.</p> <p>New legislation to implement an anti-inflationary budgetary policy in good times.</p> <p>A more active role of independent institutions and the Parliament to assess and monitor fiscal policy. New budgetary indicators related to the fiscal stance, fiscal impulse and output-gap to improve the conduct of fiscal policy.</p>	<p>There are significant weaknesses related to the lack of transparency of the budget process, including appropriate reporting of revenue and expenditure executions and the comparability of budgetary figures on cash and accrual basis.</p> <p>Announced measures to increase transparency, including reporting improvements, could significantly upgrade the fiscal framework.</p> <p>The current MTBF has failed to prevent expenditure overruns through recurrent upward revisions of spending targets.</p> <p>The current Law on Fiscal Discipline focuses on the annual budget law and does not promote a more forward-looking and medium-term approach. In addition, enforcement mechanisms are based on legislative procedures but lack sanctions.</p>	<p>Strengthen fiscal governance and transparency by enhancing the medium-term budgetary framework and improving reporting of budgetary data, ensuring comparability of the budgetary indicators on cash and accrual basis.</p>

¹² However, the Council Opinion on the 2008-2009 SCP also underline that controlling current expenditure and avoiding pro-cyclicality represents a major challenge for the fiscal policy in Cyprus.

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LU	No recommendations	No actions or plans	Current fiscal rules and MTBF, with the exception of the multiannual capital spending programmes do not appear to play a significant role. However, this does not seem to have led to significant budgetary slippages in the past. The programme does not announce any plans in this respect.	No recommendations
HU	Ensure full implementation of the fiscal responsibility law.	<p>The new fiscal responsibility law approved in November 2008 is gradually being introduced between 2009 and 2010. This notably includes:</p> <ul style="list-style-type: none"> - A new debt rule defined in real terms and entailing primary balance targets for the next two years. - A three-year fiscal planning to be presented at the Parliament. - A new independent fiscal body with the mandate of assuring the transparency of fiscal planning. - An improvement of the current budgetary procedures by consolidating the budget of central government plus the social security funds and other extra-budgetary funds. 	<p>The new fiscal framework brought about by the new fiscal responsibility law and the amended organic law for public finances is expected to contribute to improving transparency and sustainability of public finances.</p> <p>Although some weaknesses can be mentioned (e.g. the complexity of the new debt rule, the statutory basis allowing for changes in the law with a simple majority in the parliament, and the limited enforcement mechanisms), some elements of the new law, such as the constraining character of the new rule and its multiannual approach and the establishment of an independent body, suggest that it may become an effective anchor for fiscal policy.</p> <p>The new legislative framework does not yet specify the concrete role of the new fiscal council in the budget process.</p> <p>Another key development is the introduction of detailed operational and financial management rules for the various budgetary institutions and a uniform framework for the use of both domestic and EU funds.</p> <p>However, it is too early to assess the effectiveness of the new framework. The 2010 budget has already been prepared broadly in line with the new fiscal framework. Next year's budget should be fully in compliance with the new framework in order to ensure the successful implementation of the new fiscal responsibility law.</p>	Improve the quality of public finances by preparing and adopting a 2011 budget in full compliance with the new fiscal framework.
MT	Strengthen the medium-term budgetary framework and enhance the efficiency and effectiveness of public spending, including by accelerating the design and implementation of a comprehensive health care reform.	<p>New Public Administration Act approved in 2009 providing the legal and administrative framework for fiscal management.</p> <p>The government is seeking the technical advice of international institutions having experience in the design, implementation and reform of national fiscal frameworks.</p>	<p>The spending overruns recorded since 2008, particularly in relation to the wage bill and health care, are related to some weaknesses of the current fiscal framework.</p> <p>These includes the lack of binding expenditure ceilings and corrective mechanisms for deviations registered in the course of the budgetary execution, scant medium-term perspective in the budgetary formulation, and the absence of an independent body involved in the budget preparation.</p> <p>Improvements introduced so far are relatively limited.</p>	Strengthen the binding nature of the medium-term budgetary framework and improve the monitoring of budget execution throughout the year.

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NL	No recommendations	<p>A Deficit Reduction Act to be implemented from 2011 onwards will entail the aligning of domestic fiscal objectives, methodologies and definitions with those of the EU fiscal framework.</p> <p>This Act also entails the introduction of a new budget balance rule for local governments.</p> <p>In 2009, the government decided to correct the spending ceilings for the expenditure on unemployment benefits while all costs stemming from the interventions in the financial sector were kept outside the thresholds.</p>	<p>The trend-based system is considered to be an efficient and effective fiscal framework. The binding spending ceilings are the main cornerstone. Generally they have been respected and have turned the attention away from total expenditure by giving incentive to line ministries to look for spending reallocations to finance new policy measures.</p> <p>However, their coverage is not exhaustive, and infrastructure investment, interest payments, local governments' spending and tax expenditures are excluded.</p> <p>While the exclusion of infrastructure investment seeks to ensure a high level of this spending, it has the disadvantage of separating this investment item from the choices faced by the budgetary allocation process and of reducing the reach of the spending ceilings.</p> <p>The exclusion of the unemployment benefits from the spending ceilings has prevented from pro-cyclical budgetary cuts and led to a strengthening of automatic stabilisers.</p>	No recommendations
AT	Further improve the budgetary framework to strengthen fiscal discipline at all levels of government through enhanced transparency and accountability, notably by aligning legislative, administrative and financing responsibilities between the different levels of government.	<p>Introduction of new binding expenditure ceilings embedded into the multi-annual fiscal planning.</p> <p>New MTBF with binding spending limits and supported by a long-run budgetary forecast over at least 30 years.</p> <p>Development of an effective performance budgeting.</p> <p>A better management of those budgetary resources that have not been spent by the end of the year.</p>	<p>The current fiscal framework, based on the Fiscal Equalisation Law and the Austrian Stability Pact is complex and lacking in transparency. Not only are revenues from most individual taxes shared among the different territorial levels by fixed proportions, but also decision-making in many areas is split across various levels of authority. Revenue-raising and spending responsibilities for numerous activities do not reside within the same government tier. As such the system does not encourage the most efficient use of resources.</p> <p>However, the first part of a far-reaching reform of the budgetary framework law at the federal level entered into force in 2009. These changes established a new multi-annual expenditure framework with fixed ceilings (for about 80% of total expenditures) set for four consecutive years on a rolling basis. It is expected to prevent pro-cyclical spending and to enhance the effectiveness of the automatic stabilisers.</p> <p>The second part, due to come into force in 2013, involves the introduction of output-based budgeting and the modernisation of the public accounting system. These improvements are planned to be effective in 2011.</p>	Further improve the budgetary framework to strengthen fiscal discipline at all levels of government through enhanced transparency and accountability notably by aligning legislative, administrative and financing responsibilities between the different levels of government and by strengthening enforcement mechanisms under the internal stability pact.

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PL	<p>Reinforce the budgetary framework through better control over expenditure, including the swift implementation of the amended Public Finance Act and performance budgeting.</p>	<p>The amended Public Finance Act entered into force in January 2010 entailing the following:</p> <ul style="list-style-type: none"> - Reorganisation of the general government sector in order to adapt it better to EU definitions. - More stringent corrective measures in case the thresholds established by the existing debt rule are breached. - Implementation from 2011 onwards of a balanced (current) budget rule for local governments whereas as of 2014 a new debt rule for the same sub-sector will also be introduced. - Extension of the fiscal planning horizon for the State budget from 3 to 4 years. - Separation, within the State budget, of EU funds. - More intensive use of performance budgeting. <p>In parallel, the introduction of the Plan for the Development and Consolidation of Public Finances presented in January 2010 will imply the following:</p> <ul style="list-style-type: none"> - Introducing a special act including two expenditure rules with monitoring and enforcement mechanisms. - An improved cash management allowing for a decrease in public debt by 1.1 % of GDP. 	<p>There is scope to improve Poland's fiscal framework. Poland has one debt rule, based on three ceilings (50%, 55% and 60% of GDP, the last one enshrined in the Constitution), the breach of which would trigger increasingly large fiscal consolidation measures. Its highly pro-cyclical nature has recently resulted in pressure to reverse the 1999 pension reform. On the expenditure side, the institutional framework does not ensure enough expenditure control and results in recurring slippages.</p> <p>The authorities took action to improve the fiscal framework in 2009. They made the existing debt rule more restrictive, by introducing additional specific provisions on the type of measures to be implemented once public debt exceeds 55% of GDP (national definition, non-ESA95).</p> <p>The planning horizon for the central state budget is extended from 3 to 4 years and a reorganisation of the general government took place, aimed at increasing the transparency of public accounts.</p> <p>The introduction of an expenditure rule is envisaged. However the rule would cover only the non-mandatory part of the central state budget, which is less than 15% of general government expenditure, and could introduce a bias towards lower public investment.</p> <p>The 2010 budget has extended the scope of performance budgeting to a largest share of public finances. The first central budget to be fully covered by performance budgeting is supposed to be implemented in 2013. The current implementation roadmap extends to 2014 and 2015 when comprehensive ex-post performance assessment is planned to be done. Only this assessment is likely to result in the elimination of unnecessary expenditure.</p> <p>While these actions are not substitutes for other measures to support consolidation, they will facilitate consolidation efforts.</p>	<p>Proceed with strengthening the fiscal framework, including through introduction of an expenditure rule covering a larger share of the general government primary expenditure than the "temporary" rule presented in the Convergence Programme, with appropriate monitoring and enforcement mechanisms. This would require to reduce the share of statutory spending in total expenditures.</p>

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PT	Further strengthen the budgetary framework, as envisaged, and ensure that fiscal consolidation measures continue to be geared towards enhancing the quality of the public finances in the light of the needed adjustment of the existing imbalances. ¹³	By June 2010, the MoF will submit a proposal for reform of the Budgetary Framework Law, which should be approved by May 2011. This will include the setting of a new MTBF with multiannual spending ceilings and performance-oriented budgeting. The programme also announces a new spending rule regulating State transfers to other layers. No details on these measures are provided in the update.	The programme announces the intention of reforming the budgetary framework. A major element is the move towards a multi-annual budgetary framework with annual expenditure ceilings. However, not many details are outlined about the renewed budgetary framework, for instance in terms of time, institutions or expenditure categories coverage, the form the expenditure rules will take, or enforcement and correction mechanisms in case of deviations. Besides these changes to ex-ante budget planning, some further changes towards a more integrated reporting of budgetary execution are also envisaged. Overall, these efforts address two aspects where the Portuguese budgetary framework has shown needs of continued improvement, namely planning fiscal policy in the broader medium-term setting and controlling expenditure in a more thorough way. ¹⁴	Implement an effective multi-annual budgetary framework in order to ensure the adherence to the budgetary targets across the government sectors and to firmly contain expenditure over the medium-term.
RO	Undertake concrete steps towards the envisaged strengthening of fiscal governance and transparency, in particular by setting up a binding medium-term budgetary framework, establishing an independent fiscal council, introducing limits on budgetary revisions during the year and laying-out fiscal rules.	Implementation of a Fiscal Responsibility Law (FRL) within the BoP support programme. The FRL will introduce: — A new MTBF for fiscal planning. — Limited resort to supplementary budget. — Fiscal rules for total expenditure, wage bill and budget balance. It also envisaged restrictions on local government borrowing. — New fiscal council providing forecasts and macroeconomic and budgetary analyses. — Improved management of guarantees and other collateral obligations. New reporting including biannual and annual progress reports.	Fiscal policy during the demand boom (2004-2008) was highly procyclical, exacerbating the private sector driven imbalances and adding to an already overheating economy. This was due to a large degree to an overall weak fiscal governance, resulting in weak budgetary planning and execution. Windfall revenues were typically spent through the process of intra-year budgetary rectifications and little headroom was left for more difficult times. Weak administrative capacity to plan and execute public investment projects also contributed to a recurrent under-execution of plans for capital expenditure. To improve the soundness of their fiscal framework, the Romanian authorities have committed under the EU balance-of-payments support programme to improve fiscal governance. A draft Fiscal Responsibility Law has been submitted to Parliament for approval. The draft law sets up a binding medium-term budgetary framework, establishes limits on budget revisions during the year, introduces sound fiscal rules, and creates a fiscal council which will provide independent scrutiny on public finance issues. Target dates have been set for the setting up of the fiscal council (end April) and for submitting the Medium-Term Budgetary Framework (MTBF) for 2011-2013 (end May).	The Romanian authorities are invited to specify, in the context of the Medium-Term Budgetary Framework to be prepared by end May 2010, the fiscal consolidation measures necessary to achieve the programme budgetary targets in 2011 and 2012. Improve the fiscal framework by adopting and implementing the fiscal responsibility law. In particular, take into account the analysis of the Fiscal Council in the design and conduct of fiscal policy;

¹³The 2008-2009 updated presented a number of measures to strengthen the fiscal framework: gradual implementation of programme budgeting and of multi-annual cycles with the preparation of budgetary plans for the entire legislative period associated with annual spending ceilings. Besides these changes to ex ante budget planning, further changes towards a swifter and more integrated reporting of ex post budgetary execution are also envisaged.

¹⁴At the time this analysis was prepared, the macro fiscal assessment of the update of Portugal was not yet available. Instead, the text of this column was taken from the Council Opinion

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
SI	<p>Keep tight control over government expenditure, including through the planned improvements in the budgetary framework (mainly related to performance-based budgeting).</p>	<p>A new independent fiscal body implemented in 2009 responsible for the assessment of different aspects of fiscal policy (e.g. sustainability, the adequacy of the current fiscal stance, the respect of the SGP provisions etc.).</p> <p>The government plans to introduce in the future a new expenditure rule linking nominal spending growth to potential output growth. Future updates will provide more concrete formulations of the rule to be discussed and assessed.</p> <p>A gradual introduction of a target oriented budgeting including measurable objectives and indicators to assess the effectiveness of public spending.</p>	<p>The current framework is based on a rolling two-year central government budgets and a ceiling on local government's total stock of debt. Despite its good track record, there is room for improvement. For example, a key weakness of the rolling two-year central government budgets is that the targets set for the second year are not binding. Furthermore, budgetary implementation in 2006-2009 shows the risk of expenditure overruns.</p> <p>Some measures to strengthen the fiscal framework in Slovenia began to be introduced in 2009. In the 2010 and 2011 budget the government is introducing performance-based budgeting, whereby the budgetary lines are translated into 16 development policies representing the main strategic objectives.</p> <p>A new fiscal consultative body for the independent evaluation of fiscal policies and the monitoring of expenditure efficiency introduced in 2009. The council, which is composed mainly of academics, has been mandated to prepare a first report on the state and challenges of the Slovenian public finances by spring 2010. It will then contribute to the next budget for 2011-2012.</p> <p>Future introduction of a fiscal rule linking nominal growth of expenditure to potential growth, however no details are provided as to the timing and modalities.</p> <p>If consistently implemented, these initiatives could help support the planned fiscal consolidation.</p>	<p>Pursue efforts to enhance expenditure control and the enforceable nature of the multiannual budgetary plans and improve public spending efficiency and effectiveness.</p>
SK	<p>The budgetary strategy and consolidation path should be backed up with specific measures for reducing expenditures from 2010 onwards, which should be supported by the introduction of legally binding expenditure ceilings for the general government.</p>	<p>Plans for introducing expenditure ceilings and a new debt rule.</p> <p>Higher coverage of MTBF in terms of both time period and institutional sub-sectors.</p> <p>New accounting and reporting systems in the budget process to improve monitoring.</p>	<p>Slovakia has a very detailed MTBF over the three next years. However, medium-term expenditure targets are only indicative and very sizeable revisions are allowed.</p> <p>Measures included in the SCP to strengthen the domestic fiscal framework are welcome and should be encouraged.</p>	<p>Implement the envisaged measures to further strengthen the fiscal framework, in particular the introduction of enforceable multiannual expenditure ceilings.</p>

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
FI	No recommendations	No actions or plans	<p>Multiannual expenditure limits for central government continue to be the cornerstone of the current fiscal framework. These ceilings exclude cyclically sensitive items (1/4 of central government budget) and have therefore allowed the full operation of automatic stabilisers. While this setup supported economic activity and social cohesion during the crisis, it also led to a relatively sharp deterioration in public finances. Given its good track record, these ceilings are expected to remain an effective tool to contain non-cyclical central government expenditure.</p> <p>However, the post-recession recovery is expected to be slow and stimulate fiscal revenues with a long lag, which might call for additional measures to restore fiscal balance.</p> <p>The programme recognises that emphasis should be given to the post-crisis exit strategy and to developing fiscal policy rules to ensure long-term sustainability.</p> <p>Local governments have a large autonomy and are not bound by centrally imposed expenditure limits. Growth in local government spending exceeded central government performance in the past years. To compensate this higher spending, local authorities can relatively easily increase their revenues, notably by raising local taxes, while central government transfers were also increased over past years. However, these tax increases might go against the national tax policy strategy. Overall, a credible framework to contain expenditure at local level would be highly desirable.</p>	No recommendations

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
SE	No recommendations ¹⁵	<p>A rolling 7 year average indicator for the general government balance is used as an indicator to follow up the surplus target. Although the length of the business cycle varies and often differs from seven years, the indicator is used to assess the average surplus over a somewhat longer time period. In the budget it is calculated for the current year, the three years covered in the budget and the three preceding years, and used as a forward looking indicator to assess if policy is in line with the surplus target.</p> <p>Up to 2009, the resort to expenditure ceilings by the government was voluntary. Since the beginning of 2010 the Government is obliged by law to use an expenditure ceiling and to set the ceiling three years in advance of the start of the budget year.</p> <p>The new Fiscal Council established in 2007 released its second annual report in 2009, which includes remarks related to the reform of fiscal framework.</p>	<p>The current framework benefits from broad political support raising its credibility. The rules of the framework are fairly simple and the government has in recent years taken measures to refine the framework and increase transparency, including a new Fiscal Council set up in 2007 with the task of assessing fiscal policy.</p> <p>The government is currently reviewing the fiscal framework to strengthen it. Regarding spending ceilings, this work has resulted in an amendment to the budget law (as from 1 January 2010): the law now requires that an expenditure ceiling is specified for a three-year period (after several years of only a two-year horizon). As for the surplus target, in February 2010 the government clarified its rational and how it should be designed and monitor.</p> <p>The government may also review the balanced-budget requirement for municipalities. It would be useful if the review could address the issue of allowing the municipalities to balance their books over a longer period than one year in order to avoid the risk of pro-cyclical policies embedded in the current rule. Consideration could also be given to making state transfers automatically dependent on the economic cycle in order to increase the predictability of municipal revenues. The current ad hoc decisions, as demonstrated by the increased state transfers to the municipalities announced in 2009 on two occasions, risks unnecessarily complicating financial planning and could lead to pro-cyclical policies.</p>	No recommendations

¹⁵ However, the Council Opinion on the 2008-2009 SCP states that there are short-term risks to the fiscal balance, and there is a need to strengthen the fiscal framework to ensure that the government balance improves once the economy picks up again.

	<i>Council Opinion on the 2008-2009 SCP</i>	<i>Actions taken (or advanced plans) related to national fiscal frameworks in the 2009-2010 SCP</i>	<i>Macro Fiscal Assessment of the 2009-2010 SCP</i>	<i>Recommendation for a Council Opinion on the 2009-2010 SCP</i>
UK	<p>Set out how the fiscal framework will be applied in the future, consistent with an improvement of the long-term sustainability of public finances.</p>	<p>The former golden and debt rules defined over the cycle were held in abeyance in the 2008 Pre Budget Report and replaced by the Fiscal Responsibility Bill, which was approved by the Parliament in February 2010.</p> <p>The Bill requires the government to set out at all times a statutory Fiscal Consolidation Plan (FCP), which in turn establishes a set of fiscal targets over the next years. Thus, new budget balance and debt binding targets are set for the period from 2009-10 to 2015-16.</p> <p>These objectives cannot be amended unless the Parliament approves new legislation.</p> <p>These targets are defined in nominal terms (i.e. not cyclically-adjusted) and the Parliament has a more active role in setting and monitoring these objectives.</p>	<p>The former fiscal framework relied on golden and debt rules defined over the cycle. While well grounded in theory, its efficacy is questionable. The leeway afforded to the Treasury to redefine the start and end dates of the economic cycle limited its effectiveness as a check on excessive deficits and allowed pro-cyclical fiscal policy in the upswing. In 2008, this framework was held in abeyance.</p> <p>In February 2010 the Fiscal Responsibility Act (FRA) was introduced entailing numerical targets for debt and deficit reductions up to the financial year 2015/16. The Treasury must report to Parliament on its compliance with these targets and explain any failure to meet them. It must also set new targets or other fiscal rules once the period covered by the current targets has expired. The Parliament has a clear role in setting and monitoring Government's fiscal plans and must approve them before they become law.</p> <p>The strength of the FRA is that it sets unambiguous numerical targets with no subjective judgement being required to assess compliance. The framework at least exerts some pressure on the Treasury to meet the targets unless the Parliament accepts its justification for a failure. To reduce the risk of missing the targets established in the FRA, a strengthening of the mechanism to assess their realism and a contingency plan - to be implemented if the underlying macroeconomic assumptions prove inaccurate - would be useful.</p> <p>More spending control would also be appropriate. Despite the existence of envelopes and limits, public spending was not always contained over the last years, with total expenditure outturns between 2002/03 and 2008/09 on average exceeding the original ceilings in the spending reviews.</p> <p>While the FRA goes in the right direction, its consolidation plan is significantly less ambitious than in the Council Recommendation under Article 126(7) released in December 2009 and it is not consistent with a reduction of the deficit to below the 3% reference value by 2014/15.</p>	<p>Publish in 2010 the detailed departmental spending limits underlying the overall expenditure projections for at least the three-year period beyond 2010/11.</p> <p>Implement the expenditure efficiency savings identified in the Operational Efficiency Programme (OEP) and in other value for money initiatives.</p>

Source: Commission services and 2009-2010 SCPs..

Annex: Country specific information based on the 2009-2010 SCPs.

Belgium

The update of Belgium does not contain any measure addressing the strengthening of its fiscal framework as recommended in the Council Opinion on the 2008-2009 SCP. The programme confines itself to a description of the co-operation agreements between the federal level and federate entities covering the next two years to sustain fiscal consolidation. In the same vein, enhanced budgetary controls at federal level are also referred to with a view to refusing any new spending decision unless this is completely off-set by cost-saving measures. Finally, the role played by the existing two independent fiscal institutions in the domestic fiscal policy making is cursorily mentioned (i.e. the High Council of Finances and the National Account Institute).

Measures included in the 2009-2010 SCP of Belgium to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
–	–	–	–	–	Agreements across general government tiers to underpin fiscal retrenchment. Tighter expenditure control to block new spending policy measures. Plans to improve the reporting system of local governments.

Bulgaria

The convergence programme of Bulgaria does not foresee any major reform to the domestic fiscal framework. No new measures related to fiscal rules, MTBF and institutions are considered, and only marginal changes have recently been implemented in the existing budgetary procedures. Specifically, the budgetary margin or "buffer" applied during recent years to the expenditure side of the budget (i.e. the so-called "90% rule") was not considered in the 2010 budget law. This buffer was replaced by the discretionary power of the Council of Ministers to reduce primary expenditure below the appropriations adopted in the budget in case of more adverse economic developments than expected.

Finally, the programme also announces the continuation of the fiscal decentralisation process in the up-coming 2011 budget. This will be implemented through jurisdictional powers granted to municipalities regarding the administration of local taxes and according to Local Taxes and Fess Act.

Measures included in the 2009-2010 SCP of Bulgaria to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Reforms in the area of revenue administration (i.e. general taxation and customs).	–	–	–	Government can reduce planned expenditure below appropriations considered in the budget law.	Further steps to continue the ongoing process of fiscal decentralisation.

Czech Republic

The updated convergence programme of Czech Republic hardly contains policy measures related to the reform of the national fiscal framework. Thus, the programme briefly describes the new integrated information system of the State Treasury to improve the management of public finances and increase transparency in the budget process, particularly at the budgetary planning and execution stages. This includes a unified accounting system and information on budgetary developments in real time.

Measures included in the 2009-2010 SCP of Czech Republic to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Reform of the tax collection and administration.	–	–	–	Measures to increase transparency and improve the budget process at the planning and execution stages.	–

Denmark

The Danish update contains a description of the main stages of the budget process as well as how the real public consumption growth rule interacts with the budget preparation. The role played by expenditure ceilings is particularly relevant. The programme, however, does not include any new measure related to the domestic fiscal framework.

Measures included in the 2009-2010 SCP of Denmark to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	—	—	—	—	—

Germany

The German update acknowledges the importance of fiscal rules and institutions in order to ensure a stronger focus on fiscal outcomes in the budget process. The programme, thus, includes some policy initiatives to strengthen the current fiscal framework.

The main measure is the replacement of the prevailing golden rule for the Federal Government by a new cyclically-adjusted budget balance rule applied to central and regional governments. This new rule, which came into effect in August 2009 and will enter into operation from the 2011 budget onwards, follows the structure of SGP: i.e. it sets a ceiling for the federal structural deficit in normal times at 0.35% of GDP from 2016 onwards with a transition period starting in 2011. Budgets of the Länder must be structurally balanced as of 2020. The rule foresees escape clauses in case of natural disasters and extraordinary emergency situations which are outside government control. In such cases debt repayment plans are obligatory. Moreover, the rule is accompanied by a (virtual) adjustment account registering deviations from the defined level of authorized new borrowing: with overruns booked as debit, and underruns recorded as credit. Debit will be limited to 1.5% of nominal GDP. The methodology underlying the calculation of the structural balances will follow the common OECD/COM methodology. In connection with this rule, a new Stability Council will be set up in 2010 with a view to monitoring budgetary developments at the federal and Länder level and introducing a Federation-wide early warning system to prevent budgetary slippages. This new council replaces the former Financial Planning Council and is made up by the federal ministers of finance and economy as well as the regional ministers of finance.¹⁶

Finally, a project to upgrade the current budgeting and accounting systems was presented in June 2009. The main objectives of this review is to implement a more output-oriented budgeting in which the efficiency and effectiveness of public expenditure will be regularly assessed. An important measure announced in the programme in relation to this new budgetary planning scheme is the resort to top-down budgeting via the introduction of binding expenditure ceilings set by the federal cabinet. A pilot project involving three federal ministries will be tested until 2013.

Measures included in the 2009-2010 SCP of Germany to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	New cyclically-adjusted budget balance rule applied to the Federal government and Länder, including a transition period up to 2016 and 2020 respectively.	—	New Stability Council to be introduced in 2010. Its main tasks will consist in overseeing budgetary developments at the federal and Länder levels and monitoring the respect of fiscal targets. Since it is exclusively formed by the federal and regional ministers of finance, it cannot be considered an independent fiscal body.	Gradual introduction of a new budgeting system. This includes: - a more result-oriented approach in the budgetary planning. - the use of top-down budgeting and the establishment of binding expenditure ceilings by the federal cabinet.	—

¹⁶This new body cannot therefore be considered an independent fiscal institution since its members are solely representatives of the federal and territorial fiscal authorities. This was also the case of the former Financial Planning Council.

Estonia

The update of Estonia announces the gradual introduction of performance and accrual-based budgeting in the 2010 and 2011 State budgets. Working groups have been set up in order to implement pilot projects.

The programme also describes the current budget balance rule applied to the whole of the general government sector, and underlies that this norm stems from a coalition agreement respected so far by all governments. Subsequently, a detailed explanation of the existing public funds is provided (i.e. the health insurance fund and the unemployment insurance fund), while a description of the main regulations contained in the State Budget Act and The Rural Municipalities and City Budget is also included. The recent strengthen of the current debt rule applied to local governments is explained in detail (i.e. the Ministry of Finance has to approve ex-ante borrowing plans).

Finally, the update also refers to the role played by the National Audit Office in the fiscal policy making of Estonia.

Measures included in the 2009-2010 SCP of Estonia to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	The current debt rule for local governments is now more stringent requiring the authorisation of the Ministry of Finance for new borrowing plans.	—	—	Gradual introduction performance and accrual budgeting.	—

Ireland

The update summarises the main measures adopted over the last years to strengthen the domestic fiscal framework. Despite their non-binding nature, the recent introduction of multiannual budgetary targets in the April 2009 supplementary budget is particularly highlighted. In addition to this, a plan to rationalise public expenditure was initiated in the 2009 budget with a view to cut down spending and reduce public sector's staff.

Forward-looking, the programme does not contain detailed information on future reforms and only vaguely mentions plans to allocate windfall revenues to debt reduction and the establishment of binding multiannual envelopes for current expenditure. While all these measures would be welcome, no details and calendar are provided.

Measures included in the 2009-2010 SCP of Ireland to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	Future revenue windfalls might be allocated to debt reduction. However, it is not clear whether this could be implemented through a formal fiscal rule. The implementation of binding multiannual current expenditure ceilings in the future will be considered.	—	—	Introduction of multiannual budgetary targets in the April 2009 supplementary budget.	A set of measures released by the Special Group on Public Service Numbers and Expenditure Programmes to cut down expenditure and reduce staff.

Greece

The Greek programme announces a number of fiscal governance reforms addressing the weaknesses of the current domestic fiscal framework. Nevertheless, most of them are not appropriately detailed and it is not clearly specified whether they are temporary or permanent measures.

The update announces the reinforcement of the role played by the Ministry of Finance in the budget process through the establishment of inter-ministerial working groups, which should improve budgetary monitoring and fiscal planning. Whether this constitutes a permanent arrangement beyond the current fiscal distress is not indicated. In the same vein, the update announces the adoption of fiscal rules during the current year but no details about the type of rules and their coverage are provided. The implementation of 3-year expenditure ceilings with a view to promoting a more medium-term oriented fiscal strategy is also considered. These ceilings, in turn, may facilitate the introduction of top-down budgeting. However, the programme does not clarify whether these multiannual spending limits also constitute the basis of an effective MTBF including plausible and realistic revenue and expenditure projections for budgetary planning. Similarly, the information included in the SCP does not allow assessing to what extent the new Budget Office attached to the Parliament may be considered a genuine independent institution.

Finally, the update envisages to provide the National Statistical Office with an independent legal status vis-à-vis fiscal authorities. While this is a positive step to regain credibility, no reference to additional resources to upgrade domestic statistical services is made.

Overall, the programme announces that all the required new legislation for these changes will be submitted to the Parliament by mid-2010. However, the concrete content and the scope of these initiatives are not detailed.

Measures included in the 2009-2010 SCP of Greece to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Provide the National Statistical Service with an independent status and phase in the necessary changes to improve accuracy and reporting of fiscal data (1 st quarter 2010). Improve monitoring and reporting of budget implementation on a monthly basis, including dissemination of budget execution on line (1 st quarter 2010).	Adoption of fiscal rules (2010). No details on number and types of rules.	Line Ministries will submit 3-year expenditure proposals by end-January. Not clear if this multiannual planning constitutes the basis of a real and permanent MTBF.	A new Budget Office attached to Parliament, which will monitor fiscal accounts on a monthly basis and assist the Parliament in budgetary-related issues (2010). Not clear if this constitutes the first step to introduce an independent fiscal council.	Full introduction of programme-based budgeting (2012). Strengthening MoF in the budget process through inter-ministerial working groups (January 2010) for: - assessing the zero-base 2011 budget. - introducing 3-year budget horizon and a programme-based budgeting. - taking additional measures in case of spending slippages (Not clear whether this is a permanent or temporary arrangement). Introduction of a contingency reserve	Single Payment Authority for wage payments. Reform of tax administration with a particular focus on tax evasion (1 st quarter 2010).

Spain

The programme does not contain measures to reform the prevailing fiscal framework and sticks to the current General Law of Budgetary Stability to achieve the envisaged deficit reduction. According to this law, all general government sub-sectors should in principle present 3-year fiscal consolidation plans and will have to contribute to the payment of a possible fine imposed by the EU in the context of the Excessive Deficit Procedure. In addition, the government announced in this year's update that, in order to reach its fiscal targets, it would seek an agreement with regional and local governments. Two agreements have indeed been reached, i.e. a Framework Agreement with regional governments, approved by the Fiscal and Financial Policy Council (March 22nd) and a Framework Agreement with local governments, approved by the National Commission for Local Administration (April 7th). In each of them, territorial governments subscribe the fiscal targets announced in the programme, and agree to prepare fiscal rebalancing plans to rationalize and increase efficiency of expenditure within three months, mirroring the austerity plans of the central government. Finally, regional governments will send to the Ministry their reports on budget execution every three months and the Economy and Finance Ministry will monitor compliance with approved plans.

Measures included in the 2009-2010 SCP of Spain to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	—	—	—	—	New working group in charge of the assessment of public spending efficiency and proposals for improvement. New funding system for regional governments, which includes a higher decentralisation from the revenue side mainly through enhanced tax-sharing schemes.

France

The programme reviews briefly the role played by the existing fiscal rules and MTBF during the current crisis but it does not contain detailed measures related to the reform of national fiscal framework. Thus, the update recalls the adoption of the first multiannual public finance act in 2009 and announces the preparatory work to implement a new fiscal rule to restore gradually a medium-term budgetary balance from 2011 onwards. In parallel, measures promoting a result-oriented budgeting are also cursorily mentioned.

Measures included in the 2009-2010 SCP of France to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
An independent legal status granted to national statistical authorities.	New working group to assess the design and the introduction of a new fiscal rule to redress budgetary imbalances over the medium-term.	In 2009, the first multi-year public finance act was adopted by the Parliament, setting out expenditure targets at all general government sub sectors.	—	Introduction of performance contracts for public entities and agencies.	—

Italy

Italy's programme includes detailed explanations of a number of measures introducing changes in the domestic fiscal framework.

As for fiscal rules, in the context of the current crisis some exceptions or escape clauses have temporarily been adopted in the internal stability pact in order to provide some flexibility. For instance, capital account payments can be excluded from the coverage of the budget balance rule for local governments in order to promote public investment (this is subject to some conditions and within certain limits). Similarly, local authorities' spending on security and extraordinary social programmes were also excluded from the coverage of the rule.

The programme underlies that these amendments are temporary and are accompanied by other measures reinforcing the stringency of the current rule-based system. This notably includes the establishment of a new debt rule for local governments, which limits debt growth according to the ratio between overall debt and current revenues. This new rule includes sanctions in case of non-compliance. In the same vein, stricter enforcement mechanisms, such as an automatic freeze on staff turnover and the prohibition of additional spending other than mandatory, are now considered in the so-called health pact applied to regional governments. Finally, the existing ceiling on pharmaceutical expenditure was lowered in July 2009.

The major reform included in the programme refers to the changes introduced in the existing budgetary procedures by the new Public Finance and Accounting Law approved in December 2009. The new law intends to cater for the implications stemming from the EMU membership and the new domestic institutional setting between central government and territorial entities. This includes the following:

1. Unified accounting systems and budgetary procedures for all general government entities in line with the EDP methodology.
2. Multiannual fiscal planning based on a three-year budgetary plan.
3. Programme-based budgeting.
4. Tighter expenditure monitoring.

The reform is also linked to the process of fiscal decentralisation by the setting up of a database collecting all relevant information on all public budgets of general government entities so as to ensure effective and timely monitoring.

In this respect, some institutional mechanisms are envisaged to involve all government tiers as well as the national Parliament in the setting of fiscal targets. An increased amount of information in the budgetary documentation submitted to the Parliament is also considered.

Finally, the 2010 budget law identifies the envisaged fiscal decentralisation as one of the main drivers to rationalise public spending and provide substantial expenditure savings over the period 2010-2012. According to the programme, the positive effects of fiscal federalism should come simultaneously from the expenditure side (application of standard costs) and the revenue side (the fight against tax evasion through a higher involvement of local governments). However, no details about the estimates of these savings are provided.

Measures included in the 2009-2010 SCP of Italy to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	<p>Some changes have been recently introduced in the existing set of fiscal rules.¹⁷</p> <p>In the context of the crisis some escape clauses were temporarily introduced in the internal stability pact. By contrast, a new rule to control debt growth at local government level has also been implemented.</p> <p>In the health pact, stricter enforcement mechanisms are now considered.</p> <p>For the period 2009-2012, the pharmaceutical spending ceiling has been reduced following the favourable developments of generic drug prices.</p>	A new three-year fiscal planning framework introduced by the new Public Finance and Accounting Law.	—	<p>New Public Finance and Accounting Law, which introduces significant changes in the current budget process. This includes:</p> <ul style="list-style-type: none"> - New accounting and budgetary procedures in line with those established at EU level covering the whole the general government sector. - A three-year multiannual fiscal planning. - A new programme-based budgetary classification with an increased role of performance budgeting. - New database containing all relevant budgetary information of all general government layers and entities so as to ensure a timely and effective monitoring of public finances. - An increased role of national parliament and sub-central government tiers in setting fiscal targets. 	The process of fiscal decentralisation involving stronger taxation powers to territorial governments is expected to provide substantial expenditure savings over the period 2010-2012.

Cyprus

The programme focuses on two main policy initiatives to reform the domestic fiscal framework. Firstly, the gradual introduction of a medium-term budgetary framework for fiscal planning. The phased introduction of this new MTBF started in 2006, and according to the update it has helped in containing expenditure and promoting reallocations in favour of growth-enhancing spending items. However, the programme does not provide details on this new budgetary framework. The second major measure is the implementation of performance budgeting, which was initiated in 2007 with pilot projects covering three ministries.

These budgetary reforms will require ministries and other governmental spending agencies to prepare their annual budgets using these two budgetary planning tools. The new budgeting system based on the new MTBF and performance-oriented management is expected to be fully implemented from 2012 onwards. The Treasury Department of the Ministry of Finance is upgrading the accounting software for financial management to a newer version catering for the new budgetary methods and classifications.

Measures included in the 2009-2010 SCP of Latvia to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
The accounting software of the financial management accounting system is being upgraded to prepare the use of the new MTBF and performance budgeting.	—	New MTBF which is expected to be fully implemented in 2012	—	Gradual introduction of performance-based budgeting.	—

¹⁷There are three main fiscal rules: i) the internal stability pact (i.e. expenditure and balance budget rules for regional and local governments respectively); ii) the health pact (i.e. budget balance rule regulating transfers from central to regional governments to finance the health system); And iii) ceilings on pharmaceutical spending for central and regional authorities.

Latvia

The programme contains a detailed explanation of the current budget process reviewing its different stages (i.e. planning, discussion and approval and execution). However, only a limited number of new measures implemented in 2009 are provided.

Thus, expenditure in the State budget is split into spending projects co-financed by the EU and expenditure on basic State functions while more flexibility to reallocate resources during the budget execution is now provided. In parallel, from 2010 onwards transparency is enhanced by obliging line ministries to provide more information about their spending programmes (e.g. beneficiaries, institutions responsible for implementation, number of posts and average wage, performance indicators of the State budget subsidies and grants etc.). The role played by the State Audit Office (SAO) and the existing mechanisms to involve territorial governments in the budget process are also described. Finally, no new initiatives have been taken to reinforce the current MTBF. According to the programme, the development of the legal act on medium-term budget objectives and priority development directions was not topical in 2009.

Overall, no information on fiscal rules and new independent institutions is provided. Likewise, no reference to the measures addressing the reform of the fiscal framework included in the memorandum of the current BoP financial assistance is included either.

Measures included in the 2009-2010 SCP of Latvia to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	—	—	—	<p>The Ministry of Finance has now the right to reallocate resources across programmes and sub-programmes.</p> <p>The State budget is split into spending projects co financed by the EU and expenditure on basic State functions, which should facilitate monitoring.</p> <p>In order to ensure transparency, line ministries should provide more information on their spending programmes.</p> <p>New methodology for developing and analysing results and performance measures.</p>	—

Lithuania

The update announces the establishment of a results-oriented management model that will ensure efficient use of resources, restructure the strategic budget planning and promote a higher efficiency and rationality of expenditures by linking allocations to apparent results. This performance budgeting will be supplemented by the implantation of the Government accounting reform.

The programme also includes other measures related to the improvement of different aspects of the current budgetary procedures. For instance, the strengthening of the Ministry of Finance position vis-à-vis spending ministries during the budget preparation, and the reinforcement of monitoring mechanisms of budgetary developments as well as enforcement procedures to ensure the attainment of fiscal targets, including a higher role of the Parliament and external scrutiny by non-governmental institutions. Finally, the update also contains the intention of national authorities to introduce appropriate mechanisms to ensure that EU Council policy recommendations and invitations are considered before adoption of an annual budget

Measures included in the 2009-2010 SCP of Lithuania to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Implementation of the government accounting reform. Mechanisms to ensure that EU Council policy recommendations and invitations are considered before adoption of an annual budget	—	—	A more active role of independent institutions and the Parliament to assess and monitor fiscal policy.	Reinforcement of monitoring and enforcement mechanisms and higher centralisation of the budget process. Introduction of performance-based budgeting.	New legislation obliging the Government to implement an antinflationary fiscal policy in good times. New budgetary indicators related to the fiscal stance, fiscal impulse and output-gap so as to improve the conduct of fiscal policy.

Luxembourg

The updated programme of Luxembourg contains a detailed description of the current budget process, including the improvements introduced between 1999 and 2007. However, no recent significant measures have been implemented in the most recent past to further strengthen the current budgetary procedures. Only a governmental declaration to the Parliament in July 2009 announcing a future review of the preparation, implementation and evaluation of the budget is mentioned. In turn, no measures related to other elements of the domestic fiscal frameworks are contained in the programme.

Measures included in the 2009-2010 SCP of Luxembourg to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	—	—	—	—	—

Hungary

The Hungarian update reports the introduction of the fiscal responsibility law, which sets a new fiscal rule for the central government, establishes a new independent fiscal institution and contains some other regulations improving the domestic fiscal framework.¹⁸ Some of these new regulations were implemented in 2009 while others, such as the new fiscal rule, entered into force in January 2010. This fiscal responsibility law is expected to promote transparency and a medium-term fiscal planning.

Firstly, the law entails a simplification of the former classification of some general government sub-sectors. From 2010 onwards, the social security funds and other extra-budgetary funds are presented in aggregate together with the central government budget. The consolidation presents expenditures and revenues net of transfers between the formerly separated subsystems, assuring visibility of the actual deficit of pension insurance and health insurance. The new budgetary structure also differentiates between mandatory and discretionary expenditure.

Secondly, the fiscal responsibility law also introduces the so-called real debt rule, which requires that the medium-term budget balance must be specified for two years in advanced ensuring the real value of government debt does not increase. In autumn 2009, on the basis of the estimates of the end-2011 debt stock and the 2012 primary expenditure, the Parliament determined in the 2010 budget law the primary balance at which the real debt stock at end-2012 would not exceed the level expected by end-2011. This is the primary balance target for 2012, which according to the rule must not show a deficit.¹⁹

Finally, following another provision of the new fiscal responsibility law, the government shall provide to the Parliament detailed information about budgetary measures to fulfil its medium-term fiscal plans for at least three years. In February 2010, the government should release this information for the period 2011-2013.

Measures included in the 2009-2010 SCP of Hungary to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	New debt rule defined in real terms.	The government has to present to the Parliament detailed fiscal plans for the next three years.	New independent fiscal body with the mandate of assuring the transparency of fiscal planning supported by a secretariat.	Consolidated budget for the central government plus social security funds and other extra-budgetary funds. Differentiation between mandatory and discretionary spending items.	—

¹⁸ The law was approved in November 2008.

¹⁹ In addition, the 2010 budget law specifies the change allowed in the adjusted total primary expenditure of the central government between 2011 and 2012. This expenditure limit is only a supplementary rule but it contributes to fiscal discipline.

Malta

The Maltese update provides a detailed description of the current budgetary process, including a detailed explanation of the role played by different governmental bodies and institutions (e.g. the Budget Division of the Ministry of Finance, the Account General, the Parliamentary Standing Committee on Public Accounts and the Treasury). However, no new measures to improve budgetary procedures or other elements of the fiscal framework are envisaged.

While the programme announces that the government has sought the expert technical advice of international institutions having practical experience in the design, implementation and reform of national fiscal frameworks, no details about the results and prospects stemming from this consultation are contained in the update.

Measures included in the 2009-2010 SCP of Malta to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
New accounting system for the government. Tax collecting entities will be integrated placing them in a better position to enforce tax laws.	—				New Public Administration Act approved in 2009 providing the legal and administrative framework for fiscal management.

The Netherlands

The Dutch programme contains a description of the current fiscal framework (i.e. the so-called trend-based system) introduced in 1994, which mainly relies on the setting of an expenditure ceiling defined on real terms. This ceiling is supplemented by a revenue rule and the involvement of an independent fiscal institution in the budget process (i.e. the CPB). The update also provides detailed information on the adaptations and changes introduced recently in the context of the current financial crisis. For example, in the spring 2009 the government decided to correct the spending ceilings for the expenditure on unemployment benefits while all costs stemming from the interventions in the financial sector were kept outside the thresholds. Thus, possible compensation payments resulting from the guarantee of bank loans and the deposit guarantee scheme are not part of the expenditure ceilings.²⁰

A Deficit Reduction Act was approved in 2009 in order to legally ensure deficit reduction efforts by the present and future governments. This act, which is expected to be effectively in force since 2011 onwards, is based on the requirements of the SGP and contains the following elements:

1. An annual improvement the structural deficit by at least 0.5 percentage points until the MTO is reached.
2. More fiscal efforts are required in "good times", which are defined in conformity with the SGP.
3. Consolidation efforts can only be reconsidered under exceptional circumstances, which again are defined in line with the SGP.
4. Council Recommendations in case of an Excessive Deficit Procedure have to be adhered to.
5. A new fiscal rule for local governments is established limiting their deficits to 0.5% of GDP. The act foresees fines in case this limit is exceeded. The terms and the conditions under which local governments should report on their EU-balance are also included in the new legal act.

Finally, the update also mentions the conduct of budgetary reviews so as to explore possible budgetary cost reductions, the role played by the so-called Budgetary Framework Commission and the Bureau for Economic Policy Analysis (CPB) in the fiscal policy making, and some of the features of the Dutch statistical system.

Measures included in the 2009-2010 SCP of the Netherlands to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	A new budget balance rule for local authorities limiting their overall deficit to 0.5% of GDP from 2011 onwards. This new rule is contained in the Deficit Reduction Act.	—	—	The Deficit Reduction Act to be in force from 2011 onwards will entail the strengthening of the current budget process by aligning domestic fiscal objectives, methodologies and definitions with those of the EU fiscal framework.	—

²⁰ All these measures were adopted in view of the budgetary impact of the financial crisis and should not be seen as a real reform weakening the constraining character of the fiscal framework.

Austria

The reform of the Federal Budget Law was adopted by constitutional law in 2007 and comprises two stages to be introduced gradually. The first stage is being implemented since 2009 and hinges upon two main elements:

1. In the multi-annual government budget plan, the Parliament decides upon binding expenditure ceilings for the following four years by means of rolling yearly updates. This is supplemented with an accompanying strategy report and complemented with the figures of the year adding to the planning horizon. The current expenditure ceilings for the period 2009-2013 are fixed by 75% approximately and variable by nearly 25%. The variable component is mainly constituted by cyclically-sensitive spending items. As a result, this spending increases or decreases in line with the business cycle contributing to a counter-cyclical budgetary policy.
2. Budgetary resources that have not been spent by the end of the year are added to a non-earmarked reserve fund and can be spent by the corresponding department at a later stage. This avoids the so-called “December fever” to spend the whole annual budgetary resources and may promote a more efficient public spending.

The second stage coming into effect as of 2013 comprises the following elements:

1. The resort to performance budgeting in order to assess the overall amount of resources together with their results.
2. Development of the federal state’s accounting system by a greater resort to accrual budgeting and accounting.
3. Effective incentives and sanctioning mechanisms in order to support compliance with the budget regulations.
4. A mandatory and regular long-run budget forecast covering at least 30, which should help improve fiscal planning.

The necessary legal framework to develop this overhaul was provided by a unanimous decision by the Parliament in December 2009 (i.e. the Federal Budget Law 2013). As from 2010 onwards, extensive preparations are being made so as to accommodate these budgetary cultural changes affecting the whole administration. Subsequent to the transition and preparatory period between 2009 and 2012, the federal state is going to provide a budget statement in line with best international practices from 2013 onwards.

Finally, the update also mentions the establishment of a new working group in charge of the elaboration of different proposals with a view to reforming the current public administration.

Measures included in the 2009-2010 SCP of Austria to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Development of a new federal state’s accounting system based on accrual budgeting and accounting.	Introduction of new binding expenditure ceilings embedded into the multi-annual fiscal planning.	New MTBF with binding spending limits and supported by a long-run budgetary forecast over at least 30 years.	—	Development of an effective performance budgeting to be introduced gradually. A better management of those budgetary resources that have not been spent by the end of the year.	Preparatory work to reform the public administration.

Poland

The Polish update provides a substantial amount of information on the changes brought about by two different pieces of legislation. Firstly, the amended Public Finance Act entered into force in January 2010 and will entail the following changes:

1. General government sector reshuffle in order to adapt it better to the definitions applied at EU level (e.g. exclusion of the research and development units and science institutes).
2. More stringent corrective measures in case the thresholds established by the existing debt rule are breached (e.g. limits on public wage growth, difference between State budget revenue and expenditure must ensure a decrease in the State Treasury debt-to-GDP ratio, more moderate indexation of pension etc.).
3. Implementation from 2011 onwards of a balanced (current) budget rule for local governments. A new debt rule for the same sub-sector will be implemented as of 2014 according to the repayment capacity of local authorities.
4. Extension of the fiscal planning horizon for the State budget from 3 to 4 years.
5. Separation, within the State budget, of EU funds. Their deficit will increase borrowing needs while the surplus could be used in the State debt management.
6. More intensive use of performance budgeting. Specifically, public expenditure should be linked to medium and long-term government priorities. The preparation of the State budget and multiannual State's financial plan in a performance-oriented layout should significantly facilitate this objective.

In parallel, the introduction of the Plan for the Development and Consolidation of Public Finances presented in January 2010 will imply the following:

1. The introduction of a special act on the stability of public finance. This act will include two expenditure rules with monitoring and enforcement mechanisms. The first rule would pursue a deficit reduction to reach the MTO and would limit the growth in discretionary expenditure. The second rule would aim at stabilising the deficit compatible with the SGP and should be designed to allow countercyclical policies.
2. An improved cash management so as to increase public sector liquidity. This, in turn should allow for a decrease in public debt by 1.1 percentage points of GDP.

Measures included in the 2009-2010 SCP of Poland to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Redefinition of the general government sub-sector in order to better adjust to the EU fiscal framework concepts. An improved cash management.	The existing debt rule is endowed with more stringent corrective measures in case the binding ceilings are breached. Two new expenditure rules covering non-mandatory spending are announced. In addition, two new rules for local government are also announced.	Extension of the fiscal planning horizon for the State budget from three to four years. Inclusion of performance budgeting in the multiannual budgetary planning.	—	More intensive resort to performance budgeting influence public expenditure developments. Separation, within the State budget, of EU funds.	—

Portugal

The Portuguese programme announces the reform of the current fiscal framework. These changes will mainly be articulated through the amendment of the Budgetary Framework Law. The Government should submit a proposal for the revision of this law by June 2010, which is expected to be definitively approved by May 2011. The reformed legal text has three aims: 1) the establishment of a medium-term budgetary framework including expenditure ceilings, which will notably regulate transfers from the State budget to other sub-sectors (e.g. social security); 2) the introduction of a result-oriented budgeting; and 3) changes to the budgetary calendar. However, the update does not provide details on all these measures and, therefore, it is not possible to make an appropriate assessment.

Measures included in the 2009-2010 SCP of Portugal to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
Balance sheet and analytical accounting following the Official Public Accounting Plan (POCP).	The introduction of an expenditure rule in the form of binding spending ceilings. These spending ceilings will notably constraint the transfers from the State budget to other sub-sector such as the social security and territorial governments (i.e. the zero net indebtedness rule for regional and local governments).	A new MTBF relying on multiannual expenditure ceilings for fiscal planning.	—	Introduction of performance-oriented budgeting.	—

Romania

The update focuses on the newly introduced Fiscal Responsibility Law, which involves significant changes to the current fiscal frameworks. These can be summarised as follows:

1. The implementation of a new MTBF for fiscal planning (a 3-year framework).
2. A new regulation limiting the use of supplementary budgets during the year.
3. New fiscal rules for total expenditure, wage bill and the budget balance.
4. A new fiscal council providing forecasts and budgetary analysis. The five members of the board will be appointed by the Parliament, which will base its decision on the recommendations made by the National Bank of Romania, Romanian Academy, the Academy of Economic Studies, the Romanian Banking Institute and the Romanian Banking Association.
5. A new legal framework for the management of guarantees and other collateral obligations.

Finally, the new law will also entail new reporting and monitoring procedures that should increase transparency (e.g. compliance with the envisaged fiscal strategy will be monitored by annual and biannual progress reports).

Measures included in the 2009-2010 SCP of Romania to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
New reporting and monitoring procedures with a more active role of the Parliament.	Within the context of a Fiscal Responsibility Law (FRL), three new rules for total expenditure, the wage bill and the budget balance will be implemented.	A new MTBF covering a three-year period.	New independent fiscal council providing forecasts and macroeconomic and budgetary analyses.	New regulation limiting the resort to supplementary budgets.	—

Slovenia

The update of Slovenia contains a detailed explanation of the recently introduced independent fiscal institution under the Law on Public Finance (2009). This will be a consultative independent body for the assessment of fiscal policy and structural reforms. The members of this new institution were appointed by the government on a proposal of the minister of finance and held their constituent meeting in November 2009. According to the Law on Public Finances, this body will be responsible for the following tasks among others:

1. Assessment of the stability and sustainability of fiscal policy contained in the Budget Memorandum and the SCP as well as the respect of the SGP provisions.
2. Assessment of the adequacy of fiscal targets with the medium-term macroeconomic outlook.
3. Annual evaluation of the effectiveness of public expenditure, including EU funds.
4. Analysis of the trends of specific expenditure and revenue items.
5. Assessment of transparency of public finances and the quality of economic forecasts used in the budget process.
6. Publication of an annual report.

Two other measures to be implemented over the next year are included in the Slovenian programme.

Firstly, the government plans to introduce a new expenditure rule linking nominal spending growth to potential output growth. However, the update acknowledges that this rule would not suffice to provide the needed strong fiscal consolidation at present juncture and, therefore, the government has decided to postpone its establishment. Future updates will provide more concrete formulations of the rule to be discussed and assessed. And secondly, the programme underlies that a target-oriented budgeting will be gradually introduced. This should include measurable objectives and indicators to assess the effectiveness of public spending. This progressive use of performance budgeting will start with the amendment of the 2011 budget and the 2012 budget law.

Measures included in the 2009-2010 SCP of Slovenia to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
By amending the Act on Public Finances the government intends to centralize public sector borrowing operations and gradually switch to IMF's GFD 2001 methodology for the compilation of government accounts.	Plans to introduce in the next future a new fiscal rule linking nominal spending growth to potential output growth.	—	A new independent fiscal body entrusted with several tasks assessing different aspects of fiscal policy (e.g. sustainability, fiscal stance, the quality of the budget process, the respect of the SGP provisions etc.).	Gradual introduction of performance budgeting as of the 2011 and 2012 budget laws. This will include measurable objectives and indicators to assess the efficiency of spending programmes.	—

Slovakia

Although no detailed information is provided, Slovakia's updated programme includes measures related to fiscal rules, MTBF and budgetary procedures at the planning and execution stages. In turn, some policy decisions in order to enhance the efficiency of public administration are also described.

Thus, the update announces the introduction of multiannual spending ceilings to strengthen the enforceability of medium-term budgetary targets. However, the programme does not clarify to what extent these expenditure limits will be binding targets embedded into the domestic MTBF. In parallel, the coverage of this national medium-term framework is extended both in terms of time period and institutional sectors: i.e. the period for which the framework is prepared is extended from three to four years, while all general government sub-sectors except local governments will be covered by the reformed MTBF.²¹

In addition to these expenditure thresholds, the programme also reports the establishment of a new upper limit on general government debt to be laid down in a constitutional act, which should be invoked as an "emergency break" in case of a major deterioration of public finances. However, no additional information is provided on the specific limit to be imposed and the monitoring and enforcement mechanisms of this new rule.

Finally, the update also refers to a set of measures pursuing an improvement of the budget process at the planning and execution stages. A new unified accounting and reporting system should improve the timeliness and the quality of budgetary data. Likewise, data availability of budgetary execution of regional and local authorities is also expected to be improved through a better IT interconnection between central and territorial governments. Despite the potential far-reaching scope of these measures, no calendar for their implementation is included in the update.

Measures included in the 2009-2010 SCP of Slovakia to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	Introduction of new expenditure ceilings. However, how binding these ceilings are is not clearly specified in the programme. Introduction of an upper debt limit enshrined into a constitutional act.	Extension of the period covered by the current MTBF from three to four years. Higher institutional coverage.	—	Introduction of a new unified accounting and reporting system to improve budgetary planning and execution. Higher data availability on budgetary execution of territorial governments.	Measures enhancing the efficiency of public administration.

²¹ Only the central government is covered by the current MTBF.

Finland

The Finnish programme announces the current government's commitment to the existing expenditure rule defined in real terms and applied to the central government sub-sector. It is underlined that these spending limits are only revised for changes in prices and costs levels and for adjustments in the budget structure. The functioning of these expenditure ceilings set for the whole government term is explained in detailed as well as those improvements introduced more recently (e.g. fixed annual supplementary budget provision and a special undistributed provision for future government decisions as well as some changes to the MTBF). In addition to this expenditure norm, the update also provides information on the structural budget balance target and the deficit ceiling both for the central government tier. According to the Finnish authorities, this fiscal framework has proven to be effective during the previous upturn by avoiding the implementation of pro-cyclical fiscal policies, while in the context of the financial crisis automatic stabilisers have played freely (cyclical-sensitive expenditure items are excluded from the spending ceilings).

Despite this positive assessment, the programme acknowledges that there is margin for developing fiscal policy procedures so as to increase clarity and transparency and drawing some policy lessons from the economic crisis. However, there are no measures to further strengthen the current fiscal framework, and the programme only states that future work on budgetary rules should give more emphasis to fiscal sustainability.

Measures included in the 2009-2010 SCP of Finland to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	More flexibility of spending limits through the setting-up of a fixed annual budget provision and a special undistributed provision for future government decisions.	There is now the option of allocating unbudgeted funds within the spending limits to next budget year. It is also allowed to adjust spending limits to adapt to rescheduling and rebudgeting expenditure provided that in a later year a corresponding decreasing is introduced the spending ceiling.	—	—	—

Sweden

The update emphasises that a credible fiscal framework with clear targets and constraints contributes strongly to a well-designed fiscal policy, and includes a comprehensive description of the main elements of the current fiscal governance. Thus, the current budgetary institutional setting relying on a multiannual expenditure rule for central government, a general government surplus-target over the cycle and a balanced budget requirement for local authorities has been instrumental in promoting sound public finances and enhancing credibility.²² This rule-based system is supplemented by a top-down budgeting, and more recently by the establishment of a new Fiscal Policy Council in 2007. This new body is entrusted with the tasks of assessing whether fiscal policy targets are achieved and then submitting its remarks in an annual report. Other improvements gradually introduced by the current government since 2006, including reporting and long-term sustainability issues, are also described in the programme. For instance, in order to refine the framework and increase transparency some measures have recently been adopted: e.g. a rolling 7 year average indicator for the general government balance is now used to follow up the surplus target, while since 2010 the Government is obliged by law to set expenditure ceilings three years in advance of the start of the budget year.

Overall, national authorities consider the prevailing fiscal framework highly resilient in front of the economic crisis and attribute the low risk premia of Sweden to the existing fiscal framework. However, they also state that further efforts are made to strengthen fiscal governance. The programme does not provide any additional information in this respect.

Measures included in the 2009-2010 SCP of Sweden to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	New indicators, notably a rolling 7-year average indicator for the general government balance, have been presented to improve the evaluation of proposed and announced fiscal policy.	Since the beginning of 2010 the Government is obliged by law to use an expenditure ceiling and to set the ceiling three years in advance of the start of the budget year (Previously, the use of expenditure ceilings by the Government was voluntary).	The new Fiscal Council established in 2007 released its second annual report in 2009, which includes remarks related to the reform of fiscal framework.	More transparency stemming from the improvements implemented for fiscal rules and the tasks carried out by the new Fiscal Council.	—

²² The programme, however, stresses that the expenditure ceiling is the overarching restriction that limits the budget process in terms of total spending (i.e. the main cornerstone of this rule-based system).

United Kingdom

The United Kingdom's fiscal framework has been substantially amended in response to the economic and financial crisis. Until 2008 the UK had in place two fiscal rules both applied to the whole of the general government sector and defined over the cycle: a golden rule and a debt rule requiring to keep the debt ratio at a stable and prudent level defined as 40% of GDP. These rules were consistent with the principles of fiscal management set out in the Code for Fiscal Stability (CFS) introduced in 1997. In order to adapt to the new economic scenario brought about by the financial crisis, these two rules are held in abeyance since the 2008 Pre-Budget Report. In parallel, this Report established a new "temporary operating rule", which pursued to improve the cyclically-adjusted current budget each year, once the economy emerges from the down turn, so it reaches balance and debt is falling as a proportion of GDP once the global shock have worked their way through the economy in full. According to the programme, this rule was designed to allow significant flexibility in the operation of fiscal policy during the recession while signalling a clear commitment to fiscal sustainability over the medium-term.

Subsequently, in light of the gradually improved economic conditions, the government considered the need for strengthening again the fiscal framework. As a result, the "temporary operating rule" was replaced by the Fiscal Responsibility Act, which was approved by the Parliament in February 2010. The Act requires the government to set out at all times a statutory Fiscal Consolidation Plan (FCP), which in turn establishes a set of fiscal targets over the next years and places the Parliament in a central role in both setting and monitoring the government's plans.²³ Specifically, the Parliament must approve fiscal plans before they become law, and the government must report to Parliament on progress and compliance at each Budget and Pre-Budget Report. In case of non-compliance with fiscal targets, fiscal authorities must explain why they were not met and sent out actions to remedy this situation. The updates underlies that given uncertainties over the structural position of the public finances, and the need to set clear and simple targets to which it can be held to account, deficit targets under the FCP will not be cyclically-adjusted.²⁴

The programme also announces the up-coming publication of an update of the CFS. However, no details and no calendar are provided in this respect.

Finally, the UK's update describes the role played by the National Audit Office (NAO) in auditing the underlying assumptions on the fiscal forecasts for the budget process.

Measures included in the 2009-2010 SCP of the UK to reform the domestic fiscal framework

<i>Basics</i>	<i>Numerical rules</i>	<i>MTBF</i>	<i>Institutions</i>	<i>Budgetary procedures</i>	<i>Others related reforms</i>
—	New budget balance and debt binding targets set for the period 2009-10/2015-16.	New Fiscal Consolidation Plan covering the period from 2009-10 to 2015-16.	—	More power to the Parliament to set and monitor fiscal targets.	—

²³ In particular, the FCP requires the government to halve public sector net borrowing as a share of GDP over four years from its forecast peak in 2009-10. The government has to set a target, in secondary legislation enabled by the Act, for borrowing to be 5.5 per cent of GDP or less in 2013-14. The FCP also requires the government to reduce borrowing as a share of GDP in each and every year from 2009-10 to 2015-16, and ensure that public sector net debt is falling as a share of GDP in 2015-16. These targets are binding and cannot be changed except with the approval of Parliament through new legislation.

²⁴ In addition to this, the programme also specifies that the FCP will target a measure of net borrowing net of temporary effects of financial interventions, but that will account for any permanent cost to taxpayers. This is consistent with the current measure of the public sector net debt excluding the temporary effect of the financial interventions.