Summary for non-specialists
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Fiscal frameworks in the European Union: May 2012 update on priority countries

(Addendum to Occasional Papers 91) "Fiscal frameworks across Member States: Commission services country fiches from the 2011 EPC peer review"

The current financial and budgetary crisis has focussed the attention of most Member States on the importance of adequate fiscal frameworks to foster fiscal discipline in the long run. Fiscal frameworks encompass the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government.

Recent reforms of economic governance introduced at European level, in particular with the reinforced Stability and Growth Pact (SGP) and the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), have spurred individual Member States to consider far-reaching reforms of their domestic budgetary frameworks, both by implementing basic requirements and by promoting best practice.

In this context, the first comprehensive review of the national fiscal frameworks of all Member States was carried out under the auspices of the Economic Policy Committee (EPC) during the course of 2011, and called for an interim review to be carried out in 2012 for a few priority countries (Cyprus, Greece, Ireland, Latvia, and Portugal). This interim Peer Review was a first opportunity to assess developments occurring over a relatively short period of time – one year or less – in those countries deemed to be in most urgent need of reforming their fiscal frameworks.

Although the situations in these five countries vary greatly, with different starting points, challenges and budgetary traditions, the observation of recent evolutions brought by the interim review yields key insights into the process of reform currently underway in these Member States:

- Appetite for reform is strong in the countries reviewed. Whether it accompanies an endogenous move towards fiscal discipline or stems from an external impetus (e.g. in the case of countries under a financial assistance programme), the importance of robust fiscal frameworks now appears to have gained momentum.

- Reforms tend to happen in leaps and bounds. Most countries (e.g. Ireland, Latvia, Portugal) choose to implement sweeping reforms encompassing several components of fiscal frameworks (e.g. fiscal rules, medium-term budgetary frameworks, fiscal council) in one key piece of legislation rather than adopt more piecemeal changes to their existing framework.

- Consistent with the above trends, countries tend to aim for a rapid upgrade of their fiscal framework in order to satisfy "all-at-once" recent requirements deriving from the revised SGP ("six-pack", future "two-pack") or the TSCG ("Fiscal Compact").

The rapid rate of progress achieved over the past year in the reviewed Member States is to be commended, although several important outstanding issues still remain in all these countries and it would therefore be too early to draw conclusions on the functioning and effectiveness of the new building blocks that have been put in place.