Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
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Report from the Commission to the European Parliament and the Council

Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
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Report from the Commission to the European Parliament and the Council

Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States
REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

{SWD(2012) 433 final}
REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

1. Introduction

Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States\(^1\) entered into force in December 2011. It is an important component of the legislative package on the strengthening of economic governance (also known as the ‘six-pack’). This Directive provided the first opportunity for the European Union to set minimum requirements for budgetary frameworks, providing legal certainty on top of the country-specific recommendations issued under the European semester process. With pressing consolidation demands in a large number of Member States, emphasis on delivery has now become paramount. Against this background, efforts to enhance national budgetary frameworks are strongly intertwined with fiscal consolidation policies since both aim to bring about lasting improvements in the quality of fiscal outcomes.

According to the Directive, a budgetary framework means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular: (i) systems of budgetary accounting and statistical reporting; (ii) rules and procedures governing the preparation of forecasts for budgetary planning; (iii) country-specific numerical fiscal rules; (iv) medium-term budgetary frameworks; (v) mechanisms that regulate fiscal relationships between public authorities across sub-sectors of general government. For each headline, the Directive specifies a number of essential standards. Member States have to transpose these into their law by 31 December 2013. In July 2011 added impetus was given by the political commitment of the Heads of State and Government of the euro-area Member States to transpose the Directive by the end of 2012\(^2\). Finally, the adoption of the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) provided a follow-up to the Directive. 25 Member States committed to establishing a domestic budget-balance rule in structural terms.

Under Article 15(3) of the Directive, the Commission is asked ‘to prepare an interim progress report on the implementation of the main provisions of this Directive on the basis of relevant information from Member States, which shall be submitted to the European Parliament and the Council by 14 December 2012.’ To that end, the Commission submitted to the Economic Policy Committee in May 2012 a questionnaire giving Member States the opportunity to report on measures in place, reforms already launched or concrete plans. Accordingly, this report is primarily based on the information reported by the Member States. Most Member States have delivered their contributions in September 2012\(^3\). Therefore the information reflects the state-of-play at the time of reporting. Detailed country fiches are presented in the accompanying Commission staff working document (SWD(2012) 433).

The purpose of the Interim Progress Report (IPR) is to inform the Council, the European Parliament and the public of the progress made in transposing the Directive. It should therefore not be construed as a full-fledged assessment of the conformity of national provisions with the Directive, which will be performed following expiry of the transposition deadline in accordance with EU law. In order to provide a suitable overview, section 2 of the present report is structured around five sub-sections corresponding to the main provisions of the Directive, followed by a conclusion summarising the main findings.

\(^1\) OJ L 306, 23.11.2011, p.41.
\(^2\) Statement of 21 July 2011, p.4, point 14.
\(^3\) NL, SI, LT PT, IT and HU reported in October; CY, LV, MT and UK in November.
2. Progress in transposing the main provisions of the directive

2.1. Accounting, statistics and transparency provisions (Chapter II and Article 14 of the Directive)

Sound fiscal policy should be based on sound fiscal reporting. Comprehensive, timely and accurate information on budgetary execution is essential for policy-makers in many ways. First, it ensures that the budgets voted by legislative bodies are correctly executed. Second, it allows fiscal authorities to monitor in almost real time any deviation from agreed fiscal trajectories. Third, from a forward-looking perspective, it ensures that budgetary planning is conducted on the most up-to-date basis, minimising base effects caused by subsequent revisions of fiscal data.

Up until recently, high-frequency fiscal reporting has been patchy in the majority of Member States. Even where reporting duties were properly defined, general government data have been collected for different parts of government under different accounting rules or statistical principles in terms of frequency, reporting deadlines or compilation methodologies. Against this background, negative budgetary developments have remained undetected for an overly long period of time, especially when they originated in non-central government entities.

One of the first steps to be taken by Member States under economic adjustment and growth programmes was the preparation of high-frequency fiscal reports for all general government entities. Therefore the Directive provides a major opportunity to harmonise accounting conventions within general government, streamline reporting lines, and ensure an effective data feed to decision-makers and external observers. Enshrining existing informal collection processes and new statistical requirements in law would ensure that the hundreds — and sometimes thousands — of entities within general government are properly integrated within a comprehensive data collection system.

Almost all reporting Member States make monthly data for the central government bodies available in cash or in other accounting basis (BG, DK, DE, EE, EL, ES, FR, IE, IT, LT, MT, NL, AT, PT, RO, SK, FI, SE, SI and UK). However, fiscal data availability in compliance with the Directive is markedly lower for social security entities (BG, DK, EE, EL, NL, RO, PT, and FI) and on-going reforms are not yet completed for State government entities in AT, DE and ES. At the local level, for which the Directive requires relatively lower standards (quarterly reporting on a cash basis or equivalent), only eleven Member States (BG, DK, EE, EL, IT, LT, MT, PT, RO, FI and UK) report some data. Consequently, there is still a great deal to be done in most Member States for non-central government sub-sectors. This is especially topical given the sometimes sizeable share they represent in total public expenditure, especially in highly decentralised states.

In parallel with the Member States’ efforts, the Commission is also taking steps in the statistical field. In order to assist Member States in the practical implementation of the statistical provisions in Articles 3 and 14 of the Directive, Eurostat has established a Task Force on the implications of the Directive on the collection and dissemination of fiscal data. The output from the Task Force is expected to be a set of templates and related notes indicating the methodology, the scope of compulsory details, and the periodicity and timeliness for national publication of individual indicators to guide the efforts of national statistical institutes. Most Member States have indicated their willingness to take into account the conclusions of the Task Force when finalising their efforts in the statistical field.

Moreover, Article 16(3) of the Directive stipulates that ‘by 31 December 2012 the Commission shall assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States’. In this regard, over sixty contributions have been received following the Commission’s public consultation. The assessment report is due to be published before the end of 2012 and will cover the importance and usefulness of accrual accounting, the current use of accrual accounting in Member States, a summary and assessment of the

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4 Extensive work has been conducted in this regard in Greece; see European Economy — Occasional Paper No 94. ‘The Second Economic Adjustment Programme for Greece — March 2012’.

5 However, it is not always evident from Member States’ reporting whether all entities and bodies outside the state budget but within central government are effectively contributing to data collection.

6 In some cases, however, social security is included in central government while many Member States have no regional level budgets according to the European system of accounts (S.1312).
sustainability of IPSAS, the links and differences between IPSAS and statistical accounting, the potential cost of implementing new accounting standards and governance-related issues.

Finally, for the implementation of Article 4(7) of the Directive, Eurostat released on 6 February 2012 for the first time a dedicated, regular press release on quarterly government debt, providing data for the EU, the euro area and individual Member States. A similar initiative is envisaged for the quarterly deficit.

2.2. Macroeconomic and budgetary forecasts (Chapter III of the Directive)

Macroeconomic and budgetary forecasts used for fiscal planning have long been considered a weak spot in the production of annual budgets. Some Member States have been seen for a long time to be suffering from a bias in their fiscal estimates. In such cases, budgets underpinned by biased assumptions could hardly be considered as providing a true and fair image when submitted to Parliament and the general public. This is why the Directive pays particular attention to forecasting by devoting a chapter to this issue, which essentially requires Member States’ fiscal planning to be based on realistic macroeconomic and budgetary forecasts using the most up-to-date information.

While setting standards for forecasting is a challenging endeavour, Member States should exert due diligence when preparing, publishing and evaluating their forecasts. Appropriate steps at the implementation stage would normally include a clear delineation of tasks between the entities involved in the forecasting process and include ex post evaluation. While the latter need not be conducted every year, it is a valuable step that could alert fiscal authorities to the existence of a bias.

Forecasting may also include the involvement of independent institutions or bodies with functional autonomy, as proposed in the ‘two-pack’ draft regulation for monitoring the budgetary plans of the euro-area Member States, which extends and further specifies some of the Directive’s provisions. When eventually adopted, the two-pack fiscal regulation may well provide effective support for achieving the Directive’s objectives in this area.

Overall a third of Member States (BG, DE, DK, EE, PL, RO, SE, SI, SK and UK) report having structured processes in place involving several institutions or bodies to ensure transparency and accountability of forecasts. Other Member States are still at the drawing board stage or have so far reported only vague declarations of intent. The drafting of alternative macroeconomic and budgetary scenarios—a sound preventive step that facilitates budget shifts at the budget execution stage when actual parameters depart from the central scenario—is reported by AT, BG, CY, DE, DK, EL, RO, SE and UK. Only a minority of Member States report that they compare (or plan to compare) their forecasts with those of the European Commission (BG, CY, DE, EE, EL, FR, RO and SI), although some Member States use some Commission assumptions as input to their own processes (EE and PL). Few Member States report at this stage any specific measures to assess ex post the quality of forecasts in the sense of Article 4(6) of the Directive.

2.3. National numerical fiscal rules (Chapter IV of the Directive)

The Directive requires Member States to have in place country-specific numerical fiscal rules that effectively promote compliance with Treaty obligations in the field of budgetary policy (Articles 5 to 7). While the Directive does not specify such rules in detail, they must include requirements to the effect that the targets and scope of the rules are well defined, effective and timely independent monitoring is put in place, strict compliance mechanisms exist and only well-circumscribed escape clauses are defined.

Well-designed rules-based frameworks are known to significantly enhance budgetary discipline. Several prerequisites need to be met when Member States design such rules. First and foremost, national fiscal rules must be fully compatible with the EU fiscal framework. Second, it is important to avoid two opposite pitfalls. On the one hand, coverage gaps would weaken the effectiveness of the entire framework by providing openings for budgetary overruns. On the other hand, over-stacking of national rules may increase the probability of conflicts between them if not properly designed and as a result weaken their overall authority. Finally, for the rules to fully make their presence felt and effectively ensure fiscal discipline, compliance needs to be assessed on a

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8 This is carried out within bilateral discussions in the context of the economic adjustment and growth programme.
9 The inter-governmental TSCG constitutes a concrete application of the Directive for euro-area Member States and other Member States that have ratified it on a voluntary basis. It mandates the introduction of a budget balance rule in structural terms at national level, which would naturally have to comply with the Directive’s requirements like any other national numerical rule.
Effective monitoring and ex post assessment are especially warranted when the rules are complex or there are numerous national rules whose interplay might be less straightforward to interpret. Periodic checks by monitoring institutions with sufficient authority would also provide an opportunity to raise awareness of fiscal sustainability, and foster a healthy debate with fiscal authorities and the general public on shared fiscal objectives.

Spurred by the introduction of the Directive and the TSCG, major reforms leading to an overhaul of fiscal rules have been unveiled or are reportedly already completed in twenty Member States (AT, BG, CY, CZ, DE, DK, EE, ES, IE, IT, FR, LT, LV, NL, PL, PT, RO, SE, SK, and SI). Including proposed legislation, new budget balance rules have been unveiled in eleven Member States (CY, IE, ES, FR, IT, LT, LV, NL, PL, PT and SI). Furthermore, budget-balance rules are being updated with a view to strengthening them in five others (BG, DK, DE, EE, and AT). Some budget-balance rules would fully enter into force only after a transitional period. This is the case for Germany (2016 for the federal government, 2020 for the Länder), Austria (2017), and Spain (2020). Expenditure rules are being established in ten Member States (AT, CY, DK, EE, ES, IT, LT, LV, PL, and PT) and reformed in five other Member States (BG, CZ, RO, SI, and SK). The creation or strengthening of national debt rules is a new development in twelve Member States (AT, BG, CY, CZ, EE, IE, IT, ES, NL, PL, PT, and SK). In addition, Member States under an adjustment programme are subject to a multi-annual, multi-target framework constraining their fiscal policy as a de facto fiscal rule with enhanced features for monitoring and enforcement.

Many Member States declare that the new or updated rules will have features in line with the Directive’s requirements. In particular, several Member States report that monitoring institutions will be tasked with assessing the implementation of fiscal rules (BG, CY, CZ, DK, DE, EE, IE, IT, LV, PL, and SK). Escape clauses have been defined in BG, CY, CZ, DK, DE, ES, IE, LV, AT, PL, and SK. The scope of fiscal rules is being expanded to include other sub-sectors of general government outside central government. Local or regional government is being subjected to fiscal rules, whether budget-balance rules (BG, DE, ES, FR, LT, LU, NL, AT, RO, SE, and SK), debt rules (BG, CZ, EE, ES, IT, AT, PT, RO, and SK), or expenditure rules (BG, ES, and AT). Overall, the establishment of national numerical fiscal rules appears to be on the right track. However, their specific features and overall consistency would eventually have to be assessed against the requirements of the Directive’s Articles 5 and 6.

2.4. Medium-Term Budgetary Frameworks (Chapter V of the Directive)

Under the Directive, Member States are required to establish a credible, effective Medium-Term Budgetary Framework (MTBF), enabling them to expand fiscal planning beyond the annual horizon and thereby fostering more consistent, effective and potentially ambitious policy-making over the medium term. The MTBF must contain multi-annual budgetary objectives in combination with projections of each major revenue and expenditure item based on unchanged policies, with explanations of corrective medium-term policies to bridge the gap between the no-policy change projections and policy targets. Additionally, it must contain an assessment as to how the policies envisaged are likely to affect the long-term sustainability of public finances.

While the Directive dedicates a chapter to MTBFs (Articles 9–11), it is important not to see the drafting of a national MTBF in isolation. The timing of the preparation of the MTBF and its integration within the annual budget cycle have to be carefully considered so that it can fully serve as a strategic document for the state, functioning in tandem with regular annual budget documents. Wherever necessary the MTBF should replace existing planning documents or consolidate them into a single, well-identified, strategic document. Consistency is critical and should be understood along several dimensions. First, the MTBF should genuinely serve as a basis for the subsequent preparation of the annual budget. Second, as some Member States have developed multi-annual binding fiscal rules, figures derived from these fiscal rules should naturally feed into the MTBF. Finally, the MTBF document should also be consistent over time by documenting in detail and transparently numerical adjustments, whether they derive from base effects, deviations in outturns or discretionary changes.

Multi-annual frameworks are reported to be in place or concrete plans exist to establish them, in twenty-two Member States (BG, CY, CZ, DE, EE, IE, EL, FR, HU, IT, LT, LV, NL, AT, PL, PT, RO, SE, SI, SK and UK). Almost all are of a rolling nature and consequently updated at least every year with the inclusion of an outer year. However, NL updates its framework only to accommodate price developments during the course of a legislature, whereas FR updates it every two years. SI operates a two-yearly budget, through adjustments conducted every year in combination with an expenditure framework for three years. Reported multi-annual frameworks span three years (BG, CY, FR, IT, LT, LV, HU, RO, SE, and SK), four years (CZ, DK, EE, EL, NL, PL, AT, PT and SI) or five years (DE, UK). Legislative provisions ensuring consistency between national multi-annual frameworks and the corresponding annual budget processes can be found in BG, CZ, EE, LV, PL and SK. Multi-annual frameworks are also a vehicle of choice for setting expenditure ceilings or targets (CZ, DK, EE, EL, FR, LT, LV, NL, AT, PT, SE, and SI), although the presentation of medium-term developments only for
expenditure would not suffice to qualify as a medium-term budgetary framework in the sense of the Directive. Finally, only a few Member States report that multi-annual projections are presented under a no-policy change basis, although it is crucial to establish a baseline scenario in combination with policy measures to ensure achievement of the policy targets or values implied by existing fiscal rules.

2.5. **Mechanisms of coordination across government sub-sectors (Articles 12 and 13 of the Directive)**

Article 12 stipulates that the measures provided for by the Directive must be consistent across, and comprehensive in the coverage of, all sub-sectors of general government. This reflects the fact that initial efforts to improve budgetary frameworks concerned central government level only. With the Directive, the scene is set for a broad-based extension of the principles for accounting, statistics, forecasting and fiscal rules to social security funds and local government, which taken together, account for a sizeable share of total expenditure. To ensure good administration, Article 13 of the Directive also stresses the importance of a clear delineation of budgetary responsibilities among government tiers, and lays down the principle that ‘Member States shall establish appropriate mechanisms of coordination across sub-sectors of general government to provide for comprehensive and consistent coverage of all sub-sectors of general government in fiscal planning, country-specific numerical fiscal rules, and in the preparation of budgetary forecasts and setting-up of multiannual planning as laid down, in particular, in the multiannual budgetary framework.’

National provisions should accordingly make sure that the constraints deriving from fiscal targets for general government are properly internalised by all government levels. Such detailed provisions can only be of a country-specific nature given the specificities of the sometimes complex horizontal and vertical redistribution schemes among and within levels of administration. While clear and effectively enforced rules and procedures are essential for that purpose, such instruments should ideally be accompanied by fora where representatives of government entities have the opportunity to exchange views and participate in the overall annual budgetary cycle at a strategic level, before each government level prepares its annual budget according to its own procedural rules.

Beyond the establishment of fiscal rules for (or their extension to) sub-national governments, Member States report a variety of coordination instruments at various stages of the annual budgetary process. In BG, consultations with municipalities are held during the MTBF drafting process. The minutes of such consultations provide input for discussion of the draft State Budget Law by the Council of Ministers. In DK, a closer linkage is to be established between agreed targets and central government grants to municipalities. In DE, the monitoring institution for the budget-balance rule (Stability Council) includes members of the federal government and the Länder. The longstanding practice of jointly forecasting revenue from shared taxes in a committee also constitutes some form of ‘built-in’ coordination. In ES, the new Organic Law lays down debt ceilings broken down by government levels, with corrective procedures applicable to sub-national governments. This type of domestic stability pact is also encountered in AT, where deficit targets are also assigned to each level, with a conciliation body to settle disputes between government levels. In NL, the draft law on the sustainability of public finances aims to legally anchor the obligation for local governments to contribute their fair share to achieving the Medium-Term Objective. Failure to achieve common targets may result in the imposition of fines on all ‘failing’ government levels. In RO, the Ministry of Public Finances submits instructions to local authorities in a Framework Letter on the drafting of local budgets, the macroeconomic framework, and ceilings for fiscal transfers from the state budget. In addition, BE, DE, IE, FI, FR, LU, and SI are considering adaptations to their coordination arrangements.

3. **Conclusion**

Overall, Member States reported substantial but uneven progress in transposing the Directive. With regard to Chapter II of the Directive, Member States have still some way to go to ensure timely and comprehensive statistical coverage for all general government sub-sectors. Reported forecasting provisions lack detail in quite a few Member States. Progress is somewhat more advanced regarding numerical fiscal rules as specified in Chapter IV of the Directive: a wide array of national instruments is being prepared to buttress national fiscal policy-making. The mutually-reinforcing nature of all pieces of legislation contained in the ‘six-pack’ that relate to the reform of the Stability and Growth Pact, combined with the additional impetus brought by the TSCG, has helped to place these issues high on the Member States’ reform agenda. While many Member States report that MTBFs in the sense of Chapter V of the Directive are in place or planned, the details given are sometimes scarce and do not provide enough evidence that they will fully comply with the Directive’s specifications. Finally, work on effective coordination arrangements for sub-national governments is being carried out in many Member States, but the positive intentions reported need to be turned into concrete and enforceable arrangements. A
number of Member States considered good fiscal performers have reported fewer completed reforms at this stage, but are considering formalising part of their currently informal framework for increased efficiency. The Commission will continue implementing the Directive for the sections it is responsible for, and after the transposition deadline will conduct a full-fledged compliance assessment in accordance with standard EU procedures.
Commission staff working document

Accompanying the document: Report from the Commission to the European Parliament and the Council

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2.4. Information on the steps taken by the Commission for the implementation of Article 16(3) of the Directive
This Working Document accompanying the Commission Interim Progress Report provides detailed country fiches on national steps or plans for the implementation of Council Directive 2011/85/EU. In accordance with Article 15(3) of the Directive, Member States have been asked to contribute to the preparation of the document by providing answers to a questionnaire distributed on 23 May 2012 in the Economic Policy Committee. The questionnaire focused on the following topics: (i) accounting and statistics; (ii) forecasts; (iii) fiscal rules; (iv) medium-term budgetary frameworks; and (v) mechanisms of coordination across governments sub-sectors. Whenever possible, the layout of the country fiches follows the above structure. As Member States delivered their contributions in September 2012\(^\text{10}\), the information contained in the country fiches reflects the state-of-play in national transposition efforts at the time.

\(^{10}\) NL, SI, LT PT, IT and HU reported in October; CY, LV, MT and UK in November.
1. Implementation of the main provisions of the directive by Member States

1.1. Implementation of the main provisions of the Directive in BELGIUM

The Belgian authorities report that on 27 March 2012, the Inter-Ministerial Finance and Budget Conference decided to set up a working group at administrative level in order to ensure the comprehensive and coordinated transposition of the Directive into the national and sub-national law.

This working group is overseen by the Federal Budget Ministry and brings together representatives from the Belgian Communities and Regions and, at federal level, representatives from the Ministry of Finance and the Budget Ministry.

A list has been drawn up of potential adaptations of the Belgian legislation to the Directive. In particular, it is planned to modify the law of 16 May 2003 (on general provisions for the accounting of the Communities and Regions) and the special financing law of 16 January 1989. Cooperation agreements between the federal government and the Communities and Regions could also be adapted.

The federated entities have been asked to compare their own legislation with the provisions of the Directive. Several provisions are already applied but are not legally binding. Their binding nature thus has to be explicitly specified in the legislation. The work of the group is still in progress and more details are expected in the coming months.

1. Accounting and statistics

The law of 22 May 2003 on state budgets has brought public finance practice in Belgium somewhat closer to the requirements of the Directive by introducing accrual accounting across general government sub-sectors. However, local accounting does not currently allow the provision of ESA95-compliant regional accounts. Fiscal data in the sense of Article 3 of the Directive are not available at state and federated entities level.

The Belgian authorities report that the Council of the Ministers (federal level) of 15 June 2012 decided to create a High-Level Task Force with the aim of improving the governance of statistics for the general government accounts.

2. Forecasts

Regarding Article 4(1) of the Directive, the National Accounts Institute (ICN) is tasked with the preparation of macroeconomic forecasts for the federal budget (Article 108 of the Law of 21 December 1994). It brings together the Federal Planning Bureau (FPB), the National Statistical Institute and the Central Bank of Belgium. Although this is not a legal obligation, both the central government and sub-central governments use the forecasts produced by the FPB (through the ICN). Regarding ex post evaluation in line with Article 4(6) of the Directive, the FPB occasionally produces ex post evaluations of forecast accuracy on an ad hoc basis (a recent assessment was issued for the 1994-2010 period).

3. Fiscal rules

In the 2011 EPC peer review of national fiscal frameworks, the Commission’s country fiche noted that ‘(...)
umerical fiscal rules and medium-term frameworks appear less developed (as many of the former numerical rules have been abandoned) and show some shortcomings, which has contributed to frequent slippages in the past (...).’

4. Medium-Term Budgetary Framework

The Commission’s country fiche noted the existence of a rolling three-year framework applicable to the entire general government. The framework is indicative.


5. Mechanisms of coordination across sub-sectors of general government

As pointed out by the Court of Auditors and Belgium’s High Council for Finance of Belgium existing mechanisms for coordination between central (federal) government and federated entities do not fully allow for budgetary coordination.
1.2. Implementation of the main provisions of the Directive in BULGARIA

The Bulgarian Ministry of Finance (MoF) is preparing a draft law on public finances\(^\text{13}\) which is expected to enter into force on 1 January 2014. If adopted, it would consolidate and strengthen the budgetary framework in a single legislative act, repealing the Organic Budget Law and the Municipal Budgets Law, and amending other laws. The law would transpose the main provisions of the Directive and, more generally, implement the ‘six-pack’ provisions. The Bulgarian authorities report that the purpose of the law is to carry out a comprehensive reform of the medium-term budgetary framework to address existing weaknesses and support the fiscal consolidation process. The law is also intended to strengthen the interaction between central and local governments in the conduct of a prudent fiscal policy, while observing EU reference values and taking into account the independent nature of their budgets.

1. Accounting and statistics

Accounting

Article 164 of the draft law stipulates that the MoF is to approve the accounting standards and charts of accounts and give instructions to publicly financed organisations in compliance with the EU requirements governing reporting, statistics and budgeting in the public sector. Article 169 further stipulates that the standards, instructions and chart of accounts and the accounting systems of publicly financed organisations and undertakings must allow the preparation of data on the general government sector and its sub-sectors in compliance with EU requirements.

Statistics

Monthly cash-based budget execution results are published on the MoF website\(^\text{14}\). They include main aggregates (revenue and grants, expenditure, transfers) and the financing structure, with a detailed breakdown by sub-sector and special entities (public’s budget, judicial authority, social security, municipal budgets, extra-budgetary funds and other accounts, other autonomous budgets\(^\text{15}\), and the national assembly). The consolidated debt of the government sector is reported monthly on the website of the MoF (Article 36 of the draft law on public finances). Regarding the reconciliation table referred to in Article 2(2)(b) of the Directive, the Bulgarian authorities report that the preparation of such a table will be regulated in MoF guidelines.

Extra-budgetary entities

According to the Bulgarian authorities, the draft law envisages discontinuation of the practice of off-budget funds and accounts under Article 45(2) of the Organic Budget Law and Article 42(1)(1) of the Municipal Budgets Law. Article 67(5) of the draft law on public finances stipulates that ‘the budget procedure shall cover also legal entities controlled by the central government and/or municipalities, which do not belong to the Consolidated Fiscal Programme but fall within the scope of the general government sector’. Article 168 further provides that ‘the Minister of Finance may require from the undertakings [...] which are controlled by the government or municipalities or supported by them with subsidies, loans, sovereign guarantees and other forms of state aid, to provide additional reports, and information in forms, content, time limits and procedure established by the Minister of Finance’.

Article 69(7) of the draft law stipulates that ‘for the purposes of the medium-term budget forecast, the legal entities which fall within the scope of the general government sector and do not belong to the Consolidated Fiscal Programme shall present information and estimates of their forecasts’.

Contingent liabilities, tax expenditure and participation in the capital of public and private corporations

Articles 163, 165, 169 and 170 of the draft law contain enabling clauses for the MoF to obtain other types of fiscal data.

2. Forecasts

The draft law on public finances contains a number of provisions for the preparation of forecasts. The Ministry of Finance is responsible for preparing and publishing macroeconomic forecasts in spring and autumn (Article 68 of the draft law). During the preparation of the medium-term budget forecasts for the next three years,

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\(^{13}\) The document referred to is an interim draft sent by the Ministry of Finance.


\(^{15}\) This subcategory includes the following entities: state universities, the academy of science, national TV, national radio, the news agency.
macroeconomic scenarios based on assumptions regarding domestic and global economic developments are constructed by the MoF (Article 73 of the draft law). After taking into account the most likely or conservative scenario (Article 72 of the draft law) and justifying potential discrepancies with the forecasts of the European Commission (Article 75 of draft Law), the Minister of Finance submits the medium-term budget forecast every year by the Minister of Finance to the Council of Ministers for approval (Article 72 of the draft law).

In order to improve public access to fiscal data, the macroeconomic forecasts, the approved medium-term budget forecast, the main underlying assumptions and the results of the overall assessment of the forecasts are to be published on the website of the MoF (Articles 68 and 75 of the draft law).

The results of the ex-post evaluation of the forecasts are to be made public and taken into account for future macroeconomic forecasts (Article 75 of the draft law).

3. Fiscal rules

The Bulgarian authorities report that the draft law on public finances preserves the current structure of their three major fiscal rules (budget balance, debt and expenditure).

The draft law sets a medium-term budgetary target for the deficit not to exceed 0.5% of GDP in structural terms. The target can be revised every three years and an automatic correction mechanism -to be defined by the National Assembly- is to be activated in the event of deviation (Article 23). The draft law further establishes a nominal ceiling of 3% for the general government deficit. It reasserts the objective of achieving a zero or positive budget balance for the Consolidated Fiscal Programme16 and the general government sector, and requires offsetting measures in the event of deviation (Articles 25 and 27). The existing nominal consolidated debt ceiling of 60% for the general government sector is reaffirmed, with proposed actions in the event of non-compliance (Article 29).

Additionally, the existing expenditure ceiling (40% of GDP) in the Consolidated Fiscal Programme is supplemented by an expenditure rule derived from the SGP provisions: ‘the average growth rate of budget expenditure for the period of the forecast shall not exceed the forecast average growth rate of the potential Gross Domestic Product until the attainment of the medium-term structural balance target set out in the budgetary forecast’ (Article 26).

The scope of these fiscal rules (Article 22) is extended in order to ensure a comprehensive coverage of the general government sub-sectors. Concerning local government, a medium-term budget target on a cash basis is introduced (Article 30), together with further constraints on debt and debt payments (Article 32) and a requirement for municipalities to set a spending cap for new commitments. Additional rules restricting the accumulation of debt and the issuance of guarantees are stipulated for the social security sub-sector (Article 33), and for other entities whose budgets are excluded from the state budget but are included in the Consolidated Fiscal Programme, for which debt ceilings will also be introduced (Article 34).

As regards the monitoring of compliance with the fiscal rules, transitional provisions stipulate that, within six months of the promulgation of the law, the Council of Ministers, ‘shall submit to the National Assembly a proposal on the designation of an independent body endowed with functional autonomy’.

In the event of non-compliance with the targets for budget balance, structural deficit or nominal value of the consolidated debt of the general government sector, corrective mechanisms are provided for in the draft law (Articles 23 to 29). Article 41 stipulates that a minimum level of fiscal reserves should be included in the annual state budget.

4. Medium-Term Budgetary Framework

The Bulgarian authorities report that one of the objectives of the draft law on public finances is to turn the medium-term budget forecast into a real instrument for medium-term forecasting and planning through observance of strict fiscal rules by central and local authorities. Together, the provisions regulating the preparation of the medium-term budget forecast, the state budget, the budgets of the state social security system, the National Health Insurance Fund and municipal budgets, aim to introduce a multiannual budgetary perspective based on multiannual fiscal planning.

The draft law proposes rolling three-year budget planning with a two-step annual budgetary procedure (Article 72). The first stage ends on 15 April with the approval of the medium-term budget forecast for the following three-year period and the updated government debt management strategy by the Council of Ministers.

16 The Consolidated Fiscal Programme is a system of summary indicators from the budgets of all first-level budget spending units, the central budget and the accounts for resources from EU funds, as along with other indicators for the purpose of calculating the budget balance (Article 4). It covers the state budget, local authority budgets and other autonomous budgets, social funds and extra-budgetary funds and accounts.
The deadline for the second stage is 31 October, when the Council of Ministers has to submit to the National Assembly the draft law on the state budget together with the updated medium-term budget forecast. Article 79(2) provides that ‘the parameters of the approved state budget bill shall comply with the parameters of the updated medium-term budget forecast’.

The medium-term budget forecast includes fiscal policy objectives relating to the fiscal rules and constraints, the main budget indicators for the past, current and next three years, expenditure ceilings for first-level spending units, a description of the priorities of government policies, macroeconomic scenarios and underlying assumptions (Article 73). Municipalities also have to prepare and adopt three-year budget forecasts (Articles 82 to 84). The approved medium-term budget forecast is made public through notification to the National Assembly and publication on the MoF’ website (Article 72). Following adoption of the budget law, the parameters of the medium-term budget forecast have to be aligned within one month (Article 79(6)).

5. Mechanisms of coordination across sub-sectors of general government

The draft law on public finances states that the budget procedure covers ‘all budget spending units for the budget of public-financed organizations’ as well as ‘all legal entities controlled by the central government and/or municipalities’ (Article 67). The Bulgarian authorities mention that the responsibilities of ministers would be increased under the draft law, as they have to present to the Minister of Finance summary forecasts and indicators for legal entities outside the scope of the state budget but included in the general government sector.

Regarding fiscal coordination with local government, the Bulgarian authorities report that the proposed procedure for drafting the budget forecasts for local activities is aligned with the national procedure, including provisions governing the dynamic pattern and condition of the municipal debt and guarantees, the revenue and expenditure of the entities controlled by the municipality and the expected impact on municipal finance indicators. The Minister of Finance is expected to discuss with the National Association of Municipalities ‘the amount of the budget relationships of the central budget with the municipal budgets’ within the medium-term budget forecast and to submit the minutes of these consultations together with the draft state budget law to the Council of Ministers.
1.3. Implementation of the main provisions of the Directive in the Czech Republic

The current fiscal framework has been in place since 2004, when the last comprehensive reform of public finances was carried out. The main components of the reformed fiscal framework included fiscal targeting within the medium-term budgetary framework and a new numerical expenditure rule.

In order to transpose the Directive, the Czech authorities report that a project for modernising of the Czech Republic’s fiscal and budgetary system was launched at the Ministry of Finance (MoF) in August 2011. Objectives include the preparation of a comprehensive budgetary framework, the formulation of numerical fiscal rules and the preparation of a Constitutional Act on fiscal responsibility. Following the government’s programme statement of 4 August 2010, the Minister of Finance established a task force to define the basis for preparation of the Constitutional Act. The draft Act was approved by the government on 10 October 2012 and was to be submitted to parliament in the following months.

1. Accounting and statistics

Accounting

The Czech authorities report that the reform of the state’s accounting system was launched in January 2010. Its goal is to unify the compilation of information across accounting units managing funds from public budgets within a Central state accounting information system (CSAIS). An ‘auxiliary analytical survey’ (PAP 17) was carried out to obtain information on public finance management and monitoring on the basis of requirements of the Regulation on the European system of national and regional accounts within the EU and the SGP regulations.

The MoF works closely with the Czech Statistical Office (CSO) in order to ensure the compilation of data according to ESA 95 standards.

Internal control and auditing

The Czech authorities report that the Chamber of Deputies is discussing the draft Act No320/2011 Coll, on financial control in public administration. This action addresses the requirements of the Directive in the field of internal control by:

- for public budget administrators, separating financial management and control responsibilities from auditing responsibilities;

- reinforcing the responsibility of managers of public funds by specifying their legal duties in the area of preliminary, regular and subsequent controls;

- setting up independent auditing in public administration and ensuring that the system of preliminary, regular and subsequent control is effective;

- ensuring coverage of all general government sub-sectors by specifying competences in the field of control for all providers of public financial support.

Additionally, the MoF is preparing new legislation on financial management, financial control and audit in the public administration. It should follow the requirements of the Directive and ensure consistency across general government entities.

An amendment to Act No 166/1993 Coll. Section 3, under parliamentary review, should extend the audit competence of the Supreme Audit Office to nearly all general government entities.

Statistics

Additional steps to meet the requirements of the Directive will be taken after enactment of the Constitutional Act on Fiscal Responsibility, which requires all general government bodies to prepare draft budgets, and after release of the conclusions of the Eurostat Task Force.

The Czech Statistical Office has been tasked with the release of tables illustrating the methodology for the transition between cash data and ESA 95.

17 PAP is an accounting tool used to report accounting movements on selected accounts not only at the level of ledger accounts. In 2012 PAP will be prepared and submitted to the CSAIS by governmental organisational units, state funds, the CR Land Fund, state allowance organisations with assets exceeding CZK 100 million, regions, municipalities with 3000 or more inhabitants, regional councils of cohesion regions and state allowance organisations with assets exceeding CZK 100 million.
Regarding the implementation of Article 14(2) of the Directive, the MoF has published research on tax expenditures. It contains an extensive theoretical section and a practical section on the quantification of tax expenditures in the Czech Republic in 2008. Legislation is to be prepared to require the MoF to issue from 2014 onwards an annual report on tax expenditures using the methodological basis of the research study.

Regarding the implementation of Article 14(3), a decision will be taken following the conclusions of the Eurostat Taskforce.

2. Forecasts

The Czech authorities report that the MoF broadly meets most of the requirements of Chapter III of the Directive. However, the method of implementing the obligations in national legislation in operational terms is currently being discussed. The MoF is also preparing a framework for the independent assessment of tax revenue forecasts and a description of the methods used during their preparation. Details will be determined in a legislative text.

Government Resolution No 253 dated 11 April 2012 tasked the MoF to prepare an amendment to Act No 2/1969 Coll. on the Establishment of Ministries and other Central state Administration Bodies. The amendment would expand the MoF’s powers regarding the system of public finances and its stability, fiscal planning, and the preparation of macroeconomic forecasts. The draft amendment is to be submitted to the government by the end of 2012.

3. Fiscal rules

The Czech authorities report that the implementation of the debt ceiling rule in Article 5 of the Constitutional Act on Fiscal Responsibility should help ensure consistency with the reference value for debt determined in accordance with the TFEU. The article requires the government and the parliament to ensure that public debt develops in a way that does not threaten the stability of the Czech Republic’s public finances. Articles 6 to 13 of the proposed Constitutional Act detail the obligations of individual general government entities to ensure that the 60 % threshold is not breached. Corrective measures are triggered if the debt ratio reaches 40 %. Additional measures are introduced at debt levels of 45 % and 48 %. If the debt ratio reaches 50 % the government immediately calls for a vote of confidence before the Chamber of Deputies. As the obligations are gradually stepped up, the 60 % threshold should remain an absolute ceiling not to be breached. Effective and timely monitoring of compliance would be based on EDP notifications and rely on an independent fiscal institution – the National Budgetary Council18. Specific escape clauses are defined for the rule.

An expenditure rule, the logic of which should be closely linked to the concept of the expenditure rule implemented under the preventive part of the Stability and Growth Pact (the so-called medium-term expenditure benchmark), is assumed to be implemented on an operational level. This should be used to attain the medium-term objective and ensure long-term sustainability of public finances. The rule should align the growth of adjusted general government expenditure with average potential GDP growth.

Specific restrictions in the form of a tailored balanced budget rule also exist for certain public sector units such as the General Health Insurance Company, public universities, regional self-administration units, etc.

Given the relatively significant fiscal decentralisation and high autonomy of the local government sub-sector, Article 14 of the Constitutional Act includes a rule for territorial self-government units (municipalities and regions). Its implementation should help ensure comprehensive coverage of general government sub-sectors. Under this rule, a territorial self-government unit (TSGU) should conduct economic activities so that its debt does not exceed 60 % of its total average revenue for the last four years. If the TSGU’s debt exceeds the limit, it must reduce its indebtedness by at least 5 % of the difference between the total value of the debt and the 60 % value calculated as above. If the TSGU does not reduce its indebtedness in this way, the state will retain tax revenue to the tune of 5 % of the difference between the current total debt and the 60 % value. According to Article 14, ‘the retained tax revenue intended for territorial self-government units can only be released for payment of the territorial self-government unit’s debt obligations concluded before the year in which the revenues was retained.’

The Czech authorities also mention that the MoF is preparing legislation for insolvency proceedings for TSGUs.

18 Article 4 of the Constitutional Act on Fiscal Responsibility states that the National Budgetary Council is an independent body. It monitors adherence to the rules of budget responsibility. The Chairman will be elected by the Chamber of Deputies. Other statutory elements relating to the organisation of the fiscal council are to be specified by ordinary law.
4. Medium-Term Budgetary Framework

The Czech authorities mention that a medium-term forecast and budget framework was established in the 2002 reform. However, an amendment to the relevant legislation is being discussed within the Chamber of Deputies. Following this amendment, the main features of the medium-term expenditure framework (MTEF) would be as follows:

- The MTEF proposal would be submitted together with the state Budget Act to the Chamber of Deputies. It would be based on macroeconomic forecasts of key indicators processed by the MoF.

- The Chamber of Deputies would determine an expenditure framework for the years n+1 and n+2 covering overall expenditure from the state budget and state funds (with the exception of subsidies to state funds).

- Under Section 8a of the Act on Budgetary Rules, the MTEF could be amended only in specified cases. If the MTEF targets are not identical to those determined by the Chamber of Deputies, then the government should provide justifications for the changes.

- Apart from the MTEF, a medium-term outlook for the state budget and state funds for a further two years is to be prepared together with the State Budget Act. The outlook would contain estimated revenue and expenditure categorised according to the national budgetary classification.

The Czech authorities declare that they are currently working on a definition of the steps needed to meet the requirements of the Directive regarding the medium-term budgetary framework. The issue will be dealt with in accordance with the decision on the implementation of the expenditure rule. Subsequent steps leading to the creation of a consistent medium-term budgetary framework are to be included in the Constitutional Act on Fiscal Responsibility.

Finally, a ‘public sector strategy’ document is to cover the medium-term horizon and interconnect the fiscal objectives presented by the convergence programme and the national budget policy. Under Article 2 of the proposed Constitutional Act, the government is to submit this document to the Chamber of Deputies, which will then issue a resolution on it. The drafts of state budget and budgets for state funds are to be prepared on this basis. More detailed regulations will define the contents of the public sector strategy document and its integration within the budget process.

5. Mechanisms of coordination across sub-sectors of general government

The Czech authorities state that coordination mechanisms will be in place for implementing individual chapters of the Directive (numerical fiscal rules, fiscal planning – medium-term budget framework, accounting and statistics).
1.4. Implementation of the main provisions of the Directive in DENMARK

1. Accounting and statistics

Danish authorities report that fiscal data are already publicly available on a quarterly and monthly basis for the relevant general government units. Consequently no additional measures have been taken in relation to the requirements regarding fiscal data in Article 3. Work on the reconciliation table and on contingent liabilities is in progress.

2. Forecasts

The Ministry of Economic Affairs and the Interior (OIM) is responsible for preparing and publishing the government’s economic forecasts. It does this in collaboration with the Ministry of Finance (MoF). OIM is responsible for estimates regarding the real economy and financial markets, while the MoF provides estimates for public finances based on the economic forecast. The MoF also estimates the effects of fiscal policy on activity as well as the structural fiscal balance.

The forecasts are produced three times a year (May, August and December) and cover the current year and next year, except in December, when estimates are provided for the next two years. The May forecast is used in the annual budget negotiations and agreements on the municipal and regional economy. The August forecast forms the basis for the government’s budget proposal for the coming fiscal year, while the December forecast is the basis for the final budget bill.

The forecasts are published in an ‘Economic Survey’, which can be found on OIM’s website (where a short English summary is published on the webpage with some delay), and a ‘Budget Outlook’ (aggregates are presented according to ESA95 standards), which can be found on the MoF’s website. In addition, the MoF prepares medium- and long-term projections at least once a year as part of Denmark’s Convergence Programme, which gives an account of Denmark’s medium-term objective and long-term fiscal sustainability.

The Danish authorities report that the forecasts make use of the latest macroeconomic data, external assumptions and economic models. Expected developments are incorporated in an empirical macroeconomic model of the Danish economy (ADAM). The forecasts include sensitivity analyses calculated as shocks to the empirical model. The type of sensitivity analysis varies depending on the macroeconomic risks to the forecast, e.g. changes in export market growth, interest rate assumptions, oil prices etc.

The assumptions underlying the forecasts are presented in the Economic Survey. It describes the government’s political and economic measures in the light of projected economic developments.

The forecasts are regularly compared to forecasts from e.g. the European Commission, the OECD, and the IMF etc., in order to shed light on and explain disparities. The comparisons are published on the ministry’s website. Analyses of historical forecast errors are made and published approximately every 5 years.

3. Fiscal rules

Denmark’s Convergence Programme for 2011 –based on the former government’s 2020 plan– included a deficit target expressed in structural terms of no more than ½ per cent of GDP in 2015 and a balanced structural budget by 2020. Since May 2012 –based on the current Government’s 2020 plan– Denmark’s medium-term budgetary objectives imply annual structural deficits of no more than 0.5 per cent of GDP, and at least a budget balance in structural terms by 2020.

Additionally, the Government signed the Fiscal Compact on 2 March 2012. It was ratified on 31 May 2012 by the Danish parliament. In the Compact, the Government undertook to adopt a budget balance rule in the Constitution or in permanent legislation, as along with an automatic correction mechanism. The government has implemented the provisions of the Fiscal Compact regarding a budget balance rule and an automatic correction mechanism within the Budget Law. The draft Budget Law was put forward by the government in April 2012 and was passed by a broad majority in the Danish parliament on 13 June 2012. The Budget Law will come into force by October 2012. However central provisions concerning the budget balance rule and the automatic correction mechanism will come into force no later than a year after the Fiscal Compact has come into force, while provisions for multi-annual expenditure ceilings will come into force by January 2014.

20 See http://www.oim.dk.
21 See http://uk.fin.dk/publications.
The Budget Law stipulates that the target for the structural budget balance is the Medium-Term Objective as specified in the Stability and Growth Pact, although with a lower threshold for the structural deficit of 0.5 per cent of GDP for the structural deficit, unless the exceptional circumstances specified in the Fiscal Compact occur. If the structural deficit exceeds the threshold by more than 0.5 per cent of GDP (a significant deviation), the Budget Law stipulates that it must be corrected.

The Danish Economic Council has the task of monitoring compliance with the Budget Law as described in the revised Law on the Economic Council, which will come into force by January 2014.

4. Medium-Term Budgetary Framework

The Budget Law adopted in June 2012 (see above) introduces binding multi-annual expenditure ceilings for the three major public sub-sectors in Denmark, i.e. central government, the municipalities and the regions. The ceilings consist of nominal upper limits on actual spending. The Danish authorities consider that the agreed ceilings within each sector ensure clear responsibility for spending control and foster compliance within each sector. It also ensures a close connection between the expenditure ceilings, actual budgets and the final accounts of each sector. The annual Budget Bill for central government and the annual economic agreements between the government and the municipalities and regions must comply with the ceilings.

The expenditure ceilings must be enacted into law by the Danish parliament and will cover a rolling 4-year period. Ceilings for the new fourth year will be determined on a yearly basis based on an updated medium-term macroeconomic projection. The ceilings cover a broad range of public expenditures. More specifically the ceiling for central government includes operating costs, expenditures on income transfers that are not unemployment-related, subsidies and foreign transfers. The expenditure ceilings for municipalities and regions include service/operating costs. Automatic stabilisers such as unemployment benefits and cash benefits are not included. The Danish Economic Council is to conduct an annual assessment of compliance with the expenditure ceilings, and whether the ceilings are consistent with the medium-term projections for public finances. The expenditure ceilings are to take effect from 2014. The ceilings for the years 2014-2017 are expected to be determined in spring 2013.

5. Mechanisms of coordination across sub-sectors of general government

The Danish authorities state that the overall framework for fiscal policy coordination in Denmark is based on a long tradition of budget cooperation based on voluntary agreements between central government and local government bodies. The agreements call for mutual cooperation and coordination on how to adjust collectively: (i) to the agreed limits on spending among the municipalities and regions; (ii) to the agreed level of taxation among municipalities.

However, experience has demonstrated a need for improved expenditure control in local and central government. Therefore the new Budget Law adopted in June 2012 introduces separate expenditure ceilings for central government, the municipalities and the regions (cf. above). Compliance with the expenditure ceilings should also contribute to meeting the requirements of the Fiscal Compact.

To improve control over local government expenditure and taxation levels, permanent legislative acts containing sanction mechanisms have been approved by parliament in the last few years. Such measures have increased incentives for local government to comply with budget agreements in the last two years. In concrete terms, if the expenditure of a municipality or region exceeds the agreed ceiling, cuts in general grants are to be phased in. The cuts would affect both the collective part of the grant (i.e. the entire group of regions or municipalities would be sanctioned), and the individual grant of the municipality or region concerned. The grant reduction can be up to DKK 3 bn. Cuts can also be triggered at municipality level if taxes rise above the agreed level.

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22 Budget coordination works through annual negotiations between central and local governments on a framework agreement for the two levels of local government (municipalities and regions).

23 The individual deduction amounts to 75 per cent in the first year, 50 per cent in the second and third years and 25 per cent in the fourth year.
1.5. Implementation of the main provisions of the Directive in GERMANY

1. Accounting and statistics

Accounting

Regarding Article 3(1) of the Directive, both for the Federal government and for the Länder, the consistency of the public accounting systems used to compile data for generating ESA 95 data is required by federal law. Under section 49a(1) of the Budgetary Principles Act, the federal government and Länder have set up a committee to ensure a uniform basis for procedures and data by laying down standards for cash-based accounting, double-entry accounting and product budgets. It reviews those standards once a year, verifying compliance with the requirements for financial statistics, including with those for national accounts. The German authorities report that their national accounts are compiled in accordance with the current ESA 95. General and specific classification issues are discussed at regular intervals and harmonised as needed in this committee.

For local governments, the German authorities report that there are corresponding committees in which representatives of the Länder ministries of the interior, the Federal Statistical Office (Destatis) and municipal umbrella organisations discuss and vote on classification issues at local government level.

For the social security system, budgeting and accounting are governed by title 3 (sections 67 to 79) of Book IV of the Social Code (Sozialgesetzbuch) and by ordinances and administrative regulations. The General Administrative Regulation on Social Security Accounting (Allgemeine Verwaltungsvorschrift über das Rechnungswesen in der Sozialversicherung) stipulates binding charts of accounts, with annexes for funds in each social security sub-sector. The charts of accounts are updated by decree of the federal ministries responsible for the different branches of the social security system after consulting with the supreme administrative authorities of the Länder.

Auditing

Under Article 114(1) of the Basic Law (Grundgesetz), for the purpose of discharging the federal government, the Federal Minister of Finance must submit annually to the Bundestag and to the Bundesrat an account of all revenues and expenditures, assets and liabilities during the preceding fiscal year. Parliament is assisted in its supervisory capacity by the Federal Court of Audit (Bundesrechnungshof). Under Article 114(2) first and second sentences of the Basic Law, the Federal Court of Audit, whose members enjoy judicial independence, must audit the accounts given, including for federal special funds and enterprises, and determine whether public finances have been properly and efficiently administered. Its audit covers annual revenue and expenditures, expenditure commitments, and federal assets and liabilities. As well as to the federal government, the Federal Court of Audit must submit annual reports directly to the Bundestag and the Bundesrat. Detailed stipulations on auditing are specified in section 42 ff. of the Budgetary Principles Act and Part V of the Federal Budget Code.

The Länder courts of audit similarly audit the administration of Länder public finances.

Social security funds are audited by the responsible ministries at federal level in accordance with sections 87 to 90a of Book IV of the Social Code (SGB IV).

Auditing of local authority finances is performed by audit offices at local authority level. For example, provisions for the land of Hessen can be found under sections 128-131 of the Hesse Local Authority Code (Hessische Gemeindeordnung).

Statistics

Regarding Article 3(2) of the Directive, the frequency of transmissions is laid down for the federal government, Länder and local authorities in the Finance and Personnel Statistics Act. Section 3(1)(3) stipulates monthly transmission for the federal government and the Länder; section 3(2)(2) stipulates quarterly transmission for local authorities. Under section 15(3) of the Federal Statistics Act, federal statistics (including statistics under the Finance and Personnel Statistics Act) must be transmitted ‘within the time limits set by the statistical offices of the federal government and of the Länder’.

With a view to implementing the Directive, the federal government and the Länder have committed to transmitting monthly data by the 20th of the following month. For quarterly cash-based statistics from local authorities, the federal government and the Länder have also agreed transmission dates that ensure publication in the next quarter. In response to a request from the federal government, social security funds have pledged timely compliance with the Directive’s requirements and to ensure monthly publication of data.

Regarding Article 4(7) of the Directive, Germany transmits quarterly deficit data to Eurostat but places an embargo on the publication of data for the current year. It would have to discontinue this practice by the end of 2013 to comply with the Directive.
**Extra-budgetary entities**

Regarding Article 14(1) of the Directive, the German authorities report that the Federal Statistical Office, under section 2(4) of the Finance and Personnel Statistics Act, has identified and classified extra-budgetary funds, bodies and enterprises in a register. This ensures nearly complete statistical coverage of the state sector from the 2011 reporting year. The Federal Ministry of Finance has initiated a legislative process to allow for publication of the register. As the national system of budgetary reporting differs slightly from the ESA95 framework regarding the definition of extra-budgetary units, the Federal Ministry of Finance is examining the possibility of eliminating these differences.

Extra-budgetary funds, bodies and enterprises are also included as part of each sub-sector in public finance projections for reporting debt levels as defined in the Maastricht Treaty, for example under the Stability Programme.

**Tax expenditures**

Regarding Article 14(2), the German authorities report that it is a standard part of the legislative process to publish the medium-term impacts of all changes in tax legislation. Tax benefits that directly or indirectly favour businesses are analysed in federal subsidy reports. A report on the main tax benefits at federal level, as required under section 12(2) of the Stability and Growth Act, is updated annually in Tables VII and VIII of the Federal Budget.

**Contingent liabilities**

Regarding Article 14(3), the Federal Statistical Office publishes contingent liabilities for all political subdivisions and for general government.

The federal assets and liabilities accounts include detailed tables on the status of guarantees given by the federal government and its special funds. Participation in the capital of private or public corporations is reported in federal and Länder assets and liabilities accounts and in federal and Länder reports on government holdings.

2. **Forecasts**

The federal government’s macroeconomic forecasts are produced by an expert panel led by the Federal Ministry of Economics and Technology (BMWi) and including representatives of other federal ministries, the Deutsche Bundesbank, the Institute for Employment Research (IAB) and the Federal Statistical Office. The Federal Ministry of Finance (BMF) is responsible for budgetary projections.

Detailed macroeconomic and budgetary projections are published in BMF and BMWi monthly reports and on the BMF and BMWi websites. The BMWi presents federal government projections to the public and discusses them at press conferences. Detailed forecasts are also presented in the Finance Report and the stability programme. Forecasts are discussed, where applicable together with methodologies, assumptions and relevant parameters, by the independent Working Party on Tax Revenue Estimates.

Macroeconomic forecasts are based on current data at the time of the forecast as provided by the Federal Statistical Office and international organisations. The federal government’s forecasts are compared with the most recent forecasts from the European Commission and other independent institutions (economic research institutes, IMF, OECD, Deutsche Bundesbank) and the causes of any discrepancies are identified and evaluated.

Medium-term public finance forecasts are based on the federal government’s latest macroeconomic projections and the findings of the Working Party on Tax Revenue Estimates. Reasons are given for any major discrepancies from other institutions’ budget projections. The German authorities consider that the macroeconomic projection data lie within the range of estimations by independent institutions such as economic research institutes, the Deutsche Bundesbank, the OECD, the IMF and the European Commission. As an added benchmark for its own projections, the federal government uses the Joint Economic Forecast compiled by the leading German economic research institutes, which publish their own macroeconomic forecasts—individually and collectively—as independent institutions immediately in advance of Federal Government projections. Reasons are given for any major discrepancies from other institutions’ projections.

Additionally, an Annual Economic Report describing the current economic situation and its foreseeable development is published by the independent Council of Economic Experts (Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung) established by law in 1963 (Act on the Appointment of a

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The German authorities report that the German stability programme includes a sensitivity analysis with projections for the general government deficit under different GDP scenarios (generally an optimistic and a pessimistic scenario). No sensitivity analysis is given for interest rates, which the federal government refrains from explicitly forecasting in keeping with monetary policy independence.

3. Fiscal rules

Description of fiscal rules

Articles 109 to 115 of the German Basic Law (Grundgesetz) set out the fundamental budget rules at constitutional level. The Budgetary Principles Act additionally lays down basic principles for the implementation of budget law by the federal government and the Länder. For the federal government, the Federal Budget Code (Bundeshaushaltsordnung) governs the preparation and execution of the federal budget, rendering of accounts, and auditing of accounts. The Länder have met their obligations under the Budgetary Principles Act by issuing Länder budget codes.

Article 109(3), first sentence, of the German Basic Law normally requires the federal government and the Länder to present balanced budgets without borrowing (‘the budgets of the federal government and the Länder shall in principle be balanced without revenue from credits’). The federal government and Länder may introduce rules intended to take into account, symmetrically in times of upswing and downswing, the effects of market developments that deviate from normal conditions as well as to make exceptions for natural disasters or unusual emergency situations that are beyond government control and are substantially harmful to the state’s financial capacity. Exceptional regimes of this kind must be accompanied by a corresponding amortisation plan. Article 115(2), second sentence, of the Basic Law stipulates for the federal government that the balanced budget condition is satisfied if revenue from borrowing does not exceed 0.35 per cent of nominal GDP. Further stipulations are made for the federal budget in an implementing act (‘Gesetz zur Ausführung von Artikel 115 des Grundgesetzes’). The Länder regulate their budgets in such a way that the requirement of Article 109(3), first sentence, of the Basic Law is only met without revenue from borrowing. Under a transitional provision (Article 143d of the Basic Law), the federal government has until 2016 and the Länder have until 2020 to comply.

For the social security system, self-correcting contribution adjustments (e.g. for statutory pension insurance see sections 153 and 158 of Book VI of the Social Code (SGB VI), and for unemployment insurance, see section 363 ff. of Book III of the Social Code (SGB III)) ensure more or less a structurally balanced budget. Social security funds are not allowed to have recourse to external borrowing but can fund any deficits out of reserves.

Under the constitutional arrangements for public finances, the Länder are each responsible for their local authorities. For the local authorities too, balanced budgets are ensured in the medium term by fiscal rules applying to them. Under local authority budget ordinances issued by the Länder, transfers from the administrative budget to the capital budget must at least cover existing debt service and the cost of borrowing. For larger transfers, there is leeeway for funding investment or additions to reserves. New borrowing by local authorities is allowed only under the capital budget and only for investment and debt restructuring. For instance, in the Land of Baden-Württemberg, section 78(3) of the Local Authority Code (Gemeindeordnung) stipulates: ‘a local authority may only take out loans if other forms of funding are not possible or would be economically unviable’.

Compliance arrangements

The recent reform put in place the Stability Council, which, in accordance with Article 109a of the Basic Law, supervises the budgetary management of the federal government and the Länder to avoid budgetary emergencies. The Stability Council has the task of monitoring compliance with the general government deficit limit. The federal government and the Länder are expected to work together in the Stability Council to prevent the general government deficit limit under Article 3 of the TSCG from being exceeded.
In time for the start of parliamentary consultations on the government draft for the next budget, the Federal Court of Audit also presents a report on the development of federal finances in which it analyses federal medium-term financial planning, providing members of parliament with an additional decision aid.

Compliance with constitutional borrowing limits is further subject to judicial review, as cases can be brought before the Federal Constitutional Courts or Länder constitutional courts (see e.g. Article 93 of the Basic Law).

Under the budget rule, if the target is missed in one fiscal year, a structurally balanced budget, or in the case of local authorities and social security funds one complying with their respective fiscal rules, must be achieved in the next fiscal year. To ensure that the budget rule is also complied with at the execution stage of the budget, a federal ‘control account’ has been set up with a built-in settlement requirement. The control account documents non-cyclical deviations from the threshold that arise each fiscal year during budget execution. If actual net borrowing is more than the maximum permissible limit as determined after the fiscal year-end based on the actual impact of economic activity on the budget—then the account is debited accordingly; if it is less, the account is credited. The annual credit and debit to the control account are netted over time. Under the Basic Law, if the control account has a negative balance exceeding a threshold of 1.5 per cent of GDP, the negative balance must be reduced back to that threshold in a cyclically appropriate manner. Implementing provisions enacted as ordinary legislation thus stipulate that any such reduction may only be applied during an upturn. Reductions must be phased in annual steps not exceeding 0.35 per cent of GDP. Because this spreads the reduction over time, however, the obligation to reduce borrowing, again enacted in ordinary law, kicks in at a lower threshold of 1 per cent of GDP for the control account.

The German authorities report that, if a local authority is in or moving towards deficit, the relevant supervisory authority can make approval of its budget conditional on presentation of a consolidation plan leading to a balanced budget at least in the medium term. In extreme cases, the supervisory authority can enforce consolidation by sending in a ‘state commissioner’ and stripping local bodies of many of their powers.

**Escape clause**

Under Article 109 of the Basic Law, the federal government and the Länder may make exceptions for natural disasters or unusual emergency situations that are beyond governmental control and are substantially harmful to the state’s financial capacity. Exceptional regimes of this kind must be accompanied by a corresponding amortisation plan.

### 4. Medium-Term Budgetary Framework

The German authorities report that under section 50 of the Budgetary Principles Act and sections 9 and 14 of the Stability and Growth Act, the federal government and the Länder have a five-year fiscal planning horizon. Detailed projections of general government revenue and expenditures are published in the Stability Programme and in the Federal Ministry of Finance’s Finance Report and monthly reports.

As for reporting on fiscal sustainability matters, the impacts of individual policy areas and specific measures on the sustainability of public finances are presented in the Report on the Sustainability of Public Finances (Bericht zur Tragfähigkeit der öffentlichen Finanzen). The report is published once every parliamentary term.

The German authorities report that medium-term financial planning generally provides the starting point for the next planning cycle. The federal government and the Länder report on changes relative to the previous planning cycle in accompanying documentation on medium-term financial planning as per section 10(2) of the Federal Budget Code.

### 5. Mechanisms of coordination across sub-sectors of general government

Under section 51 of the Budgetary Principles Act, the Stability Council consults on underlying macroeconomic and fiscal assumptions in order to coordinate the budgetary and financial planning of the federal government, the Länder and local authorities. The Stability Council may decide on recommendations for the coordination of budgetary and financial planning.

**Allocation of responsibilities**

Under Article 104(1) of the Basic Law, the federal government and the Länder each fund out of their own budgets the expenditures they incur in discharging their constitutional responsibilities. Under Article 109(1) of the Basic Law, the federal government and the Länder are autonomous and independent of each other in the management of their respective budgets. The federal government and the Länder each act separately on their own responsibility in making decisions on the compilation of budgets, the execution of budgets, control and auditing.
The SZAG law of 5 September 2006\textsuperscript{25} regulates the sharing of fines and non-bearing deposits between the federal government (65\%) and the Länder (35\%) in relation to the SGP (Regulation 1467/97). A new law in preparation will deal with sanctions imposed under the preventive arm of the SGP.

\textsuperscript{25} Sanktionszahlungs Aufteilungsgesetz vom 5. September 2006 (BGBl. I S. 2098, 2104)
1.6. Implementation of the main provisions of the Directive in ESTONIA

1. Accounting and statistics

Accounting

The state budget is prepared and its execution monitored on a cash basis (based on the state Budget Act), whereas accounting and the financial statements are done on an accrual basis.

The Estonian authorities report that accounting is regulated by the Accounting Act and Guidelines of the Estonian Accounting Standards Board (Estonian GAAP). The recommendation for accounting principles to conform to international accounting standards is contained in the Accounting Act. Public sector entities also apply General Rules for state accounting, enacted by the Ministry of Finance, which came into force on 1 January 2004. In January 2004 the transfer to accrual accounting by all public sector entities was completed.

Statistics

According to the General Rules for state Accounting all public sector accounting entities submit financial reports to a dedicated MoF database. The reports are based on the common chart of accounts, which consists of balance sheet accounts, revenue and expenses accounts and accounts for off-balance sheet information, such as guarantees, commitments, collaterals etc. The financial data also include trading partner codes for consolidation purposes, activity codes based on COFOG and cash-flow codes for cash-flow statements. All general government sector accounting entities enter their monthly reports into the MoF database. State-owned enterprises enter their reports quarterly. The due date is the end of the month following the end of the reporting period. Database reports are available to the public on the MoF website. The main accrual-based results of the general government sector (surplus/deficit, loan liabilities etc.) are also published monthly together with the budget fulfilment report of the state (cash-based) on the MoF website. The MoF’s reporting database is used by the Estonian Statistical Office, which transfers all the accrual-based information from that database to another database they use to produce statistical data in accordance with ESA 95.

Internal control and auditing

The National Audit Office (NAO) is responsible for auditing the Estonian consolidated annual report and the ministries’ stand-alone annual reports. The audited annual report of the state is published together with an NAO statement and transmitted to parliament. Local governments, social security funds, other public corporations, agencies and non-profit institutions are audited by private audit firms. Also NAO may also choose to audit these entities.

Regarding internal control activities, these are laid down by various legal texts (the Constitution of Estonia, the Central Government Act, the state Budget Act, the Local Government Financial Management Act, the Public Assets Act, and various acts governing legal persons in public law) and internal rules regulating work in various sectors. The general rules include due-date requirements for submitting documents and reports. The requirements for document checks must ensure that the authorised person (signatory) and the employee of the accounting unit are not the same. A Minister must guarantee the implementation of the internal control system and internal auditing in the ministry, in government agencies within the ministry and in the state agencies administered by government agencies.

For reconciliation between public accounting and data based on ESA 95, the detailed table explaining the methodology of transition is under preparation.

Regarding Article 14(1) of the Directive, a list of all bodies and funds that are part of general government (around 3000 entities) is published on the website of Statistics Estonia. In the annual and multiannual budgetary process, information is given on the impact of these bodies on the general government budget position and debt. The impact is shown at the level of general government sub-sectors.

Regarding Article 14(2) of the Directive, information on tax expenditure is made available in the official forecast of the Ministry of Finance, as well as in the state Budget Strategy, the Stability Programme and an explanatory note on the Annual state Budgets. Information is given on the impact of tax expenditure, legal grounds and COFOG classification.

Regarding Article 14(3) of the Directive, information about state guarantees is published on a monthly basis on the website of the Ministry of Finance and in official forecasts and multiannual strategic documents. Regarding local governments, extensive fiscal reports are published on the MoF website on a monthly basis.
2. Forecasts

The Estonian authorities report that the following rules have been in place for at least five years for the MoF’s macroeconomic forecasting:

- External assumptions for the forecast are fixed about one month before publication of the forecast. For the development of Estonian export markets, the most recent forecasts provided by the Commission or the countries concerned are used. Major changes in external developments during the forecasting process are taken into account and the latest domestic statistics are used as the basis for the forecast.

- At least two scenarios are always produced as input for the fiscal forecast, where the probability of the main scenario occurring is over 50%. Fiscal outcomes are always calculated for both scenarios. In recent years, the risk scenario has been more negative than the main scenario.

- Before completion, the forecast is thoroughly discussed with Central Bank experts. In addition, a separate seminar is held with virtually all macro forecasters and experts in specific fields at commercial banks and other relevant institutions in Estonia (such as the unemployment insurance fund) to get appropriate feedback.

- Forecast results and assumptions are discussed on a yearly basis with the Commission, IMF, OECD and rating agencies’ economists.

- When the forecasts are published, a comparison with all other available forecasts for the Estonian economy and their developments over time is presented.

Together with the preparation of the new state Budget Act (see below), there is a plan to grant legal independence to the staff of the Ministry of Finance who compile the forecast. As described below, there is also a plan to introduce an Independent Fiscal Council in legislation.

3. Fiscal rules

Although there are no laws that require the general government or central government budget to be in balance, the Estonian authorities report that there is a ‘soft’ budget balance rule in the form of a coalition agreement that was followed by all governments until recently. The rule is usually set in the coalition agreements signed between coalition partners at the beginning of a new government’s term. All governments had adhered to it until the recent economic crisis, when the scale of the economic downturn made the strict implementation of the rule impossible.

As regards multiannual expenditure, the state authorities may enter into contracts for the account of the coming years provided that the total amount of the contractual payments due in any coming budgetary year does not exceed 50% of the amount of the relevant item of expenditure in the current budgetary year.

Regarding local governments, their activities have been regulated by the Financial Management of Local Authorities Act since 2012. The Act stipulates that local authorities must ensure that the operating result, i.e. the difference between operating revenue and operating expenditure is balanced or positive. Their net debt burden should be below 60-100% of their operating revenue (the exact ratio depends on their individual financial capacity). All local authorities are temporarily prohibited until the end of 2016 from increasing their net debt burden over 60%.

The Estonian authorities report that a new state Budget Act is being prepared to reflect the changes needed in the light of the Directive and domestic needs. The legislation is expected to be submitted to the Riigikogu at the beginning of 2013. It will contain operational balanced budget and deficit rules for the general government and balance budget, deficit and debt rules for the sub-sectors. These rules are already in place for the local government sub-sector and are also planned for the foundations and for the bodies governed by public law (public entities) in the general government sector. Planning will be harmonised so that all of the sub-sectors process their multiannual and annual plans in a synchronized way in line with the State Budget Strategy and the Annual state Budget. The fiscal policy objectives of the state budget will be binding on all general government sub-sectors and institutions.

Deviations can be approved by the Riigikogu through the Annual state Budget Act as long as they are in line with the fiscal policy objectives framework set out in the State Budget Strategy.

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26 The annual state report is released upon completion of the annual budget cycle and provides a cash-based fulfilment report.
Finally, it is planned to introduce an Independent Fiscal Council in legislation. The Council will give opinions on fiscal policy documents before they are approved and will monitor the execution of the fiscal policy objectives.

4. Medium-Term Budgetary Framework

The medium-term budgetary framework has been set out in the form of the State Budgetary Strategy since 2003. The document is adopted annually in May and sets fiscal policy targets for the next three years on a rolling basis. Under the state Budget Act, the State Budget Strategy forms the basis for the compilation of the draft state budget. The State Budget Strategy is compiled for the following budgetary year and the subsequent three years. It sets out the budgetary policy principles and objectives, the priorities of the Estonian Government and its activity-based funding plan for these four years (including for the balance of the state budget and for the state budget surplus or deficit), an analysis of the economic situation and a forecast of economic developments, including forecasts of the income and expenditure of the general government, and other information essential for financial management.

The State Budget Strategy is approved by the government on the proposal of the Minister of Finance at least seven months before the beginning of the budgetary year.

The state Budget Strategy is drafted (jointly with the Stability Programme) in accordance with the so-called rolling principle: in spring of each year the previous State Budget Strategy is updated for the coming three years and plans are made for the fourth year. To that end, the ministries and state authorities update the organisation-based development plans for their area of government annually by one year, in order to ensure a constant four-year perspective for strategic planning. Such development plans are approved by each Minister, after discussing them first with the Prime Minister and other relevant Ministers. The development plans are submitted to the Ministry of Finance by 1 March each year. The Ministry of Finance then drafts the State Budget Strategy for discussion in the cabinet. After the cabinet has taken a decision the government approves the State Budget Strategy.

It is planned to make the content requirements for the State Budget Strategy more explicit, adding compulsory requirements for multiannual expenditure ceilings and for the fiscal policy objectives in terms of the deficit, debt, reserves and tax burden. The intention is to introduce an obligation to set the previously-mentioned ceilings and objectives for the general government as a whole and also for the individual sub-sectors.

5. Mechanisms of coordination across sub-sectors of general government

According to the Estonian authorities, the general government sub-sectors are largely involved in the fiscal planning process. Central government institutions (public entities, foundations, state Real Estate Agency) are required to submit their multiannual budget plans to the Ministries for the official forecasts and State Budget Strategy. Local governments are required to submit monthly fiscal data and approved annual budgets to the Ministry of Finance. Regarding the social security funds, the Health Insurance Fund is adopting a multiannual expenditure plan, which is used in government fiscal planning. The Unemployment Insurance Fund regularly updates its expenditure projections in line with the official macroeconomic forecast of the Ministry of Finance.
1.7. Implementation of the main provisions of the Directive in IRELAND

1. Accounting and statistics

Accounting

The Irish authorities report that Government departments and offices prepare accounts in accordance with the provisions of the Exchequer and Audit Departments Act 1866 as amended by the Comptroller and Auditor General (Amendment) Act 1993. The Appropriation Account, prepared in accordance with the above legislation, includes accrual information in supplementary notes to the accounts in accordance with accounting guidance issued by the Department of Public Expenditure & Reform in the form of circulars. Appropriation accounts are prepared on a cash basis. The notes to the Appropriation Account contain accrual information, which the Irish Statistical Office uses (plus relevant information from other sources) to produce the data based on the ESA 95 standard.

Internal control and audit

Legislative timeframes require government departments and offices to have their appropriation accounts prepared and presented to the Comptroller and Auditor General (C&AG) by 31 March of the year following the year of accounts. Legislation also requires the Comptroller and Auditor General to audit the accounts and present his report on those audits to parliament by 30 September of the year following the year of accounts. Each accounting officer signs a statement of internal financial control, which documents their responsibilities for internal control within the department/office, is appended to the appropriation account and is reviewed by the Comptroller & Auditor General to ensure consistency with the results of his audit. All general government bodies are subject to independent audit by the Comptroller & Auditor General or another external auditor.

The Local Government Act (2001) provides the legal basis for audit of the local government sector. It requires the Local Government Audit Service to carry out audits of local authorities (e.g. city, county and town councils, regional assemblies, regional authorities and other bodies). The auditor appends his/her signature to the audit opinion on the local authority’s annual financial statement. Local government auditors may also issue associated audit reports. The audit opinion and any audit report are sent to the local authority, which must table them for discussion at its next available public meeting. Copies of audit reports are also sent to the Director of Audit, the Minister for Environment, Community and Local Government and the C&AG. There is an accounting code of practice issued by the Department of Environment, Community and Local Government, which sets out accounting policies. Local authorities are required to prepare their annual financial statements on an accruals basis. The accounting year-end for local authorities is 31 December, and annual financial statements are to be prepared by the end of March in accordance with the accounting code of practice.

Statistics

Monthly cash-based fiscal data for central government are published in the Exchequer Statement two working days after the end of each month. For local government, quarterly general government accounts, including local government accounts data on an ESA95 basis, are submitted to Eurostat by the Irish Statistical Institute one quarter later. They are to be published from Q1 2013. To meet reporting requirements under the EU/IMF Programme, income and expenditure reports for local authorities (comprising the main part of local government) are supplied to the Troika within 90 days of the end of each quarter. Consideration will be given to publishing this information in the context of transposing the Directive.

Information on the receipts and expenditures of the Social Insurance Fund (SIF) is supplied to the Troika under the EU/IMF Programme reporting requirements. In addition, a further report is to be added to the Exchequer Statement giving an alternative presentation of the information: revenue information will include receipts for SIF and expenditure information will include its expenditure.

Extra-budgetary funds

A register of general government bodies is kept by the Irish Statistical Office and is included in the EDP inventory. The register is to be updated by the end of 2012 and maintained by the Irish Statistical Office. The

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28 The existing presentation, which will continue as well, shows Central Fund receipts and expenditure only (not including the SIF, which is a separate fund).

combined impact of these bodies on general government balances and debts is presented in a detailed reconciliation table now published 5 times a year.\(^\text{30}\)

**Tax expenditure**

The Irish authorities report that the requirements of the Directive with regard to tax expenditures are being met on an administrative basis. Information is provided in the annual budget documentation regarding new or extended tax expenditures. Information on existing tax expenditures can be found in the statistical reports produced by the Office of the Revenue Commissioners, though with a lag (only the 2010 report is available so far).\(^\text{31}\) The Commission on Taxation, which undertook an in-depth review of the tax system in 2008, published detailed information on tax expenditure (using OECD methodology) in its 2009 report.

**Contingent liabilities and participation in capital of corporations**

Only information on government guarantees is available, but is not published.

2. Forecasts

The Irish authorities report that the Department of Finance, which is producing macroeconomic and budgetary forecasts, uses up-to-date information and takes great care in ensuring its macroeconomic and budgetary forecasts are robust and are based on sound data and realistic assumptions.

A sensitivity analysis is performed by the Department of Finance to produce macro-fiscal scenarios resulting from reflecting changes in key economic variables. A macro-fiscal model is used to simulate a situation in which real GDP differs from the baseline by +/-1 %, owing to (i) a change in world growth; (ii) a change in interest rates; (iii) a change in oil prices; and (iv) a change in the savings rate.

As to regards ex post evaluation, the Irish authorities consider that the independent Irish Fiscal Advisory Council (IFAC), established in June 2011, has enhanced the robustness of Ireland’s budgetary architecture. The role of the Council is to independently assess, and comment publicly on, whether the government is meeting its own stated targets and objectives. IFAC assesses the appropriateness and soundness of the government’s macroeconomic projections and overall fiscal stance. These assessments are published.\(^\text{32}\)

3. Fiscal rules

Following the new legislative developments at EU level, and the positive outcome of the referendum held in May 2012 to approve ratification of the TSCG, the Fiscal Responsibility Bill (FRB) was published on 18 July 2012 to implement the obligations under the Treaty. The Irish authorities report that the requirements of the Budgetary Frameworks Directive are being examined in detail to ensure that it is transposed into Irish law by regulation during 2013.

The Fiscal Responsibility Bill 2012 will require the government to comply with the budgetary rule and the debt rule set out in the legislation.

The budgetary rule states that the budgetary position of general government must be: (i) in balance or in surplus, to be determined by reference to the medium-term objective (MTO); or (ii) on an adjustment path towards the MTO set in accordance with EU Regulation 1466/97; unless exceptional circumstances apply in accordance with the Stability and Growth Pact stipulations.

The debt rule in the FRB fully conforms to the one-twentieth debt rule provided for in EU Regulation 1467/97. The FRB also provides for a correction mechanism in accordance with the common principles adopted by the European Commission. Accordingly, the target definition and scope of the fiscal rules is to be defined in legislation. The target to be set is the MTO and the scope of application will be general government.

Under the FRB, the Fiscal Council will be tasked with monitoring compliance with the budgetary rule and, if applicable, the correction mechanism. It will also be tasked with assessing whether exceptional circumstances exist or have ceased to exist. In the event of non-compliance, as highlighted by the Fiscal Council in its monitoring assessments, the Minister for Finance will be required to comply or explain the reasons why to parliament.

The Irish authorities report that there is a separate fiscal rule applicable to local government, Section 10A (1) of the 1994 Local Government Act states that: ‘if at any time an estimate of expenses for a local financial year has been adopted by a local authority and it appears to the Minister that it is insufficient to defray the expenses to be


\(^{32}\) http://www.fiscalcouncil.ie/publications/.
incurred by the authority in that financial year (...) the Minister may (...) require the local authority (...) to amend (...) the estimate (...).’ However, the government has subsequently decided that the 34 local authorities as a whole could run a deficit of up to €200 million each year

4. Medium-Term Budgetary Framework

The Irish authorities mention that legislation is being drafted to provide a statutory basis for the existing multiannual expenditure ceilings. The Irish medium-term budgetary framework is expected to be fully consistent with the Irish Stability Programme.

5. Mechanisms of coordination across sub-sectors of general government

The Irish authorities report that ways to enhance coordination are under consideration for transposition of the Directive and in the wider context of the Stability and Growth Pact Reform. While the budgetary responsibilities of the various sub-sectors of general government are considered to be clearly defined, understood and implemented by the sub-sectors in question, the transposition of the Directive will provide an opportunity to collate these rules and requirements in a single document.

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33 Over the past three years, Irish authorities report that the Local Government Sector had a surplus of €16 million in 2011, a surplus of €95 million in 2010 and a deficit of €44 million in 2009.
1.8. Implementation of the main provisions of the Directive in GREECE

1. Accounting and statistics

As of January 2011, the central administration has put in place a modified cash-basis double-entry accounting system (Presidential Decree 15/2011), containing requirements and procedures for generating accrual data and ensuring compliance with the ESA 95 standards. According to the fifth update of the assessment of compliance with the MoU (October 2011), the double-entry accounting system has been finalised in hospitals.

A report on state Budget execution is published by the Ministry of Finance (General Accounting Office). Cash data encompass total revenue, total expenditure, and the state budget balance and are presented in cumulative form for the current fiscal year and compared to targets. With a one-month lag, the Ministry of Finance (General Accounting Office) publishes general government cash data (revenue, expenditure and balance), broken down by sub-sectors (state budget, extra-budgetary funds, local government and social security funds).

The Greek authorities report that monthly data are collected through questionnaires for 970 entities belonging to general government but outside line ministries. An international auditing company has been mandated to prepare numerical reconciliation tables for all sub-sectors in order to bring the detailed cash data into line with the ESA and GFS codification system.

In line with the economic adjustment programme, quarterly Quantitative Performance Criteria are in place, to monitor general government budget execution.

2. Forecasts

The Greek authorities report that the Directorate of Macroeconomic Analysis and Forecasting (part of the MoF’s Directorate General for Economic Policy) analyses developments in the Greek and international economy and prepares both short- and medium-term macroeconomic forecasts. These draft forecasts and the underlying assumptions are discussed in a consensus roundtable with independent bodies. The Directorate participates in the formulation of the state budget and the update of the Stability and Growth Programme as well as in the preparation of the Medium-Term Fiscal Strategy. The macroeconomic forecasts prepared for these documents include alternative scenarios and sensitivity analyses. A sensitivity analysis is to be conducted by mid-2013 in the newly established Directorate of Fiscal Programming, Fiscal Data and Methodology for the main fiscal variables under different macroeconomic assumptions.

Finally, in the context of the economic adjustment programme for Greece, all the macroeconomic and budgetary estimates and forecasts are discussed and agreed with the representatives of the European Commission, the ECB and the IMF.

3. Fiscal rules

Greece is currently subject to an Economic Adjustment Programme, which requires fiscal policy to achieve the objectives of the programme. A range of fiscal targets have been set and are closely monitored through regular missions by the European Commission, the European Central Bank and the International Monetary Fund. These targets concern, for example, the general government deficit, primary general government deficit and debt. The second Economic Adjustment Programme for Greece calls for a primary deficit of 1 per cent of GDP in 2012 and a primary surplus of 4.5 per cent of GDP in 2014. The targets should ensure that there is sufficient progress towards the objective of a 120 per cent debt-to-GDP ratio by 2020. In addition, the technical Memorandum of Understanding agreed with the Greek authorities defines a number of additional quantitative performance criteria and indicative targets covering among other things: (i) a floor on the modified general government primary cash balance, (ii) a ceiling on state budget primary spending; (iii) a ceiling on the overall stock of central government debt; (iv) a ceiling on the new guarantees granted by the central government; (v) the non-accumulation of domestic arrears; and (vi) a floor on privatisation proceeds. In order to support implementation of the fiscal targets, the Medium-Term Fiscal Strategy 2012-2015 sets annual spending ceilings for each line ministry and fiscal targets for other central and general government sub-sectors.

A number of accompanying reforms have been undertaken to strengthen implementation of the fiscal targets: (i) the submission of supplementary budgets has been facilitated; (ii) commitment registries have been established in all ministries; (iii) accounting officers have been appointed in every ministry with increased responsibility for the accuracy and reliability of transmitted fiscal data.

4. Medium-Term Budgetary Framework

The Mid-Term Fiscal Strategy Plan (MTFS) makes multi-year projections for total revenue and expenditure over the following time span: the two previous years, the current year, the budget year and the three following years. It covers: (i) central government, with a spending ceiling defined for each line ministry; (ii) the local government organisations (LGOs); (iii) the social security funds and hospitals (social budget); (iv) the public- and private-law entities forming part of central government; (v) state-owned enterprises reclassified under central government; (vi) several organisations and accounts (ELGA, OPEKEPE, Green Fund, AKAGE).

The MTFS lays down: (i) the main political directions and priorities; (ii) the fiscal commitments undertaken for the following period, and thus the fiscal limits; (iii) specific targets, timetables and implementation indicators for spending control and gradual deficit reduction; (iv) expenditure ceilings for each line ministry (central government) throughout the duration of the MTFS.

At the planning stage, the MTFS takes into account: (i) the mid-term targets for general government (general government deficit, primary general government deficit, level of public debt), as well as its sub-sectors; (ii) the macroeconomic prospects and economic developments. In accordance with Law 3871/2010, it is submitted to the Ministerial Council by mid-April and to parliament for adoption at the latest by mid-May every year. It may be updated if the macroeconomic environment has changed significantly by September.

According to the Greek authorities, the MTFS promotes a top-down approach that can be described as follows:

- Specification of the mid-term fiscal targets for the period covered by the MTFS for the general government deficit, general government primary deficit and level of debt.
- Preparation of the baseline scenario, i.e. projections of fiscal aggregates over the medium term if corrective measures are not taken.
- Comparison between fiscal targets and the fiscal projections contained in the baseline scenario and identification of deviations per year, i.e. the fiscal gap for the whole period.
- Stipulation of the corrective interventions required to fill the fiscal gap (nature and quantitative evaluation over the MTFS horizon). Corrective interventions may be permanent or one-off, affect revenues or expenditure, target specific entities or have a horizontal nature.
- Preparation of the MTFS to specify in detail the fiscal adjustment required for the whole period for each sub-sector of general government, so that fiscal targets can be met.

5. Mechanisms of coordination across sub-sectors of general government

As regards transparency requirements, general government sub-sector entities are obliged to provide monthly data for their economic performance one month after the reference month. A detailed list of all entities providing such data is published every month. Non-complying entities are not entitled to grants from the state Budget for as long as they do not provide the required data.

In addition the accounting officers (one in each line ministry) monitor the monthly budget execution of all entities supervised by the relevant ministry and the adherence to ceilings for their ministry and submit a monthly report to their minister, the Minister of Finance and parliament.
Spain has undertaken successive overhauls of its fiscal framework. The General Budgetary Law (LGP), updated in 2003, established budgetary procedures for central government, while the Organic Law on Regional Financing (LOFCA) laid down procedures and coordination arrangements for regional budgets. In 2011-12, the introduction of fiscal principles in the constitution (in particular a balanced budget principle) and the adoption of a new Organic Law on Budgetary Stability and Financial Sustainability implementing those principles (referred to below as ‘the Organic Law’) defined a new framework for general government.

1. Accounting and statistics

Accounting

Regarding accounting requirements, the general government sector accounts are prepared annually by the comptroller’s office (IGAE) under the ESA standard, as defined by the LGP (Article 125.2.g). Different laws regulate the accounting and budgetary regime of each government level.

Statistics

For central government, IGAE already publishes monthly information on budgetary execution, both in national accounts terms and on a cash basis. Procedures are being designed to collect monthly information in national accounts terms on autonomous bodies and other entities coming under central government.

For the social security system, procedures are also being designed to collect monthly information on the accounts of its different entities for monthly reporting in national accounts terms.

Regarding the autonomous communities and local entities, Article 27 of the Organic Law establishes that the Ministry of Finance and Public Administration can collect any information needed to ensure compliance with the Organic Law and the European requirements. This is complemented by a ministerial regulation to be published in September 2012 setting out the procedural details. Monthly data for the autonomous communities on a cash basis are to be published from September 2012 onwards and in national accounts terms as from 2013 (with a six-week delay). Quarterly information on a cash basis and in national accounts terms for the regions is already published with a delay of 2-2.5 months. For local entities, quarterly reporting is expected as from 2013.

The reconciliation table showing the methodology for the transition between cash-based data and ESA 95 data still has to be developed.

Transparency

Regarding the obligations in Article 14 of the Directive, the Spanish authorities report the following:

- For the contingent liabilities of public administrations, IGAE has information on the guarantees granted by central government and the Bank of Spain has information on the guarantees granted by autonomous communities and local entities;
- For non-performing loans, there is information in relation to central government;
- For the liabilities of public companies, the Bank of Spain publishes information on the debt of public companies;
- For participation in the capital of corporations, there are three registers for central government, autonomous community and local entity holdings, managed by IGAE and the Ministry of Finance and Public Administration.

Regarding tax expenditure, central government has published a tax expenditure budget since 1979 as required by the Spanish Constitution (Article 134(2)) and the General Budgetary Law (Article 32(2)). It quantifies tax expenditure for central government taxes. From 1995 on, an explanatory memorandum has been included with every annual Budget Law (Article 37(2) of the General Budgetary Law). Regions are required to quantify tax expenditure under their statutes of autonomy and regional fiscal laws. Local governments have the same obligation. All regions publish information about the quantification of tax expenditure together with their regional budget laws. Most regions publish the methodology they use for this quantification, but there are differences among the regions, as some publish detailed information while others do not.

2. Forecasts
Regarding Article 4(1) of the Directive, Article 15(5) of the Organic Law requires the government to produce a report with annual and multi-annual macroeconomic and macro-fiscal forecasts, prepared with input from the Bank of Spain and after consideration of the European Commission and ECB forecasts.

Regarding Article 4(4) of the Directive, sensitivity analyses are required by the Organic Law, but only for regions that are in breach of the fiscal rules and therefore need to submit corrective plans. The Spanish authorities state that they follow the guidelines given in the January opinion of the EFC on the contents and format of the Stability and Convergence Programme.

Regarding Article 4(5), the Organic Law (Articles 6(2) and 27(5)) establishes the Ministry of Finance’s responsibilities regarding the public provision of forecasts and corresponding methodologies. In addition, the Organic Law (Article 28) also provides for the establishment of a public information centre ‘to provide information about the economic and financial activity of the various public administrations’. The Ministry of the Economy and Competitiveness is responsible for the production of macroeconomic forecasts. These are incorporated into the overall process through the report evaluating the expected economic situation for each year, which is required by Article 15(5) of the Organic Law.

3. Fiscal rules
Currently, Spain has one fiscal rule for expenditure in place at all levels of general government (Organic Law, Article 12). LOFCA also contains provisions regarding the indebtedness of the regions. As the former laws (LEP and LOLEP) have been repealed by the Organic Law, Spain currently has no budget balance or debt rule in place across general government: the rules to be introduced by the Organic Law (Articles 11 and 13) will be effective from 2020.

Under Article 17 of the Organic Law, the Ministry of Finance is in charge of monitoring compliance with the rules set by the Organic Law (the expenditure rule and the future balanced budget rule and debt rule).

Escape clauses and correction mechanisms are defined in the rules (Articles 11 and 13) and in Chapter IV of the Organic Law.

The Organic Law mentions in Articles 11, 12 and 14 the binding character of the rules for the annual budgets within the general government sector.

4. Medium-Term Budgetary Framework
The Spanish authorities report that the features of their medium-term budgetary framework are specified in Article 29 of the Organic Law.

The articles of the General Budgetary Law 47/2003 that regulate the budgetary frameworks are now under study in order to adapt them to European regulation. This modification will be introduced in the General State Budget Law for 2013. They will be used in the Stability Programme.

5. Mechanisms of coordination across sub-sectors of general government
There are two forums for coordination. The Council for Fiscal and Financial Policy (CPFF) brings together central government and the autonomous communities. The CPFF participates in the setting of the stability objectives and in their monitoring, is informed of the expenditure limit for central government, approves the rebalancing plans of the regions, and coordinates the budgetary, debt and public investment policies of the autonomous communities. The National Committee of Local Administration (CNAL) brings together central government and local administrations.

The Spanish authorities report that the Organic Law establishes or reinforces the sub-central enforcement of national fiscal rules, clarifying the role of different government levels. For instance, while the debt rule sets a ceiling of 60% of GDP for general government, it is broken down into ceilings for central government (44% of GDP), regions as a whole (13% of GDP), and local government as a whole (3% of GDP).

The Organic Law also establishes correction mechanisms to address deviations from the rule, including the mandatory submission of correction plans from the government level responsible, as well as temporary, total or partial handover of budgetary responsibility to a higher government level in the event of repeated breaches.
1.10. Implementation of the main provisions of the Directive in FRANCE

1. Accounting and statistics

**Accounting**

The French authorities report that most entities in the general government sector are subject to the French general public accounting conventions (*Comptabilité publique*) defined in Decree No. 62-1587 of 29 December 1962 and Article 60 of the Law No. 63-156 of 23 February 1963. Other entities apply private accounting conventions or are subject to other specific rules.

**Article 30 of the Loi Organique relative aux Lois de Finances No. 2001-692 of 1 August 2001 (LOLF)** stipulates that the general public accounting system used for the state is on an accrual basis. This is also the case for public institutions (Articles 51-52 of Decree No. 62-1587 of 29 December 1962), compulsory social security schemes (Article L.114-5 of the Social Security Code) and local public bodies (Articles 51-52 of Decree No. 62-1587). Other legal texts ensure that accrual accounting is also used for the unemployment insurance scheme and supplementary schemes.

**Internal control and audit**

While internal control is in place for the state (Decrees of 29 December 1962 and No 2011-775 of 28 June 2011) and social security funds (Articles D122-7 and D122-8 of the Social Security Code), a reform of the provisions governing internal control is expected to be finalised in the first half of 2013.

Auditing is performed by the French state audit office (*Cour des Comptes*) and regional audit chambers for local authorities. Article 58(5) LOLF stipulates that the state audit office certifies ‘that the state's accounts are lawful, faithful and present a true and fair view’. This is also the case for the general social security system (Article LO. 132-2-1).

The French authorities report that a draft decree currently under examination will update the 1962 decree and streamline existing requirements. The scope of the general public accounting rules will be aligned with the scope of government in the sense of Council Regulation No 2223/96 of 25 June 1996. Entities belonging to general government but outside the state would be subjected to the general public accounting rules. The decree will also require other central and local government bodies (ODAC, ODAL) and social security administrations to set up internal control and audit mechanisms.

**Statistics**

Cash-based fiscal data for the state budget is released every month on the MoF website (‘Situation mensuelle du budget de l’État’). Fiscal data for the social security sub-sector are calculated on a monthly basis (ministerial order of 11 February 2005) but are not published for the time being. A monthly publication is to be launched in 2013. Local government accounts, kept by the MoF, are to be released every quarter from 2013.

Regarding Article 4(7) of the Directive, France transmits quarterly deficit data to Eurostat but places an embargo on the publication of data for the current year. It would have to discontinue this practice by the end of 2013 to comply with the Directive.

**Extra-budgetary bodies and funds**

Article 50 LOLF states that a report on the nation’s economic, social and financial situation and outlook, enclosed with the year’s budget bill, ‘presents and explains, for at least the four years following the tabling of the budget bill, projected growth in revenue, expenditure and the balance for all public and administrations detailed by sub-sectors (…)’.

A list of bodies distinct from the state and assuming public duties with a number of budgetary information is to be found in an annex of the state budget (‘rapport sur les opérateurs de l’État’).

Synthetic balance sheet information for bodies involved in the financing of social security or receiving social security funding is also included in an annex to the draft law on the financing of social security (PLFSS).

The French authorities report that an organic law submitted to the French cabinet in September 2012 aims to enhance the information published on sub-sectors.

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Tax expenditure

Article 51 LOLF stipulates that the budget bill should present tax expenditures in an annex. The annual performance plan for each programme, also released in the form of an annex, should include an evaluation of tax expenditure for the programme in question. The listing and evaluation of individual tax expenditures under the annual social security budget is also required by Article LO. 111-4 of the Social Security Code.

2. Forecasts

The French authorities report that an organic law to be released in September will ensure that an independent body is tasked with assessing government forecasts, in line with the future European ‘two-pack’ regulation.

Comparisons of the forecasts with those of other institutions are already included in the economic, social and financial report (RESF) annexed to the budget bill. In an annex, the forecasts of 19 financial institutions and economic institutes (‘Groupe technique de la Commission économique de la Nation’) are compared in October with the macroeconomic forecasts contained in the budget bill. The French authorities indicate that they are willing to mention the Commission forecasts in the RESF, but consider them outdated by the time it is prepared. The RESF also contains explanatory sections detailing the main macroeconomic assumptions underpinning the preparation of the budget. The effective dissemination of Treasury working papers on macroeconomic models is considered sufficient to provide complementary information on the methodologies and assumptions underpinning those forecasts. Finally the RESF contains a comparison with the previous forecast contained in the stability programme, which qualifies according to the French authorities as ex post evaluation in the sense of Article 4(6) of the Directive.

3. Fiscal rules

A dual spending norm applies to central government level. Under the second multi annual public finance planning act of 28 December 2010 covering the period 2011–14, central government expenditure excluding interest payments and civil servants’ pensions is frozen in nominal terms. The rule comes on top of the zero volume rule introduced in 2004, which applies to all central government expenditure. As regards monitoring, the State Audit Office (‘Cour des Comptes’) assists parliament and the government by monitoring ex post the execution of the state budget and social security budget and more generally the general government sector.

Under Article LO. 111-3 of the Social Security Code, healthcare expenditure is subject to a nominal spending target fixed every year (ONDAM) with additional sub-targets. An alert committee monitors execution and may raise the alarm in the event of any significant deviation.

For local authorities, a golden rule defined by Article L.1612-4 of the code applicable to local authorities (CGCT) does not allow current expenditure to be financed by debt. Compliance is monitored by the Prefect, backed up by regional audit chambers.

French authorities report that a new organic law to be submitted in September 2012 will further promote the compliance of government sub-sectors with obligations under the TFEU and with the Medium-Term Objective in the area of budgetary policy over a multi-annual horizon.

4. Medium-Term Budgetary Framework

The French authorities mention that Article 34 of the constitution, introduced following the amendment of 23 July 2008, stipulates that ‘the multiannual guidelines for public finances shall be established by Programming Acts. They shall contribute to achieving the objective of balanced accounts for public administrations’.

First adopted in February 2009, multi-annual public finance planning acts constitute the main vehicle for multiannual planning. Such acts define expenditure ceilings for the state at a disaggregated level and for government sub-sectors over a three-year horizon and a minimum annual amount of additional revenues from new fiscal measures.

It is expected that the provisions contained in the new organic law will further specify the contents of the public finance planning act.

5. Mechanisms of coordination across sub-sectors of general government

The French authorities highlight a number of provisions: (i) the multiannual public finance planning acts cover the entire general government sector; (ii) the automatic correction mechanism included in the organic law to be presented in September 2012 is also expected to cover all government sub-sectors; (iii) Article 108 of Law No 2011-1977 of 28 December 2011 compels regions, departments and large inter-communal entities to provide budgetary plans, multiannual commitments, local debt statistics, and a breakdown of expenditure. The collected information will go into an annex to the Budget Bill.
1.11. Implementation of the main provisions of the Directive in ITALY

1. Accounting and statistics

Accounting

The objective of harmonising accounting systems and budget schemes across the general government sub-sectors is enshrined in Article 2 of Law No 196/2009 on Public Accounting and Finances — covering all general government sub-sectors excluding regional and local (municipalities and provinces) governments — and in the amendments to Law No 42/2009 on fiscal federalism — covering regional and local governments. The Italian authorities report that secondary legislation is being drafted to implement these provisions. They further indicate that improvements to the accounting system include the establishment of a unified database\(^{38}\), the adoption of an integrated chart of accounts and common accounting standards, the functional classification of expenditures in missions and programmes and the adoption of a double-accounting system (financial and accrual) for non-local government levels\(^{39}\).

Regarding accrual accounting, the Italian authorities consider that Law 196/2009 currently does not fully comply with Article 3 of the Directive.

Statistics\(^{40}\)

Article 14 of Law 196/2009 requires the Ministry of the Economy and Finance (MEF) to publish monthly cash-based fiscal data for central government. The aim is to provide full coverage of central government, with data published before the end of the following month. Quarterly consolidated cash-based fiscal data covering local government and social security are also available on the MEF website.

A reconciliation table is currently produced under the joint responsibility of ISTAT (Italian National Institute for Statistics) and MEF. An update is planned to ensure compliance with the upcoming guidelines from the Eurostat task force.

2. Forecasts

The Ministry of the Economy and Finance is responsible for delivering macroeconomic and budgetary forecasts.

Article 2(4) of Law No 39/2011 amending Law 196/2009 stipulates that a separate methodological note detailing the assumptions used to produce macroeconomic forecasts is to be attached to the second section of the Economic and Financial Document (DEF). The Italian authorities state that all assumptions underpinning the macroeconomic and budgetary forecasts, as well as the results of their ex-post evaluation, are published by MEF.

3. Fiscal rules

The Italian authorities state that they aim to strengthen fiscal discipline by reinforcing their set of fiscal rules. Regarding local and regional government, the ‘Domestic Stability Pact’ defines the measures enabling local and regional authorities to ‘contribute to the achievement of public finance targets’. It includes conditions for taking on new long-term secured loans and other sources of market financing: annual debt service has to remain below a ceiling defined in terms of a percentage of the revenue collected in the two years before the year when loans are contracted. The ceilings are set at 8% in 2012, 6% in 2013 and 4% in 2014. Additionally, a new decree is to detail new procedures for local government entities to reduce the size of public debt, as well as sanctions in the event of non-compliance. Regarding the healthcare sub-sector, the Italian authorities mention the Healthcare Pact and expenditure ceilings on pharmaceutical spending.

The constitutional amendment adopted in April 2012 introduces the principle of a budget balance for the entire general government sector and the principle of a sustainable public debt (Article 1 amending Article 81 of the Constitution). The Italian authorities indicate that the central government budget has to ensure a structural balance between revenue and expenditure unless exceptional circumstances are approved by parliament with an absolute majority.

Sub-national governments —municipalities, metropolitan cities, regions, provinces and autonomous provinces— are required to contribute to public debt sustainability (Article 2(c) of Constitutional Law 1/2012) They are also subject to conditions for borrowing in Article 4 of Constitutional Law 1/2012 amending Article 119 of the

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\(^{38}\) The single database covers all general government bodies’ budget and operating data (short note on Law 196 from MEF).

\(^{39}\) Central state, health entities, university, chambers of commerce, research institutions, social security institutions (at branch level).

\(^{40}\) For the current monthly reporting format, see http://www.rgs.mef.gov.it/VERSIONE-I/Rapporto-m/2012-08/.
Constitution: borrowing is allowed only (i) to fund capital expenditure; (ii) if amortisation plans are adopted; (iii) if the overall budget in each region remains balanced. The same article further stipulates that no state guarantee is allowed for loans contracted by sub-national governments.

The Italian authorities state that the aim is to have secondary legislation in place to implement the constitutional reform by February 2013. This should define the constitutional principles in operational terms and ensure that Italian public finances meet the requirements of the ‘six-pack’ regulation, the Fiscal Compact and the common principles issued by the European Commission. In particular, the secondary legislation is expected to introduce: (i) a fiscal rule on public spending consistent with EU Regulation No 1175/2011, (ii) a fiscal rule on the debt/GDP ratio in line with EU Regulation No 1177/2011, (iii) a definition of exceptional circumstances allowing temporary deviations from the MTO and a definition of the automatic corrective mechanism. To prepare this secondary legislation, a task force of public finance experts has already submitted recommendations to the government.

The constitutional reform provides for an independent entity to monitor public finances and assess compliance with fiscal rules (Article 5 of Constitutional Law 1/2012). Parliament is expected to host this body.

4. Medium-Term Budgetary Framework

The 2009 reform amended Law No 39 of 2011 with the aim of coordinating the Italian budgetary timeline with the European Semester. The Economic and Fiscal Document (Documento di Economia e Finanza — DEF) is the key document for the rolling medium-term budgetary framework. It is prepared annually by MEF and submitted to parliament by the government in April. Under Article 2 of Law 39/2011, it consists of three sections. The first section is dedicated to the Stability Programme: it includes the objectives of economic policy and public finance forecasts for at least the next three years, broken down by sub-sector (central, local, social security); a forecast of the main budgetary aggregates; an update of the budgetary forecast for the current fiscal year; a report on the sustainability of public debt; an analysis of sensitivity to GDP growth and to interest rates (Article 2(2) of Law 39/2011). The second section details, at least for the next three years: (i) macroeconomic trends; (ii) a forecast of the main fiscal aggregates assuming unchanged policies; (iii) results and forecasts for public administration debt and for the main expenditure categories, in particular public employment, social and healthcare. The third section contains the scheme for the National Reform Programme.

The DEF presented in April may be updated in September by the ‘Nota di aggiornamento del DEF’, referred to in Article 2(3) of Law 39/2011.

In October, a budgetary package consisting of the budget bill and the stability bill is presented to parliament by the government. The stability bill contains, for the three reference years, the qualitative and quantitative measures for achieving the fiscal objectives set in the DEF (and in any September update) (Article 3 of Law 39/2011).

5. Mechanisms of coordination across sub-sectors of general government

Article 8 of Law 196/2009 and its amendment in Law 39/2011 stipulate that local governments have to determine fiscal objectives in compliance with the national ones, leading to the adoption of a ‘Domestic Stability Pact’ defining measures to achieve fiscal targets broken down for regions, provinces (including autonomous provinces), and municipalities. The Italian authorities further report that the DEF is submitted to a permanent conference for the coordination of public finances in order to ensure ‘involvement at the sub-national government level’.

The Cypriot government prepared a draft Bill entitled ‘Law on the Medium-Term Budgetary Framework and Fiscal Rules’ which was submitted to parliament for adoption in mid-2012.

1. Accounting and statistics

Cypriot authorities report that the draft Bill foresees the publication of monthly data for the central government and the Social Security Fund before the end of the following month and quarterly data for the local government before the end of the following quarter.

In relation to the implementation of Article 14, the draft Bill stipulates that information on tax expenditure, on contingent liabilities and of the participation of general government in the capital of private and public corporations are to be published.

2. Forecasts

Cypriot authorities report that the draft Bill specifies a number of measures. In particular, the MoF should ensure that: (i) the budgetary planning/budgetary policy should be based on realistic macroeconomic and budgetary projections, using the most up-to-date information; (ii) the budgetary planning should be based on the most likely macro-fiscal scenario or on a more prudent scenario; (iii) the macroeconomic and budgetary projections should be compared with the most updated projection of the Commission and, possibly with the projection of other independent institutions, such as the Central Bank or the Budgetary Council; differences should be explained; (iv) a risk sensitivity analysis should be performed; (v) methodologies, assumptions and relevant parameters on which the forecasts are based should be published; (vi) ex post evaluation should be conducted by the Fiscal Council.

Additionally, Cypriot authorities report that the Fiscal Council, when established, would be responsible for the assessment of macroeconomic and budgetary projections of the Ministry of Finance and the subsequent ratification or differentiation of the projections.

3. Fiscal rules

Cypriot authorities report that the draft Bill foresees the establishment of an expenditure rule, a debt rule, and a budget-balanced rule with associated provisions for an automatic correction mechanism.

4. Medium-Term Budgetary Framework

The draft bill indicates that the budgetary policy is based, among others, on the adoption of a horizon of multi-year budgetary planning, aiming at maintaining the medium-term budgetary Objective.

5. Mechanism of coordination across sub-sectors

Cypriot authorities report that the MoF is responsible to ensure that suitable coordination mechanisms are established among the sub-sectors of the general government, to ensure overall and cohesive coverage of all sub-sectors of the general government in the budgetary planning, the numeric and budgetary rules and in the preparation of the budgetary forecasts, as well as in the determination of the multi-year budgetary framework.
1.13. Implementation of the main provisions of the Directive in Latvia

1. Accounting and Statistics

The Latvian authorities state that the measures to be taken in the areas of accounting and statistics will depend on the final proposals of the Task Force on the implications of Council Directive 2011/85 for the collection and dissemination of fiscal data. The measures will be implemented by the Central Statistical Bureau, the Ministry of Finance and the Treasury.

2. Forecasts

The Law on Budget and Financial Management (LBFM) lays down the principles for the preparation of the Annual State Budget Law (ASBL) and the Medium-Term Budget Framework Law (MTBFL), including the principles for producing the macroeconomic and budgetary forecasts.

The LBFM requires the Ministry of Finance, in cooperation with the Ministry of Economics and in consultation with the Bank of Latvia, to update every year the forecasts for medium-term macroeconomic development. The budgetary framework for the next three years is then prepared based on a realistic macroeconomic development scenario.

Budgetary forecasts are prepared taking into account a base scenario for macroeconomic development. Forecasts are expressed in a cash-based format and cover all sub-sectors of general government.

The supporting documents prepared for the ASBL and MTBFL contain the following information:

- A description of the economic situation of the state and the macroeconomic strategy underlying the state budget, together with a scenario for macroeconomic development. A section on risks outlines the main positive and negative macroeconomic risks.

- A description and analysis of the fiscal situation and development scenario, and the assumptions used in forecasts for all sub-sectors of general government using cash-flow and accrual data based on ESA95 methodology.

The ASBL and MTBFL, together with additional explanatory documents, are publicly available on the website of the Ministry of Finance.

3. Fiscal Rules

On the 12 January 2012 parliament adopted the Fiscal Discipline law (FDL) in its first reading. Subsequently, in the period between the first and the second parliamentary reading, Latvia signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Following the signature of the TSCG the government decided to supplement the provisions of the FDL with the provisions of the TSCG. Therefore, the FDL was amended and is expected to be adopted by parliament by the end of 2012. The draft FDL includes the following numerical fiscal rules:

- Balanced budget rule: the budget balance in structural terms should not be in deficit. Deviations are possible up to 0.5% of GDP for productive public investment projects on a national scale. In practice, the MTO is set at 0.5% of GDP. Likewise, for a particular public investment project on a national scale, a lower structural balance up to 0.5% of GDP could be planned on average over four years in the Medium-Term Budget Framework.

- Expenditure growth rule: real expenditure (the GDP deflator is used) should not grow faster than potential GDP. Exceptions from this rule are allowed in accordance with Article 9 of Council Regulation No 1175/2011 amending Council Regulation No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

- Expenditure ceilings: the FDL provides initial fiscal indicators for developing the MTBFL. One of the key indicators is public expenditure thresholds for the next three years. The FDL states that the expenditure thresholds are inherited, i.e. the expenditure thresholds for the first and second years are inherited from expenditure thresholds in the second and third years of the previous version of the MTBFL. However, if the thresholds according to the latest macroeconomic forecasts differ from the inherited thresholds by more than 0.5% of GDP then the expenditure thresholds are not inherited.

The implementation of the FDL will be monitored by an independent fiscal council. Its mandate is set out in a separate chapter of the FDL.
4. Medium-Term Budgetary Framework

The FDL states that the Medium-Term Budget Framework Law (MTBFL) is one of the instruments for fiscal planning. According to the FDL, the MTBFL is based on the following main principles:

- it will be established for a three-year time horizon on an annual rolling basis;
- it will contain principles for inheriting expenditure ceilings;
- it will cover central government;
- it will be linked to the existing policy planning documents, thus ensuring a more efficient allocation of available resources to government priorities in the medium term;
- the draft Annual Budget Law will be a detailed extension of the first year of the current MTBFL.

The MTBFL was prepared for the first time together with the 2013 Budget Draft Law for the years 2013-2015. It includes: (i) the medium-term budget goals and priority areas of development; (ii) the fiscal aims of the government; (iii) the state budget revenue forecasts; (iv) the state budget financial balance (% of GDP); (v) the maximum state budget expenditure amount (including every ministry and other central state institutions).

The Latvian authorities mention that the MTBFL will be finalised in accordance with the principles set out in the FDL only after the FDL has been adopted and launched under the transition provisions.

5. Mechanisms of coordination across sub-sectors of general government

The FDL applies to all levels of general government. This coverage is ensured by calculating the general government budget balance. However, it should be noted that the FDL specifies expenditure rule and expenditure ceilings directly only for central government and social insurance budget expenditure. The Latvian authorities consider that the application of these rules to other general government sectors will be ensured indirectly by limits on local government borrowing and guarantees already set in the State Budget Law.
To transpose the Directive, the Lithuanian authorities report that a ‘draft law amending the Law on the Budget Structure’ is currently being discussed in parliament.

1. Accounting and statistics

Under the current legislation in Lithuania (the Accounting Law, the public sector accounting and financial reporting standards, etc.), data for annual financial reports are collected on an accrual basis. Data are submitted by all public sector entities41.

For central government and non-budgetary funds, monthly budget revenue and expenditure is calculated on a cash basis. This is done on a quarterly basis for local governments. The Ministry of Finance (MoF) then has 15 calendar days to prepare the State Budget Execution Report for the previous period. Data are sorted by type of budget revenue and functional classification of expenditure on a quarterly basis and are published on the MoF website.

Regarding contingent liabilities, information is collected every quarter on the debt obligations of state-owned enterprises. The government budget report includes information on state-guaranteed loans, non-performing loans and the amount of their depreciation, and provision set aside (for central government).

The Lithuanian authorities are considering additional legislation to fully transpose Articles 3 and 14 of the Directive.

2. Forecasts

The Lithuanian authorities state that the draft law referred to above will transpose the requirements of Chapter III of the Directive. Specifically, secondary legislation to be adopted after the draft law is passed will establish a procedure for evaluating the impartiality of the central economic development scenario and the revenue plans based on objective criteria. Methodologies will also be detailed for the projections of macroeconomic and budget revenue variables.

3. Fiscal rules

The Law on Fiscal Discipline contains a domestic fiscal rule. It states that the finances of the general government sector must adhere to the medium-term objective of ensuring that the general government sector is in surplus or close to balance.

Where the arithmetic average of the general government balance for the past five complete calendar years is in deficit, as known at the time of drafting of the state budget or drafting of amendments to the state budget, the annual growth of state budget appropriations approved or amended by the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the corresponding year (excluding EU financial support) may not exceed one half of the average annual growth rate of state budget revenue (excluding EU financial support funds) for the past five complete budgetary years. For compliance purposes, reports are prepared on the implementation of the budget for the corresponding year with regard to state budget revenue and appropriations.

The draft law amending the Law on the Budget Structure introduces a provision requiring medium-term budgetary objectives to be approved by parliament. If state and/or municipal budget performance statements indicate that the annual improvement in the general government balance has not been achieved, the Prime Minister must present to parliament the reasons for this failure.

4. Medium-Term Budgetary Framework

The Lithuanian authorities report that, at present, the medium-term budgetary framework (MTBF) is adopted by parliament together with the budget and specifies total national budget revenues and expenditures for the next three years. The Lithuanian authorities therefore consider it to comply with Chapter V of the Directive. The Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets is prepared and approved in accordance with the Law on Fiscal Discipline, which means that the projected growth of state budget expenditure cannot exceed the ceilings under the Law on Fiscal Discipline.

41 According to the Lithuanian authorities, the scope of public sector entities and the scope of general government as described in the Directive are almost identical.
5. Mechanisms of coordination across sub-sectors of general government

The draft law amending the Law on the Budget Structure will introduce additional provisions for local government. The budget of any municipality whose budgetary expenditure in cash flow terms exceeds 0.3 per cent of GDP at previous year’s prices should be implemented so that expenditure commitments (excluding investments) do not exceed revenue commitments. Moreover, excess municipal revenues (excluding excess revenue legally earmarked for covering the revenue shortfalls of other municipalities) must go primarily on covering any debt.
1.15. Implementation of the main provisions of the Directive in LUXEMBOURG

A budgetary reform was announced in the government programme 42 2009-2014 and is currently under way. Luxembourg states that it intends to ensure compliance with EU budgetary requirements, making use of the analysis and recommendations prepared by a 2011 OECD working party.

1. Accounting and statistics

The Luxembourg authorities report that their accounting system covers all sub-sectors of general government, including special funds and autonomous bodies, and enables the generation of data reports based on the ESA 95 standard. However, the envisaged budgetary reform should align national budgetary features more closely with ESA 1995 principles.

Luxembourg intends to adjust coordination mechanisms in order to be able to publish cash-based data in compliance with the requirements of the Directive. Regarding municipalities, an amendment to the Communal Law of 13 December 1988 should enable them to produce the relevant statistical information. The methodology for reconciliation between cash-based and ESA 95 data is detailed in volume III of the draft budget bill, but might have to be adjusted depending on the outcome of the future reforms.

Regarding internal control, the Luxembourg authorities state that dedicated procedures are in place in each of the three sub-sectors (central government, local government, social security). Further analysis of independent audit is expected.

2. Forecasts

The National Institute for Statistics and Economic Analysis (STATEC, Institut National de la Statistique et des Etudes Economiques) is responsible for providing the macroeconomic forecasts underlying budgetary forecasts. The Institute’s role and organisation are regulated in Law No 156 of 10 July 2011.

The Luxembourg authorities consider that the preparation of macroeconomic forecasts broadly meets the Directive’s requirements. However, improvements in the field of sensitivity analysis and in ex post evaluation forecasts and a clear delineation of responsibilities in the forecasting process would be required.

3. Fiscal rules

Non-numerical rules targeting debt and expenditure growth in the central administration budget are contained in the government programme 2009-2014. Under the Code de la Sécurité Sociale, minimum cash reserves need to be held by each social security fund, which should in principle ensure annual balanced accounts. Regarding municipalities, Article 118 of the Loi Communale limits their borrowing to the funding of investment spending needs.

The Luxembourg authorities state that these rules will be updated in order to comply with the Directive and the TSCG. In particular, multi-annual numerical rules will be introduced. Coordination mechanisms within general government are to be set up, backed up by an automatic correction mechanism. The new rules are to be monitored by independent bodies.

4. Medium-Term Budgetary Framework

The Luxembourg authorities acknowledge that there is no medium-term budgetary framework in the sense of the Directive. A medium-term budgetary framework structured around the stability programme is to be established. It would include: (i) medium-term fiscal projections under a no-policy change approach; (ii) a medium-term strategy committed to enforcing fiscal rules with a description of the policies envisaged to this end; (iii) long-term fiscal projections. Care will be taken to ensure consistency between the MTBF and the annual budget process. Top-down budgetary procedures within the annual budget cycle should be strengthened as well.

5. Mechanisms of coordination across sub-sectors of general government

An informal committee currently undertakes coordination tasks when preparing updates of the Luxembourg Stability Programme. The Luxembourg authorities state that budgetary coordination across sub-sectors will be reinforced in order to comply with Article 13 of the Directive.

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42 ‘Programme Gouvernemental’: government strategy presented by the Prime Minister to the parliament.
1.16. Implementation of the main provisions of the Directive in HUNGARY

1. Accounting and statistics

Accounting

A modified cash accounting system is applied in the preparation and execution of the budget, which contains the information required for compiling accrual accounting data in accordance with the ESA95 methodology. However, extra-budgetary units apply general (business) accounting.

Internal control and auditing

The external (legislative) audit of public finances is performed by the State Audit Office (SAO). Although the SAO’s methodology differs from independent audit standards, the transparency of the budgetary process is ensured by appropriate data provision and its authenticity is approved by the external audit performed by the SAO. Certain units (e.g. healthcare service providers, local governments subject to certain conditions) are subject to external independent auditing.

The Hungarian authorities report that currently there is no intention to adopt the IPSAS accrual accounting standards. However, the government may revisit this question in the light of the Commission’s upcoming IPSAS suitability report.

Statistics

Monthly flash reports on budgetary execution are published. Both the Budget Bill and the Final Accounting Bill include the budgetary balance and the revenues and expenditures of the budgetary sector and its sub-sectors. However, these reports are based on the national statistical system, which does not necessarily have the same perimeter of government as ESA95.

The monthly budgetary data of central budgetary institutions in terms of economic classification are available in the treasury information system. Local governments report their budgetary revenues and expenditures quarterly in accordance with the uniform economic classification (the same used at central level).

The authorities indicate that they are planning to extend the application of the economic classifications currently in use so as to produce summary tables for all public finances, as of 1 January 2013. They are also planning to publish monthly figures, by the end of the month following the month concerned, showing the cash accounting revenues and expenditures of the central government sub-system and the aggregated accounting data of other units classified in the central government sub-sector. Action is to be taken as from 1 January 2013, with the first publication of data in 2014.

In addition, a further quarterly publication is planned by the authorities, by the end of the quarter following the quarter concerned, including figures for the cash accounting revenues and expenditures of the local government sub-system and the aggregated accounting data of other units classified in the local government sub-sector. Action is to be taken as from 1 January 2013, with the first publication of data in 2014.

In accordance with Article 3 of the Directive, the authorities plan to publish, as of 2014, a methodological compilation describing the transition between the cash accounting data for public finances and the government’s non-financial accounts published by the Central Statistics Office in accordance with the ESA95 methodology.

The statistical requirements in Article 14 of the Directive are partially complied with, insofar as parliament must be informed, on submission of the State Budget Bill, of any indirect transfers via tax revenues under the State Budget Bill, including, but not limited to, a statement of tax reliefs and tax allowances broken down by tax types. When the final accounts are produced, parliament is also given information on the portfolio of government guarantees and government counter-guarantees, the liabilities arising from the operations of state-owned business entities, and any changes in shares.

Finally, some budgetary units also disclose indicative data on PPP obligations in their elementary reports.

Further action is planned by the authorities, as from 1 January 2013, to require the Treasury to keep a register of direct and indirect state/local government shares, to be updated through regular data transmission. Also, the development of a system is planned for 2013 to make data available on local government-owned corporations in the database of the Treasury and to present any claims on non-performing loans in the chart of accounts.

2. Forecasts

The Hungarian authorities report that macroeconomic and budgetary forecasts, both in the convergence programme and in the Budget Bill, are based on the most likely scenario using the latest information available. The macroeconomic and budgetary forecasts are officially published together with the Budget Bill.
Other elements required by the Directive (the comparison of forecasts with those of the Commission or other independent bodies, a reasoned description of the differences between the forecasts of the two institutions and a sensitivity analysis of the macroeconomic and budgetary forecasts) appear to a limited extent in the convergence programme. The Hungarian authorities have pledged to bring legislation fully into line with the Directive by requiring the Budget Bill to include a comparison of the macroeconomic and budgetary forecasts with those of the Commission (and other institutions) and a sensitivity analysis for the key budgetary variables. The authorities also plan to publish the methods, assumptions and relevant parameters for the forecasts underlying the budget.

The SAO audits the management of public finances, specifically the basis for the State Budget Bill (Supplementary Budget Proposal) and the feasibility of revenue appropriations. The convergence programme contains a comparison of key figures in the forecasts of previous and updated programmes. In practice, the SAO does not provide a numerical assessment of the macroeconomic and budgetary forecasts.

The authorities also report their intention to modify legislation to require the State Audit Office and/or the Fiscal Council to assess the macroeconomic and budgetary forecasts presented in the convergence programme and to make this assessment public.

3. Fiscal rules

Hungary has a numerical fiscal rule, which is a debt reduction rule enshrined in the Economic Stability Act. Its scope includes central government, local governments and other bodies classified in the government sector. Compliance with the debt reduction rule is monitored by the Fiscal Council. While the numerical rule applies to the central budget, a separate set of administrative rules are in place for the local government sub-sector to take central control over transactions that would lead to a higher debt burden.

Under an escape clause, deviations from the debt reduction rule are allowed in the event of a permanent and significant economic recession (defined as a decrease in the annual real gross domestic product) to the extent necessary for restoring balance.

The authorities have indicated that the development of a medium-term budgetary framework aimed at meeting the provisions of Stability and Growth Pact is in progress. There are plans to define rules for the budget balance to ensure compliance with the provisions for improvement of the structural balance, the adjustment path to the MTO, and debt reduction. With a view to complying with the Intergovernmental Treaty (Fiscal Compact), a correction mechanism in the event of non-compliance will also be considered.

Consequently, the authorities aim to define rules for the structural balance and the medium-term budgetary objective in Hungarian legislation and, to this end, a methodology to calculate the potential GDP and the output gap. Compliance with such fiscal rules will be monitored by the Fiscal Council.

In addition, the authorities plan to set up mandatory mid-year corrective mechanisms if the deficit or debt figures fail to comply with the rules. Ex post reputational or financial sanctions could also be applied. Such sanctions would be based on statistical data that can be properly measured (e.g. spring-autumn EDP notification) and can actually be influenced by the entity against which the sanction would be applied. Also, the application of sanctions would be subject to the principle of progressivity.

The planned numerical rule is expected to contain escape clauses in three areas: special legal order, natural disasters and significant economic downturn.

4. Medium-Term Budgetary Framework

The current regulations contain a provision for medium-term planning under which the government establishes the planned amounts of state budget revenues and expenditures and the budget balance for three years, to be updated as necessary in accordance with budgetary and macroeconomic trends. Within this budgetary framework, defined in law, the appropriations of the budgetary sectors are presented for at least three years in advance in transparent and quantified terms. In addition, the annual budget is compared with the previously planned medium-term figures.

Despite the three-year perspective described above, Hungary’s current budgetary framework focuses on annual planning and government measures are planned for one budgetary cycle in advance.

Therefore, the development of a medium-term budgetary framework complying with the Directive requires an overall reform of the Hungarian budgetary process. To this end, the authorities aim to develop a mandatory budgetary regime that is well defined and transparent.

Within this new framework, overall revenue and expenditure would be determined for three years in advance. However, this would not necessarily impose any restriction on the government. Revenue and expenditure aggregates could be modified if justified by any change in the macroeconomic situation, but only to the extent justified by those macroeconomic circumstances.
For implementation, it would be necessary to modify the state budget structure. This would offer an opportunity to simplify it. One of the actions the authorities are examining is the introduction of a programme-based budget regime, which would support reconciliation of the medium-term budget framework with sectoral policies.

The authorities report that specific actions on these lines are being developed. They are also considering the following issues: i) in what sense should the medium-term budgetary planning be binding and ii) in what form should it be presented (in combination with or separate from the annual budget).

5. Mechanisms of coordination across sub-sectors of general government

To ensure budgetary balance, Hungary’s Fundamental Law provides that legislation may impose conditions on certain local government commitments or may require the central government’s consent.

To this end, the Economic Stability Act sets out conditions aiming to reduce the debt of the local government sub-system. In particular, it states that the payment obligations of local governments arising from debt-generating transactions must not exceed 50% of their own revenues in any year.

This rule is intended to ensure that local governments do not become insolvent due to their debt service obligations. Simultaneously, it restricts growth in local government debt by banning additional borrowing over the threshold. Furthermore, the law also provides that, as a general rule, a local government may only enter into a debt-generating transaction with the central government’s prior consent.

As of January 2012, a significant number of institutions (controlled by the county) were transferred from the local government sub-sector to the central administration along with the assumption of their outstanding debt. Additionally, hospitals operated by local governments were transferred to the state in May 2012, and the related local government debt will be taken over by the central government by the end of 2013. These actions have reduced local government debt and its expected future growth (at the expense of an increase in central government liabilities).

The authorities plan to introduce a district system in January 2013, which is expected to improve the coordination of local government tasks. Also, the authorities were looking to amend the Economic Stability Act so that the central government’s consent will also be required for amending an existing loan agreement of a local government. This is considered necessary as amendments may affect the essential elements of a contract (term, value or interest rate), which could then affect the level of debt or the debt service of local governments.
1.17. Implementation of the main provisions of the Directive in MALTA

1. Accounting and statistics

As regards national systems of public accounting, the Maltese authorities report that they already have in place a public accounting system that comprehensively and consistently covers all sub-sectors of general government and contains the information needed to generate accrual data in order to prepare data based on the ESA 95 methodology.

Fiscal data for the Consolidated Fund of Government (excluding extra-budgetary units) is published on a monthly basis. Fiscal data for the general government sector is published quarterly. Additionally, a reconciliation table between the working balance and the ESA95 deficit and relevant information on government guarantees is published.

2. Forecasts

The Maltese authorities state that they produce macroeconomic forecasts that reflect the latest macroeconomic data available. Detailed discussions are held at staff level with other independent institutions (the Central Bank of Malta, the European Commission, the IMF during Article IV missions) to share with them the government’s views on the main macroeconomic trends that can be expected to influence growth prospects over the short to medium run.

3. Fiscal rules

The Maltese authorities report that, in order to enhance budget execution discipline and better integrate the medium-term strategy in budget formulation, the MoF is considering the implementation of additional national budgetary rules. In this context, discussions are under way within the different departments of the MoF on a number of concrete proposals from experts working for the MoF. A decision is expected in the coming weeks.

In recent years, a number of measures aimed at enhancing budgetary policy at both the design and implementation stages have sought to strike a balance between greater autonomy of those institutions charged with laying down, designing, implementing and closely monitoring the execution of budgetary policy and the need for lean institutional structures in the public administration of a small state. The Maltese administration recognises the value of greater autonomy, accountability and transparency for the budgetary framework and institutions, so discussions are under way within the different departments of the MoF on a number of concrete proposals for a functionally independent institution. A decision is expected in the coming weeks.

4. Medium-Term Budgetary Framework

Currently, the Budget Speech presented in parliament sets out three-year fiscal targets for deficit and debt ratios as guiding principles for the conduct of fiscal policy. The first year of these multi-annual targets is approved by parliament.

The Maltese authorities report that discussions are under way on ensuring a more multi-annual fiscal planning perspective for national fiscal planning. A decision is expected in the coming weeks.

5. Mechanisms of coordination across sub-sectors of general government

In Malta, the general government sector consists of the central government and the local councils. Under Maltese law, the Department for Local Government is responsible for coordinating, guiding and supervising the local councils. At the same time, it coordinates and consults with the Budget Affairs Division within the Ministry of Finance, the Economy and Investment.


44 The general government sector is made up of the central government sector (S.1311) and the local government sector (S.1313). The central government sector includes the budgetary central government, made up of government ministries and departments, and the extra-budgetary units (EBUs) classified as part of this sector.
1.18. Implementation of the main provisions of the Directive in the NETHERLANDS

1. Accounting and statistics

Accounting and statistics

The Dutch authorities report that their public accounting systems are already able to generate ESA 1995 data. The public accounting systems in place are subject to internal control and independent audits.

Central government fiscal data, including social security funds, are produced in accordance with the Directive’s requirements, with the exception of a minor part of the expenditure and revenue of non-profit institutions under central government.

For local governments, the Dutch statistical office receives but does not publish quarterly data. A reform is under consideration. Like at central government level, a minor part of the expenditure and revenue of non-profit institutions at local government level is not available on a quarterly basis. The draft law on the sustainability of public finances (Wet Houdbare Overheidsfinanciën), submitted to parliament on 24 September 2012 specifies that local governments should provide data of sufficient quality to the Dutch statistical office at a faster pace (within a maximum of 10 working days, instead of the current 30 days).

The publication of a reconciliation table for all sectors of general government is expected in the coming months.

Transparency requirements

The Dutch annual budgetary process and the medium-term budgetary plans include the relevant general government bodies and funds that do not form part of the regular budgets at sub-sector level. An updated list of all general government units will be published by the Dutch Statistical Office in 2014-2015.

Information on tax expenditures is published every year in a separate annex to the Budget Memorandum. Relevant information on contingent liabilities with a potentially large impact on public finances, in particular guarantees, is published for central government in the yearly Budget Memorandum and Financial Report.

Information on central government participation in public corporations is published in the balance sheet of the state and separately in an overview of the public corporations of central government. As regards local governments, contingent liabilities are usually part of their annual reports, but there is no aggregation at national level.

2. Forecasts

Before the start of each government term, the CPB (Bureau for Economic Policy Analysis) publishes a medium-term macro-economic outlook for the Dutch economy. The CPB provides macro-economic forecasts within the annual budget cycle. There is currently no legal obligation for the government to do so, but the new law on the sustainability of public finances is to make this practice mandatory. All assumptions and parameters, the model, the data and the results for the forecasting period are made available in accordance with established practice.

About every five years, the policy relevance and scientific quality of the CPB’s work is assessed by ‘visitation commissions’. Moreover, the CPB itself regularly publishes alternative economic and budgetary scenarios to its own central forecasts (‘onzekerheidsvarianten’). Also, the CPB regularly uses several methods to evaluate ex post the accuracy of its own forecasts.

Finally, the Dutch authorities state that any significant differences between the CPB macro-economic forecasts and the forecasts of the European Commission will be explained in future in the annual Budget Memorandum.

3. Fiscal rules

The central feature of the rules regulating Dutch budgetary policy is the implementation of a medium-term expenditure framework (MTEF) along with other de facto fiscal rules for the budget process (acting as a revenue rule). The MTEF itself is established as a set of principles covering the term of the government implementing it. It is therefore not subject to legally anchored fiscal rules, but is rather the product of a longstanding political tradition. The Dutch authorities indicate that a new framework is under consideration to enshrine this process more formally in law, while combining it with the European fiscal framework, i.e. numerical obligations under the SGP.

The draft new law on the sustainability of public finances will anchor in law the basic principles of the Dutch trend-based budgetary policy. The law will also stipulate that trend-based budgetary policy needs to conform to the Treaty reference values and procedures on debt and deficit, and the MTO. If trend-based budgetary policy
does not lead to outcomes in line with the Treaty reference values or the MTO, additional measures will be taken to increase revenues and/or cut expenditures.

4. Medium-Term Budgetary Framework

The current budgetary process of the Netherlands is already based on a four-year cycle with minimal annual revisions allowed to initial projections. As detailed in section 3 above, this process is not fully formalised in statutory law.

To ensure sound public expenditure, the government adheres to an expenditure framework that fixes the overall level of expenditure during the government’s term. The framework is usually drawn up in the new government’s first Budget Memorandum. It is based on multi-annual expenditure estimates, which are in turn derived from the cautious economic development scenario presented by the CPB. The CPB estimates are extrapolations of current expenditure levels as a result of policies already in place. For the expenditure framework, the effects of new policies in the coalition agreement of the new government are included. The expenditure framework is calculated in real terms. Each year, the framework is adjusted by the latest index for the development of prices and wages, resulting in a nominal expenditure ceiling (the ‘price of National Consumption’, pNC, is used for this). The pNC adjustment is the only adjustment allowed during the government term.

5. Mechanisms of coordination across sub-sectors of general government

The Dutch authorities report that the draft law on the sustainability of public finances will legally anchor the obligation for local governments to contribute their fair share (‘gelijkwaardige inspanning’) to achieving the Medium-Term Objective. The central government and local governments would need to conclude a multi-annual agreement on the budget balance for local governments. To this end, the Minister of Finance, in agreement with the Minister of the Interior and the Minister for Infrastructure after consulting the local governments, would determine the ‘fair share’. Two sanction mechanisms will apply if local governments do not adequately contribute to reaching the MTO. As a first step, they would be required to place a deposit with the central government. As a second step, they would be required to contribute to any EU financial sanction if the Netherlands as a whole does not comply with SGP requirements.

1. Accounting and statistics

The Austrian authorities report that fiscal data presented in accordance with national standards are available on a monthly basis for central government. For State governments and social security, implementation is under way, but the necessary changes in law will not be made until the data requirements are agreed in the Eurostat Task Force on the implications of Council Directive 2011/85/EU for the collection and dissemination of fiscal data.

The National Statistical Institute has the task of implementing the provisions in relation to the quarterly publication of fiscal data for local governments and preparing a detailed reconciliation table.

The identification of all general government bodies and funds that do not form part of the regular budget at sub-sector level is provided for in Article 12(4) of the Austrian Stability Pact. It will enter into force retroactively from 1 January 2012 on. Work on contingent liabilities will be linked the outcome of the Eurostat Task Force.

2. Forecasts

The Austrian authorities report that Article 14(2)(d) of the 2012 Austrian Stability Pact provides for sensitivity analyses.

3. Fiscal rules

The second edition of the Austrian Stability Plan (ASP), released in 2012, has been enhanced and contains several fiscal rules. Deficit targets have been set for the years 2012-2016 (Article 3 of the ASP). From 2017 onwards, Article 4 provides that a budget balance rule in accordance with TSCG rules will kick in. The lower limit for the structural deficit of general government will be set at 0.45% of GDP (0.35% for central government; 0.1% for Länder and municipalities). The new expenditure rule introduced in the SGP at EU level under the revised Regulation 1466/97 will apply to all sub-sectors of general government (Article 9 ASP). Similarly, a debt rule will apply to all general government sub-sectors following EU specifications (Article 10 SGP). National (Article 4(4) ASP) and EU (Article 21 ASP) escape rules will apply.

Overall, the Austrian authorities consider that the numerical fiscal rules conform to Article 6(1)(a) of the Directive. As regards the monitoring criteria of Article 6(1)(b), the National Statistical Institute and the Federal Court of Auditors participate in the enforcement mechanism (Articles 17 and 18 ASP). If an inquiry by Statistics Austria concludes that a fiscal rule of the ASP has not been met, the Court of Auditors is to provide a public assessment. If the Court of Audit concludes that a party is not in conformity with an ASP fiscal rule, a deadline of two months is given to the party to design consolidation measures to improve the budgetary position and to report them to a conciliation body (Schlichtungsgremium). The body contains representatives of all government sub-sectors (two from federal government, two from the provinces, and two from the cities and towns). If the consolidation measures are not delivered or deemed insufficient, the conciliation body can impose fines amounting up to 15% of the deviation (the sub-sector responsible for the deviation is not allowed to vote on the decision). The fined party can appeal against the decision to a court of arbitration (Article 19 of the ASP). The court has to decide unanimously that an excessive deviation does not exist. In that case, the decision is reversed.

4. Medium-Term Budgetary Framework

The medium-term expenditure framework (MTEF) is adopted every year as a basic law and is regulated by Article 51 of the constitution and section 12 of the Federal Organic Budget Act.

The Federal Medium-Term Expenditure Framework Act stipulates binding statutory expenditure ceilings for four years in the future and for five ‘headings’. These correspond to the main responsibilities of the federal government. Headings are broken down into chapters, each assigned to one specific line ministry. They are likewise subject to binding expenditure ceilings. Staff ceilings for each department are also set. Expenditure limits allow for some counter-cyclical effect on the economy: while about three quarters of the expenditure ceilings are expressed in nominal terms, the other quarter vary along defined parameters. This mainly concerns expenditure directly correlating with the business cycle (e.g. unemployment benefits). Each year the MTEF is amended by adding ceilings relevant to the final year of projections.

The Federal Medium-Term Expenditure Framework Act is accompanied by a strategy report. The report provides the public with additional information on the Act and explains its main budgetary and economic policy objectives. It gives an overview of the development of revenues of the federal government and reviews the economic situation and its expected development.
5. Mechanisms of coordination across sub-sectors of general government

The Austrian authorities report that the objective of the Austrian Stability Pact is to have all participating parties strive towards coordinated budgetary positions across the levels of government to ensure appropriate coordination across sub-sectors of general government. Article 14 of the ASP establishes a committee for coordination between the federal government, the States and local governments.
**1.20. Implementation of the main provisions of the Directive in POLAND**

The main elements of the Polish budgetary framework are defined by the Public Finance Law and its consecutive amendments.

1. **Accounting and statistics**

   The Polish authorities report that all entities classified as ‘public finance sector entities’ follow common provisions specified in the Act on Accounting, in particular its Articles 2(1)(1) and 2(1)(4). In addition, the entities classified as a part of the ‘budgetary sector’ (sub-category of the ‘public finance sector’) follow a MoF regulation on special accounting requirements and charts of accounts. This regulation was issued under Article 40 of the Act on Public Finances. Public sector entities apply the principle of accrual accounting for issuing financial statements. As a result, it is possible to generate cash-based reports on budget execution and accrual-based financial statements.

   With respect to audit, some public sector entities with a legal nature are subject to external audit on the basis of the Act on Accounting (Article 64(1)) or the statutory provisions establishing these entities. Additionally, central government and local government entities are subject to audits carried out by the Supreme Audit Office. Local government entities are also subject to audits by the Regional Chambers of Audit.

   Further steps in the area of accounting will depend on the recommendations in the Commission report assessing the suitability of International Public Sector Accounting Standards (IPSAS).

   Analysis is being carried out in order to assess whether the provisions of the Directive relating to the public availability of fiscal data require any changes in domestic law, including possible extension of the budgetary reporting system.

   As regards Article 14(1) of the Directive, for statistical needs, all entities that are classified as a part of the general government sector but are not included in the public finance sector are identified.

2. **Forecasts**

   The Polish authorities report that the government compares its forecasts with the projections of other institutions and presents them to different institutional bodies (Monetary Policy Council, Tripartite Commission for Social and Economic Affairs, parliament, banking analysts) to receive their opinion. Some of these procedures are regulated by legal acts.

   Firstly, budgetary forecasts are assessed by the Central Bank and its Monetary Policy Council. Article 23(1)(2) of the Act on the National Bank of Poland calls for the President of the NBP, on behalf of the Monetary Policy Council, to submit opinions on the draft Budget Act to the Council of Ministers and the Minister of Finance.

   Secondly, the government submits its forecasts to the Tripartite Commission for Social and Economic Affairs. The Commission is a forum for social dialogue in order to reconcile the interests of employees, the interests of employers and public welfare. Under Article 3 of the ‘Act on the Tripartite Commission for Social and Economic Affairs and Voivodship social dialogue commissions’, the government should present a preliminary macroeconomic forecast to the Tripartite Commission each year as a basis for the budget bill for the next year. No later than 15 June, the government must send the Commission its assumptions for next year’s budget draft. The social partners (i.e. representatives of employers and employees) have six days to express their views.

   Thirdly, at the beginning of the budgetary process, the Ministry of Finance, which is responsible for preparing macroeconomic forecasts, usually organises a meeting with private bank economists to exchange views on the short- and medium-term prospects of the Polish economy.

   Finally, after submission of the budget bill to the Polish parliament’s lower chamber (Sejm), the members of parliament can express their opinion on it.

   The Polish authorities also mention that, as a rule, the macroeconomic forecasts used for budgetary planning are based on the external assumptions provided by the European Commission (spring or Autumn Forecast). If these are not available when the Polish projections are prepared, the projections of other international institutions are used (e.g. IMF or OECD).

   Finally, the macroeconomic forecasts used for budgetary planning are assessed *ex post* by the Supreme Audit Office. Under Article 182 of the Public Finance Act, the Council of Ministers must submit to the Sejm and to the Supreme Audit Office by 31 May an Annual Report on the implementation of the budget act for the previous year. The Supreme Audit Office (SAO) presents its opinion on the implementation of the previous year’s budget act, with reference to the macroeconomic assumptions.
3. Fiscal rules

According to the Polish authorities, the current fiscal rules are only partially in accordance with Articles 5 and 6 of the Directive. This applies especially to the debt rule, which promotes adherence to the reference value for debt but does not prevent breaches of the reference value for deficits in the TFEU. Other fiscal rules currently in place only partly cover the general government sector.

The design of a fiscal rule fully compliant with the principles of Articles 5 and 6 of the Directive is almost completed. The rule is to be implemented in Polish law through an amendment to the Public Finance Act. It is intended to stabilise the nominal general government balance at the MTO level in the medium term and prevent public debt from breaching a predefined threshold corresponding to the reference value stipulated in the TFEU. The medium-term horizon for meeting the general government balance target should provide space for countercyclical fiscal policy, as deviations from the target would be allowed in the short run. To reach the MTO, the rule also sets an overall expenditure growth cap for general government, net of expenditure financed with non-returnable EU funds. The formula for the growth cap is based on the medium-term GDP growth rate.

Significant deviations of the general government balance from the MTO in the medium term, a high level of public debt, or the initiation of the EDP procedure will trigger a correction mechanism. This will reduce the expenditure growth limit below the medium term GDP growth rate until the excessive deviation from the target is corrected. The correction mechanism is not expected to be fully automatic, as it will take into account cyclical developments. Escape clauses will come into effect only in the case of war or martial law. Monitoring of compliance with the rule is to be carried out by the Supreme Audit Office.

4. Medium-Term Budgetary Framework

Article 103(1) of the Act on Public Finances defines the Multi-Year Financial Plan of the State (WPFP) as a 'plan of revenues and expenditures as well as incomes and expenses of the State budget drawn up for four budget years'. The Polish authorities state that the Council of Ministers uses the WPFP as a tool for joint strategic planning and budgetary decisions for these particular budgetary years. The WPFP covers all functions of the state, along with objectives and measures of the extent to which specific objectives have been achieved. The WPFP takes into consideration: (i) the objectives of the medium-term development strategy of the state, referred to in the Act on Development Policy Making; (ii) the directions of the Council of Ministers’ socioeconomic policy (Articles 103(2)(1-2) of the Act on Public Finances).

Under Article 105(1-3) of the Act on Public Finances, the WPFP constitutes the basis for preparing a draft budgetary act for the subsequent budget year. For example, it stipulates the level of deficit not to be exceeded in the draft budgetary act. It also specifies ‘the directions of fiscal policy’ (Article 104(1)(2) of the Act on Public Finances), key elements of which also correspond to the current Convergence Programme adopted by the Council of Ministers.

The WPFP also specifies the amount of public debt (Article 104(1)(8) of the Act on Public Finance). The public finance sector debt management strategy (medium-term, four-year strategic document) covers the WPFP’s time horizon. This strategy contains an analysis and forecasts of public debt and its servicing. The Council of Ministers accepts and submits the document to the Sejm together with the draft budgetary act (Article 75(3) of the Act on Public Finances).

Article 107 of the Act on Public Finances provides for yearly updates of the WPFP (‘The WPFP shall be updated by the Council of Ministers by resolution on an annual basis for preparing the budgetary act for the subsequent budget year’).

In order to strengthen the framework described above, further analytical studies are being conducted.

5. Mechanisms of coordination across sub-sectors of general government

Coordination between general government sub-sectors is in accordance with the Act on Development Policy-Making. Under this Act, the minister responsible for regional development coordinates the execution of development strategies and the national strategy for regional development 2010-2020. The financing of development policy is to be based on the multi-annual financial plan of the state and regional contracts.

The MoF prepares guidelines concerning basic macroeconomic indicators for multi-annual planning at the level of local government units. If local government units do not adhere to the assumptions prepared by the Ministry of Finance in their forecasts, they must justify this.
1.21 Implementation of the main provisions of the Directive in PORTUGAL

1. Accounting and statistics

Regarding the comprehensive nature of public accounting systems, the Portuguese authorities report that the implementation of POCP (Official Public Accounting Plan; required by Decree-Law No 232/97) is not yet complete.

Although there is no specific legal provision, monthly cash-based fiscal data are published on the website of the government directorate in charge of the budget (DGO)\(^{45}\), providing a comprehensive breakdown by sub-sector of the execution of the main fiscal aggregates\(^{46}\). The explanatory framework for the transition from cash-based data to ESA95 standards is set out in the State Budget Law Report. The methodology for the transition is not yet explained.

Internal control and independent audit are ensured through Articles 50, 59 and 62 of the Budget Framework Law (BFL).

Regarding Article 14 of the Directive, detailed information on tax expenditure is to be published (Article 32 BFL). The publication of information on contingent liabilities is not required by Portuguese law.

2. Forecasts

While the State Budget Law Report contains forecasts by the Commission and other entities, it presents no justification when national forecasts deviate from the Commission’s forecasts. Sensitivity analysis is only presented in the context of the Stability and Growth Pact procedures. Within the Ministry of Finance, GPEARI\(^{47}\) is responsible for macroeconomic forecasts. Its duties include analysing the impact of the evolution of the relevant macroeconomic aggregates on the management and control of fiscal policy and preparing projections of key macro-economic variables for medium-term budgetary planning. Forecasting methodologies are not yet available. The new Fiscal Council (Conselho das Finanças Publicas, CFB) created in 2011 (Article 12(i) BFL), has been tasked with assessing forecasts. It has a consultative role and communicates its analyses to the President, the government, the parliament, the Court of Auditors and the central bank. The Portuguese Parliamentary Budget Office (UTAO) delivers its own assessment.

3. Fiscal rules

Article 12(c) BFL provides that the general government budget balance, in ESA terms and adjusted for cyclical effects and temporary measures, cannot be less than the medium-term objective. The same Article states that any deviation has to be corrected in subsequent years. Law No 64/2011 of 30 December 2011 sets the target at -0.5% of GDP. Article 10(a) BFL stipulates that the budgets of the administrative public sector, its entities and agencies must be in balance or positive, while Article 10(b) further specifies that each of the sub-sectors should contribute ‘proportionally’ to achieving this budget balance target.

In addition, expenditure ceilings are introduced in the multi-annual budget programme, covering the next four fiscal years, for each budget programme (Article 12(d) BFL).

Finally, Article 87 BFL introduces annual indebtedness ceilings for the central government, autonomous regions\(^{48}\) and local government — the levels of the ceilings are established in the annual Budget Law. Article 12(a) BFL requires autonomous regions and local government to constrain their borrowing in accordance with their respective financing laws without prejudice to Article 87 BFL. In the event of deviations, transfers received from the state budget are reduced. Article 12(i) BFL calls on the CFP issue opinions on compliance with the budget balance rule defined in Article 12(d) BFL, the expenditure rule introduced in Article 12(c) and the borrowing ceilings for autonomous regions and local governments.

4. Medium-Term Budgetary Framework

The Portuguese authorities state that budgetary strategy document (Documento de Estratégia Orçamental) released every year includes budget projections for the main items of government expenditure and revenue for

\(^{45}\) www.dgo.pt.

\(^{46}\) Sub-sectors: Central State, Autonomous Funds and Services, Social Security, Healthcare system, Local and Regional Administration. Monthly data are given for Central State. Cumulative data are available for other sub-sectors.

\(^{47}\) Gabinete de planeamento, estratégia, avaliação e relações internacionais (unit in charge of planning, strategy, evaluation and international relations).

\(^{48}\) Azores and Madeira.
the following four years as well as a description of the medium-term policies envisaged and their long-term impact on public finances. However, the presentation of a budgetary strategy document is not required by law.

Additionally, the government presents a draft state budget law to parliament every year together with a multi-annual budgetary programme, updated annually for the next four years (Article 12(d) BFL). The multi-annual budgetary programme was prepared and published for the first time in April 2012 in the 2012-2016 fiscal strategy document. It is updated annually for the next four years, in the State Budget Law, in line with the objectives of the Stability and Growth Programme. It establishes the limits for expenditure funded by general revenue for central government as a whole and for each of its programme budgets provided for in the BFL. The expenditure limits are binding for each of the individual programmes for the year 2013 and serve as indicators for subsequent years. The expenditure limits are binding for the programme groups for the years 2013 and 2014, and then for the consolidated amount of the programmes in 2015 and 2016.

5. Mechanisms of coordination across sub-sectors of general government

The Portuguese authorities claim that coordination is achieved through informal procedures.
1.22. Implementation of the main provisions of the Directive in ROMANIA

1. Accounting and statistics

The Romanian authorities state that its accounting system covers all sub-sectors of general government and has included the information needed to generate data reports based on the ESA 95 standard since 2006. Monthly cash-based budget outcomes are published on the website of the Ministry of Public Finances (MoPF) every month. A breakdown by sub-sector (central government, local government, social security, etc.) is available.

Regarding contingent liabilities, the Fiscal Responsibility Law No 60/2010 (FBRL) stipulates that most are included as a rule in the fiscal forecasts. A separate risk statement lists the contingent liabilities that are not included, together with information on losses and outstanding payments of state-owned enterprises (Article 20 FBRL).

2. Forecasts

The National Commission for Prognosis is responsible for providing macroeconomic forecasts for the current budgetary year and the following three years (Article 31, Public Finance Law No 500/2002), with yearly updates. The forecasts are reviewed by the Fiscal Council, published, and considered by the government and parliament for the approval of budgetary plans (Article 40 FBRL). Eventually, they feed into the Fiscal and Budgetary Strategy document, which is approved by the government and published on the MoPF’s website.

Assumptions underpinning the forecasts and a statement justifying potential discrepancies with the European Commission’s forecasts are included in the Fiscal and Budgetary Strategy document (Article 19 FBRL). The document also contains an analysis of the sensitivity of the fiscal targets to macroeconomic variables (growth, interest rate, exchange rate), together with an analysis of fiscal risks (Article 20 FBRL). Additional sensitivity analyses on debt and interest payments are presented during the fiscal process.

Furthermore, Romania is preparing the adoption of several amendments to the FBRL in order to strengthen existing rules and procedures regarding forecasts. In particular, the need for prudent macroeconomic forecasts is to be introduced, together with an obligation for the Fiscal Council to assess macroeconomic forecasts ex post and an obligation for the government/parliament to adopt and publish measures whenever a ‘relevant subjective trend’ affecting the forecasts for at least four consecutive years is identified. Additional reviews of the main fiscal aggregates based on additional assumptions regarding growth and interest rates are expected.

3. Fiscal rules

Romania has introduced 8 fiscal rules (Article 6 FBRL) to strengthen fiscal discipline. These rules target: the overall and primary budget balance, personnel expenditure, expenditure excluding EU funds and personnel aggregated for all sub-sectors, and use of surplus.

Compliance with these rules is monitored by the Fiscal Council (Article 40 FBRL). In the event of deviations from the fiscal rules, the government is expected to provide explanations and propose timely correction measures to parliament (Article 21 FBRL). Sanctions for non-compliance include joint and individual political responsibility of members of the government (Article 52 FBRL) and potential financial penalties (Article 56 FBRL).

The FBRL’s scope is expected to be further expanded to ensure the compliance of numerical fiscal rules with medium-term targets contained in the MTBF. Further amendments taking into account new EU regulations and the TSGC are also expected, for instance in relation to escape clauses and debt reduction.

4. Medium-Term Budgetary Framework

Romania has adopted three-year multi-annual budgetary planning with targets for deficit and expenditure, reimbursable financing and a ceiling for guarantees (Articles 18-20 FBRL). The Fiscal and Budgetary Strategy is the public policy document that establishes the fiscal and budgetary objectives and priorities and sets the
spending and revenue for the consolidated budget (Article 3 FBRL). It includes projections of major expenditure and revenue items, as well as a description of the main policies impacting fiscal targets.

The draft annual budget presented to parliament complies with the fiscal rules and with the Fiscal and Budgetary Strategy (Articles 21 and 24 FBRL). The Romanian authorities state that any discrepancies between the annual budget and the MTBF, together with a commitment from the Prime Minister and the Minister of Finance to address them by a specified deadline, will be made public. In addition, Article 25(3) FBRL provides that ‘the fiscal and budgetary strategy should contain a section detailing and explaining differences from the version previously approved by Parliament.’

The conditions for revision of the Fiscal and Budgetary Strategy are defined in the FBRL (Chapter VIII). In particular, Article 23 FBRL states that the fiscal and budgetary framework of the fiscal and budgetary strategy can be reviewed in case of a change of government. At the start of a mandate, a new Executive will make public if its governance programme complies with the last fiscal and budgetary strategy approved by the Parliament. If not, the Ministry of Public Finance will prepare the draft of a new fiscal and budgetary strategy. The revision of any major budget document, including the annual budget and the Fiscal and Budgetary Strategy, is subject to review by the Fiscal Council (Article 25 FBRL).

Romania intends to establish a multi-annual objective for general government debt and to amend the FBRL consequently.

5. Mechanisms of coordination across sub-sectors of general government

The Romanian authorities report that the provisions of the FBRL (including multi-annual planning, compliance with fiscal rules) apply to all entities contributing to the general consolidated budget (Article 2 FBRL), in particular central government (including social insurance), local government and subordinated bodies).

The MoPF is responsible for the coordination of budgetary planning for all sub-sectors. In particular, under Articles 37-39 of Law No 273/2006 on local public finance, it issues instructions in a framework letter for the drafting of local budgets, the macroeconomic framework, and ceilings concerning fiscal transfers from the state budget. For monitoring purposes, local authorities submit their draft budgets to the MoPF, followed by their approved budgets at a later stage.
1.23. Implementation of the main provisions of the Directive in SLOVENIA

The Slovenian authorities state that budget planning procedures in Slovenia are defined in the Public Finance Act (2000) and the decree on development planning documents and procedures for the preparation of the national budget (2010). They both need to be amended to implement the Directive and meet improved budgeting standards.

1. Accounting and statistics

The Slovenian authorities report that their public accounting systems comprehensively and consistently cover all sub-sectors of general government and contain the information needed to generate accrual data in order to prepare data based on the ESA 95 standard. The data are regularly published in a monthly review. All historical annual data in consolidated balance sheets as well as separate data for social security funds are also available on the website of the Ministry of Finance51.

Accounting systems are subject to internal control by the Budget Supervision Office of the Republic of Slovenia. As the central body of the public internal financial control system, it is responsible for the development, harmonisation and supervision of the financial management and internal control system and for the internal audit of direct and indirect budget spending centres at central and local level52.

Accounting systems and budgeting have also been regularly revised by the Court of Audit of the Republic of Slovenia. This is the supreme body for supervising state accounts, the state budget and all public spending in Slovenia53.

All Slovenian treasury reports concerning the state budget, municipality budgets, state and municipal entities are on a cash basis. Other providers of public services are reported on an accrual basis. The consolidation of reports for the public sector and all public-sector providers of public services are based on cash-basis reports (all other providers of public services are obliged to keep books on both an accrual and cash basis). A reconciliation table is not published.

The Ministry of Finance publishes data on government guarantees, with a lag of one quarter. Data on the participation of general government in the capital of private and public corporations is published on the website of the Assets Management Agency of the Republic of Slovenia54 as well as the MoF’s website.

2. Forecasts

Macroeconomic forecasts used for fiscal planning are prepared by an independent government office — the Institute of Macroeconomic Analysis and Development (IMAD)55.

IMAD performs the following tasks: (i) monitoring and analysing current developments and the economic, social and environmental dimensions of development, based on the national development orientations; (ii) producing macroeconomic forecasts as the official basis for the budget; (iii) preparing analyses for the formulation of economic policy orientations and measures; and (iv) research work.

The Slovenian authorities report that IMAD is required by a government decision regulating its organisation and responsibilities to make professional and unbiased forecasts. It takes responsibility for its forecasts and also for disseminating background information. Under the Decree on Development Planning Documents and Procedures for the Preparation of the National Budget and Budgets of Self-Governing Local Communities (Official Gazette RS, No 54/2010), IMAD prepares forecasts twice a year (spring and autumn forecasts). These forecasts include projections of macroeconomic aggregates for the current and the next two years and a scenario for the upcoming three years. The forecasts and the scenario are supplemented by an assessment of the main risks.

53 http://www.rs-rs.si/rsrs/rsrseng.nsf/uvod?openForm.
54 http://www.auknrs.si/en/PORTFOLIO.
A short explanation accompanying the published forecasts provides the assumptions behind the forecasts, the differences relative to the preceding forecasts, possible implications for economic policy, and occasionally a brief description of divergent opinions given by external experts in the process of testing the forecasts (part of the preparation phase). Further transparency is provided by analytical explanations and a statistical appendix in the Spring and Autumn Reports, which IMAD presents to the public.

The outcome of the forecasts is monitored through regular analyses of current economic developments, which are carried out to validate the forecasts and to detect any new risks. The results of this monitoring are published in the Slovenian Economic Mirror, IMAD’s monthly publication. IMAD regularly communicates with experts and the media and, if there are any major discrepancies between forecasts and actual trends, IMAD gives reasons and explains the extent of these differences.

Since 2002, IMAD has also regularly prepared an assessment of forecasting performance based on a number of objective statistical criteria for the quality of forecasts and for various time horizons. The results are published in IMAD’s spring and autumn forecasts and are verifiable. The assessment also provides comparisons between IMAD’s forecasts and those of the European Commission and other institutions in Slovenia and abroad. The accuracy of the forecasts for macroeconomic indicators is measured against a number of statistical criteria for the quality of the forecasts and for various time horizons.

3. Fiscal rules

The Slovenian authorities report that a proposal for a new fiscal rule (described below) has not yet been agreed at political level. This proposed budget balance rule is similar to the Swiss debt brake formula:

$$G_t = k_t R_t$$  \[ k_t = \frac{Y^*_t}{Y_t} \]

In any period (t), the maximum level of expenditures (G) must equal the level of revenues (R), adjusted by a business cycle factor (k). This business cycle adjustment factor is aimed at stabilising expenditures around the level of cyclically adjusted revenues, and consists of the ratio between the trend (real) output (Y*) and the actual (real) output (Y). Therefore, if the factor k is larger than one, a deficit is allowed (cyclical deficit), but if the factor k is smaller than one, a (cyclical) budgetary surplus is required. The rule would apply to general government revenues and expenditures in ESA terms. It would include unemployment benefit spending.

4. Medium-Term Budgetary Framework

Slovenia prepares and enacts annual budgets for two consecutive years on a rolling basis. Article 13(a) of the Public Finance Act requires the government to submit a complete budget for the subsequent year together with the budget for the budget year. The budget for the subsequent year includes the Budget Memorandum, the proposed central government budget with explanations, proposed sales of assets, proposed changes in law, and proposed financial plans for the social security funds and for public funds and agencies funded by central government.

The Budget Memorandum is submitted to the National Assembly together with a proposed two-year rolling budget for central government and an overall expenditure framework for general government for n+3 years. It is adjusted from year to year on a rolling basis in the light of economic circumstances and new developments. The timing and time horizon of budget constraints are set within a framework of medium-term objectives for public finances taking into account the real budget deficit. Under the Public Balance Act, the Budget Memorandum includes guidelines for economic and fiscal policies and structural reforms and measures on both the expenditure and revenue side. It also includes estimates of the long-term sustainability of public finances. The timeframe for revision of the Budget Memorandum follows the first steps in the update of the Slovenian Stability Programme. Projections of fiscal targets are made using the medium-term scenario for economic trends, which is based on the Spring Forecast of Economic Trends and IMAD’s March international environment assumptions. The medium-term objectives adopted form the basis for the draft Budget Memorandum, which is presented to the Cabinet in April. The Cabinet decides on overall nominal expenditure ceilings, the target debt and the deficit or surplus for a 4-year period, the priorities for the budget period and the expenditure framework at policy level (programme classification) for the central government budget. In September, IMAD prepares the Autumn Forecast of

56 Mean error, mean absolute error, root mean square error, standardised mean absolute error and standardised root mean square error.


58 According to the Slovenian authorities, unemployment benefit spending—which fluctuates with economic cycles—is excluded from the rule in Switzerland. Unemployment insurance has a separate account with its own budgetary requirements.
Economic Trends, which can (if necessary) amend the Budget Memorandum (prepared by MoF) and the budget proposal within the medium-term objectives.

5. Mechanisms of coordination across sub-sectors of general government

The Slovenian authorities report that budgetary planning includes consultations between all four units of general government — state budget, local communities, health insurance and pension insurance — as well as the public funds and agencies whose financial plans are to be submitted to the National Assembly, which adopts the budgets. Planning is facilitated by the fact that local governments need the approval of the MoF for borrowing. In practice, state budget coordination is led by the MoF via bilateral consultation and negotiation with line ministries. Mechanisms for coordination across ministries of general government are defined in a decree on development planning documents and procedures for the preparation of the national budget (2010), but are being revised.

The main building block of the Slovak fiscal framework is a detailed three-yearly general government budget, the State Budget Act, prepared and approved by the government. While the first year is binding, the remaining years of the multi-annual budget are not and are updated annually. Since 2002, the State Budget Act has contained a cash-based expenditure rule for the state budget (covering the majority of central government entities). Local governments are constrained by several interrelated debt-based rules.

On 8 December 2011, the Slovak parliament adopted a constitutional law on fiscal responsibility. Amongst other things, it establishes an independent Fiscal Council and introduces a system of early sanctions related to the level of public debt.

1. Accounting and statistics

The Slovak authorities report that accounting units within general government prepare accounts in cash-based terms, which are used in turn to build ESA 95 data. Accounting units also produce IPSAS accounts, which may be used in future for the preparation of ESA95 data. The public accounting system is subject to internal control and independent audit.

Slovakia publishes cash-based fiscal data for the state budget (i.e. central government except for state funds and minor central agencies) on a daily basis. The data are available on the MoF website and come from the State Treasury. The Slovakian authorities acknowledge that further efforts would be necessary to release monthly data for the whole central government sector and social security funds. The local authorities do not release quarterly fiscal data. The methodology explaining the transition between cash-based fiscal data and ESA 95 data is also lacking.

Regarding the implementation of Article 14, new elements specified in the constitutional Fiscal Responsibility Law have been incorporated into the 2013-2015 general government budget documentation for the first time:

(i) tax expenditures;
(ii) contingent liabilities (including government guarantees);
(iii) implicit liabilities;
(iv) participation of general government in the capital of private and public corporations.

2. Forecasts

To ensure the transparency and objectiveness of macroeconomic and budgetary forecasts, the MoF regularly consults two committees: the Macroeconomic Forecasts Committee and the Tax Revenue Forecasts Committee. These advisory committees were established by the constitutional Fiscal Responsibility Law. Their members come from the Central Bank of Slovakia, the financial sector, academia and the Fiscal Council (with observer status). The committees evaluate the forecasts provided by the MoF. If a majority of committee members consider the forecasts to be realistic or conservative, they become official forecasts to be used for budget preparation. If a majority of members disagree with this, the MoF has to provide another forecast.

The Tax Revenue Forecasts Committee has to prepare, at least twice a year and by 15 February and 30 June, revenue forecasts from taxes and social security contributions. The Macroeconomic Forecasting Committee has to prepare, at least twice a year, macroeconomic forecasts by 15 February and 30 June of the current fiscal year. The opinions of the two committees are public. There is no ex post evaluation of forecasts.

3. Fiscal rules

Since 2002, the State Budget Act has contained a cash-based expenditure rule for the state budget (covering the majority of central government entities). Local governments are constrained by several interrelated debt-based rules.

Debt ceiling for general government

The new Fiscal Responsibility Law that entered into force in March 2012 sets a ceiling in the constitution for general government gross debt, which may not exceed 60% of GDP. Automatic sanctions, also established in the constitution, are triggered at the following debt bracket levels:

- From 50 to 53% of GDP, the Ministry of Finance sends to the parliament a written explanation including debt-reducing measures.
- From 53 to 55% of GDP, the government submits to parliament debt-reducing measures. The salaries of Cabinet members are reduced to the levels for the previous fiscal year.

- From 55 to 57% of GDP, the Ministry of Finance sets aside 3% of state budget expenditures (excluding government debt service, EU funds, contributions paid to the EU, transfers to the Social Insurance Company). At the same time, the government may not propose to parliament a draft state budget with any nominal year-on-year increase in general government expenditure. Local governments are required to approve budgets with expenditures not exceeding those of the previous year’s budgets.

- From 57 to 60% of GDP, the government may not submit to parliament a draft budget of the general government in deficit. Local governments are required to approve a budget that is balanced or in surplus for the next fiscal year.

- Above 60% of GDP, the government must ask parliament for a vote of confidence.

The Fiscal Responsibility Law provides for escape clauses to suspend sanctions for a period of three years. They apply in the event of a major recession, a banking system bailout, a natural disaster, and international guarantee schemes.

As from 2018, the debt ceiling, together with the intermediate alert thresholds, will be reduced annually by one percentage point down to 50% of GDP (in 2027).

Public expenditure ceilings

Although public expenditure ceilings are referred to in the Fiscal Responsibility Law, the precise procedure for fixing them is to be specified by a law under preparation. It is to be based on a sustainability indicator (GAP)60 calculated by the Fiscal Council established by the Fiscal Responsibility Law. After the GAP value is published, the government will have to define a path compliant with Stability and Growth Pact requirements with a view to improving this indicator over its 4-year term. Based on these targets, the expenditure ceilings for general government less local governments will be set accordingly.

Debt rule for local governments

Local governments (municipalities and self-governing regions) are allowed to borrow (from outside the general government sector) only if a) the total sum of the debt of the municipality or self-governing region does not exceed 60% of final current revenues for the preceding budget year and b) the sum of the annual instalments of the loans does not exceed 25% of the final current revenues for the preceding budget year. Sanctions applicable from 2015 would amount to 5% of the difference between the final current revenues of the preceding budget year and the amount corresponding to the 60% threshold.

Balanced budget rule for local governments

According to the rule, the current budgets of local government have to be adopted as balanced or in surplus. The law governing the budgetary rules of local governments lists the possible cases where the current budget could be in deficit: when budgeted expenditures contain earmarked funds from the state budget or from the budget of the European Union and unspent funds transferred from previous years. The capital budget can be in deficit (according to golden rule principles) if this deficit is financed by unspent funds of local governments transferred from previous years, loans or the surplus of the current budget in the fiscal year concerned.

The implementation of all fiscal rules is to be monitored by the newly created Fiscal Council.

4. Medium-Term Budgetary Framework

The main building block of the Slovak fiscal framework is a detailed three-yearly general government budget, the State Budget Act, prepared and approved by the government. While the first year is binding, the remaining years of the multi-annual budget are not and are updated annually. It includes: (i) general government deficit targets; (ii) general government gross debt forecasts; and (iii) summary indicators for revenues and expenditures for all sub-sectors of general government. The current general government budget (covering the years 2013-2015) includes a chapter on implicit liabilities and on the long-term sustainability of public finances.

The Slovak authorities note that a no-policy change (NPC) scenario, with projections for each major expenditure and revenue item for the budget year and beyond, is published in the annual Stability Programme. The envisaged medium-term policies with an impact on general government finances (including the adjustment path towards the medium-term budgetary objectives compared to the NPC) are also described in the Stability Programme, but not explicitly in the Slovak MTBF. The annual budget legislation is ‘inherently’ consistent with the MTBF, as it is an integral part of the general government budget.

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60 GAP is the difference between the current value and the sustainable value of the structural primary balance expressed as a percentage of GDP. Long-term sustainability means a national economic performance ensuring that the general government balance and general government debt are such that any expected change in the general government’s revenues and expenditures under the baseline scenario does not bring the general government debt above the upper debt ceiling in the next 50 years.
5. Mechanisms of coordination across sub-sectors of general government

The Slovak authorities consider that the general government budget includes assumptions for the fiscal development of all general government entities. However, different assumptions might be used by local governments, given their constitutional independence when preparing their own budgets. Still, these budgets have to be compliant with the existing fiscal rules as stipulated in the law governing the budgetary rules of local governments.
1.25. Implementation of the main provisions of the Directive in Finland

The Finnish authorities report that measures to implement the Directive are to be published in October 2012. A draft proposal covering both the Fiscal Compact and the Directive will be submitted to parliament. It will specify the process for adoption of a fiscal rule by the government and other issues related to fiscal councils.

In parallel, the Finnish authorities are expected to receive a mandate to propose secondary legislation in order to adopt new rules or procedures to implement other provisions of the Directive on budgetary frameworks. The new secondary legislation is to implement several articles of the Directive.

The Finnish authorities declare that the new legislation will be anchored within the existing framework, which promotes a medium-term orientation.

1. Accounting and statistics

Statistics

The Bank of Finland issues detailed data every month on central government operations (revenues and expenditures)\(^{61}\). Statistics Finland produces quarterly data for local governments (broken down by municipalities).

Auditing

The National Audit Office is Finland’s supreme audit institution and operates in conjunction with parliament. It audits the state’s finances and asset management.

Contingent liabilities

Statistics Finland provides general government financial accounts describing in particular the financial assets and liabilities of general government. Quarterly statistics on the finances of municipalities contain data describing the municipalities’ profit and loss accounts and investments, as well as their liabilities. Statistics Finland also issues a table on central government guarantees\(^{62}\).

2. Forecasts

Up to now, macroeconomic and budgetary forecasts have been the responsibility of the Ministry of Finance.

The Finnish authorities consider that the independence and objectivity of macroeconomic and budgetary forecasts will be ensured and strengthened by enhancing their transparency and by organising quality control on a regular basis.

3. Fiscal rules and medium-Term Budgetary Framework

According to the Commission database on fiscal frameworks, spending limits in 2012 prices have been set by a political decision for the legislative term 2012-2015. They cover around 80% of central government expenditure. Since 2011, an additional debt rule has been in force. Corrective measures at the level of central government expenditures and revenues are to be taken if the debt-to-GDP ratio does not shrink. The debt rule is in force for the entire current legislature. The Ministry of Finance is responsible for monitoring and enforcing compliance with the rule. In the event of non-compliance, the Ministry of Finance will propose necessary corrective measures to the Cabinet. Exceptions are possible in specific situations.

4. Mechanisms of coordination across sub-sectors of general government

A law on local government finances is under preparation and will take into account the Directive’s requirements.

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\(^{61}\) http://www.netra.fi.


In the 2011 Spring Fiscal Policy Bill (prop. 2010/11:100), the Swedish government announced that it would continue to develop and strengthen the fiscal policy framework during its term. In particular, a Code of Conduct for fiscal policy in the form of a government communication was submitted to the Swedish parliament (Riksdag) in 2011. The communication was based around a summary of statutory rules and practice. Its purpose is to enhance fiscal policy sustainability and transparency by institutionalising important principles used by the government, and by strengthening the credibility of Sweden’s compliance with the recent reforms to the EU framework.

1. Accounting and statistics

Obligation to provide data

Data on central government operations (revenues and expenditures) are published on a monthly basis. The ‘monthly outcome of the Central Government Budget’ is available monthly on the MoF website.

The Official Statistics Act (2001:99) requires businesses, municipalities and organisations to provide information for official statistics. In March 2011 the government decided to appoint a special investigator to review the official statistics and the statistical system. The inquiry will include a review of the reporting obligations under the Official Statistics Act. The report on the inquiry will be issued in December 2012.

Comparison Table

The Swedish National Financial Management Authority is responsible for the table showing the structure of the ESA 95-based data (Table 2A in the EDP).

Audit provisions

The Swedish National Financial Management Authority audits the financial statements from central government. The municipal audit is performed by municipal officials under the guidance of the Swedish Council for Municipal Accounting, which is a non-profit organisation established by the state and the Swedish Association of Local Authorities and Regions. The Council interprets generally accepted auditing standards and makes recommendations to local auditors. It also makes sure that its recommendations are communicated to local auditors and used in the external audits. If local auditors diverge from a Council recommendation, they should disclose their reasons for doing so in a note.

Contingent liabilities

The Central Government Annual Report includes data and analyses on contingent liabilities in the form of central government guarantees as well as government loans with credit risks. Both the scale of outstanding commitments and projections of expected losses are reported. As from 2012, the National Debt Office is to publish a detailed, publicly available communication on state guarantees and other contingent liabilities63 64.

As regards the municipalities, Statistics Sweden collects economic statistics every year from the municipal financial statements under the Official Statistics Act. In conjunction with their balance sheets, the municipalities submit information on guarantees and other contingent liabilities.63 As regards the counties, the Swedish Association of Local Authorities and Regions collects data on behalf of Statistics Sweden from the county councils’ balance sheets. The regions state their contingent liability for pension obligations and for other guarantees and indemnities.

Ownership in private and public companies

Statistics Sweden annually surveys companies owned by the state, counties or municipalities. The survey covers companies where at least 50 per cent of the shares, units or equivalent, are government-owned. The variables collected include the number of firms, number of employees, legal form, sector and the financial records included in the income statement and balance sheet.

63 This includes: (i) guarantees and loss responsibility for housing and single-family homes; (ii) guarantees and other commitments to municipal housing companies; (iii) guarantees and other commitments to other housing companies/associations; (iv) guarantees and other commitments to other municipal businesses; (v) contingent liabilities, excluding housing enterprises and municipal businesses, and (vi) contingent liability for pension obligations.

The income statement and balance sheet reports for municipalities and counties include companies over which a municipality or county has significant influence. The accounts are consolidated to provide a broad picture of the municipality and county council’s overall economy, including government-owned companies.\textsuperscript{65}

2. Forecasts

The presentation of forecasts is regulated in the Budget Act (Chapter 9, Article 3). The government submits forecasts of government revenues and expenditures, government borrowing and spending under the expenditure ceiling for the current year and the three following years to the Riksdag in the Budget Bill and the Spring Fiscal Policy Bill. The published forecasts incorporate the proposals included in the bill in question. Wherever possible, the impact of fiscal proposals on public finances, GDP, employment and income distribution is analysed and published.

The Swedish authorities state that the forecasting methods and models are based wherever possible on the latest developments in research. As far as possible, the government presents computing conventions to indicate how the forecasts and effect estimates are obtained.

Alternative scenarios

In addition to a main scenario, the government presents a number of alternative scenarios to illustrate downside and upside risks in economic developments.

Ex post assessment

The Swedish authorities report that the government has instructed the National Institute of Economic Research (NIER) to produce annual comparisons of different forecasters’ predictions and their accuracy.\textsuperscript{66} Another institution, the Swedish Fiscal Policy Council, may review and assess the quality of the forecasts presented and the models on which the forecasts are based. The comparisons must include the government’s forecasts. A government assessment of economic developments in Sweden and the public finances is normally presented twice a year: once with the Spring Fiscal Policy Bill and once with the Budget Bill. If economic developments so require, the government also presents its economic evaluation on other occasions, providing a comparison with the assessment in the most recent bill.

3. Fiscal rules

The surplus target

The government is required under the Budget Act (Chapter 2, Article 1) to propose a target for general government net lending. On that basis, the Riksdag has decided that the surplus target is to be equal to net lending amounting to 1 per cent of GDP on average over a business cycle. The present level of the surplus target is to be maintained as long as necessary for the sustainable long-term development of public finances. The suspension of the surplus target can be proposed by the government but the final decision is taken by the Riksdag.

The Swedish authorities monitor the surplus target with a set of indicators, since they consider that the economic situation and the business cycle cannot be measured precisely. The uncertainty in the assessment is also taken into account, along with the risk of deviations from the forecast and the possibility that the business cycle is asymmetric. The government applies a number of principles as to how target deviations should be managed, depending on their magnitude and the economic situation.

The expenditure ceiling

The Budget Act (Chapter 2, Article 2) requires the government to propose a nominal ceiling in the Budget Bill for all central government expenditure (except interest expenditure) and the expenditure of the pension system. The Riksdag approves the expenditure ceiling. An important function of the expenditure ceiling is to provide conditions for achieving the surplus target. The ceiling’s level should also promote a desirable long-term development of central government expenditures.

\textsuperscript{65} http://www.ssd.scb.se/databaser/makro/MainTable.asp?type=tansss&xu=C9233001&omradekod=OE&omradetext=Public+finances&lang=2&langdb=2.

\textsuperscript{66} NIER performs analyses and forecasts of the Swedish and international economy and conducts related research. It is a government agency accountable to the Ministry of Finance. Like other Swedish government agencies, NIER is independent and is responsible for the analyses and forecasts that it publishes. Its mandate is set out in a regulation (Regulation 2007:759). NIER monitors the current development of the economy. Four times a year, it publishes its latest analysis and forecasts in a series of reports entitled ‘the Swedish Economy’. The reports include detailed forecasts for two years ahead and a more overall assessment of economic development for four years ahead - http://www.konj.se/4.70c52033121865b1398800099246.html.
The established practice is for the ceiling to apply to expenditure areas 1–25 and 27 plus the off-budget expenditures for the old-age pension system. The ceiling does not include expenditure area 26 (mostly interest payments). The items covered by the ceiling comprise almost all public sector expenditures, with the exception of local government expenditure. Within the overall expenditure ceiling, a certain budget margin is included. The budget margin is primarily intended to provide a buffer if economic developments cause expenditures to differ from initial estimates.

Although there are no legal obstacles, it has become the practice not to amend the expenditure ceiling. The ceiling on central government expenditure is to remain unchanged from the time when the ceiling is fixed for a given year until that year has passed. The ceiling has been altered on just a few occasions, due to changes in the direction of budget policy. It was lowered in every case.

If there is a risk of exceeding the expenditure ceiling, the government has to take measures to prevent this from happening. If the government does not have the authority to take the required measures, it has an obligation to propose these measures to the Riksdag (Chapter 2, Article 4).

**Monitoring bodies**

The Fiscal Policy Council (FPC), in accordance with its mandate, monitors and evaluates the extent to which the fiscal and economic policy objectives proposed by the government and decided by the Riksdag are being achieved, thus contributing to more transparency and clarity about the aims and effectiveness of economic policy. In particular, the FPC, based on the Spring Fiscal Policy Bill and the Budget Bill, assesses whether fiscal policy is consistent with long-term sustainable public finances and budgetary targets, particularly the surplus target and the expenditure ceiling. Its aim is to: (i) assess whether the fiscal policy stance is consistent with cyclical developments in the economy; (ii) assess whether fiscal policy is in line with long-term sustainable growth and leads to long-term sustainable high employment; (iii) examine the clarity of these bills, particularly with respect to the specified basis of economic policy and the reasons for proposed measures, and (iv) analyse the effects of fiscal policy on the distribution of welfare in the short and the long run. The government’s comments on the FPC’s opinions are included in the Budget Bill.

The National Audit Office is an authority under the Riksdag with the task of monitoring central government activities. The government is required, not later than four months after receiving an assessment from the Office, to submit a statement to the Riksdag concerning the measures it has taken or intends to take in the light of the assessment (Chapter 4, Article 18).

**Balanced budget requirement for local governments**

A balanced budget requirement for local governments has been in force since 2000 (Local Government Act, Chapter 8, Article 4). The requirement states that, except under special circumstances, every municipality and county council must compile its budget so that revenues exceed budgeted expenditures. Municipalities and county councils must also practice sound economic management. If a local government ends a year with a deficit, the main rule is that the deviation must be corrected within three years (Chapter 8, Article 5a). The municipal or county council may decide not to correct a deficit if it was planned when the budget was decided, if unrealised losses have occurred on securities, or in the event of other special circumstances (Chapter 8, Article 5b). Normally, the financial result in real terms should at least consolidate the budget, including e.g. pension commitments and the need for reinvestment. As of 2005, local governments are required to decide the financial goals that are relevant for sound economic management. A widely used goal for sound economic management is a surplus equivalent to 2 per cent of revenue from taxes and general state grants. Local governments’ annual reports have to include a statement as to whether the balanced budget requirement and the goals for sound economic management have been met.

4. **Medium-Term Budgetary Framework**

The Swedish authorities report that the surplus target and the expenditure ceiling both help ensure that fiscal planning and the budget process have a strong medium-term perspective in Sweden. All major expenditure and revenue items are projected for at least three years, and in the budget bill the projections are on a detailed level. All new policy measures are included in the projections for the fiscal years beyond the budget year. The Riksdag also endorses the expenditure and revenue levels for the years after the upcoming budget year.

5. **Mechanisms of coordination across sub-sectors of general government**

The Swedish authorities report a number of elements under this chapter: (i) the surplus target is defined as a target for the general government net lending as a whole; (ii) the items covered by the ceilings comprise almost all public sector expenditures; (iii) the government includes an account of the development of the local government sector in the Spring Fiscal Policy Bill and the Budget Bill.
1. Accounting and statistics

The monthly statistical release on Public Sector Finances issued by the Office for National Statistics (ONS) contains data for all the sub-sectors of the public sector on an ESA 95 basis and on a cash basis. It also contains a table providing a numerical reconciliation between the headline cash and accruals measures. The UK authorities report that all bodies in the general government sector are subject to independent audit either by the National Audit Office (the UK’s supreme audit authority) or by private sector auditors. The statistics included in Public Sector Finances are consistent with the audited data.

Regarding Article 14 of the Directive, the UK government produces the Whole of Government Accounts (WGA), which provides a consolidated set of financial statements for the UK public sector. It consolidates the audited accounts of over 1500 organisations across the public sector, including central government departments, local authorities, devolved administrations, the health service, academies and public corporations, in order to produce a comprehensive, accounts-based picture of the fiscal position in any one year. It includes:

- A consolidated Statement of Revenue and Expenditure;
- A consolidated Statement of Financial Position, showing public sector assets and liabilities;
- A consolidated Cash Flow Statement; and
- A Statement on Internal Control.

WGA brings together data similar to those produced for the Budget Report, the monthly Public Sector Finances report, the Public Expenditure Survey Analysis (PESA) and the National Accounts, but also includes data on public service pension assets and liabilities, provisions, Private Finance Initiatives, future contract expenditure and contingent liabilities that are not included in these other data sources.

The UK authorities also report that information on tax expenditures is published.

2. Forecasts

The UK authorities report that the Office for Budget Responsibility (OBR) was established in May 2010 on an interim basis. Since then the OBR has been placed on a permanent, statutory footing through the Budget Responsibility and National Audit Act 2011, which received Royal Assent on 22 March 2011. It is accountable to parliament and to the Chancellor for the analyses it produces and for the way it uses public funds.

The OBR has a broad remit, set in law, to examine and report on the sustainability of public finances. Accordingly, its core responsibilities include:

- the production of at least two fiscal and economic forecasts each financial year, including independent scrutiny of government costings and any resultant impact on the forecasts — this is set out in the OBR’s six-monthly economic and fiscal outlook publications;
- an assessment of the extent to which the fiscal mandate has been, and is likely to be, achieved alongside those forecasts;
- an assessment of the accuracy of previous fiscal and economic forecasts at least once each financial year; and
- an analysis of the sustainability of public finances at least once each financial year.

Under section 1(1) of the Budget Responsibility & National Audit Act 2011, the government is required to prepare a document, the Charter for Budget Responsibility, which, among other things, provides guidance to the Office for Budget Responsibility (OBR) on how it should perform its duty as part of the fiscal framework. According to Section 6(2) of the Act, the Charter may not specify the methods by which the OBR is to perform its duty. Therefore, the OBR determines itself:

- the methodology it uses to produce its forecasts, assessments and analyses;
- the judgments made in developing these forecasts;
- the content of OBR publications (subject to meeting the minimum requirements of the Act and the Charter); and
- the work programme under which the OBR may initiate research and produce additional analysis.

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70 http://budgetresponsibility.independent.gov.uk.
Forecast comparison

The UK authorities report that, in its March 2012 publication, the OBR compared its economic and fiscal forecasts with those of international forecasters (including the European Commission, the IMF and the OECD) and domestic forecasters/think-thanks (including the Bank of England, the Institute for Fiscal Studies and the National Institute of Economic and Social Research).

Sensitivity analysis

In their six-monthly economic and fiscal outlook publications, the OBR carries out sensitivity analysis to assess performance against the government’s fiscal targets. In particular, it looks at the lessons from past forecast errors, sees how its central forecast changes if some of the key judgments that underpinned it were changed; and looks at alternative economic scenarios.

Ex post evaluation

The OBR’s remit explicitly requires ‘an assessment of the accuracy of previous fiscal and economic forecasts at least once each financial year’. To meet this requirement, the OBR produce an annual Forecast Evaluation Report, which examines and assesses its recent forecasting performance.

3. Fiscal rules

The UK authorities recall that, as set out in Article 8 of Chapter IV on Numerical Fiscal Rules, ‘Articles 5 to 7 shall not apply to the United Kingdom’.

4. Medium-Term Budgetary Framework

The UK authorities report that the government follows a forward-looking fiscal mandate to achieve a cyclically adjusted current balance by the end of a rolling, five-year forecast period. The government’s mandate is supplemented by a target for public sector net debt to be falling as a percentage of GDP by 2015-16, in order to bring back public finances onto a sustainable path. Within this medium-term framework, the government sets out four-year spending plans through spending reviews. The spending review system with multi-year budgets for departmental expenditure has been in operation since 1998. Spending Review 2010 covers the four years from 2011-12 to 2014-15, setting out expenditure ceilings for each government department. Maintaining adherence to the five-year rolling fiscal mandate and the expenditure limits set out in Spending Review 2010 is a central part of the annual budgetary process. Additionally, occasional Comprehensive Spending Reviews (CSR) may be set up to reassess the baseline of department spending plans.

The OBR’s remit also requires it to provide ‘an analysis of the sustainability of the public finances at least once each financial year’. Its annual fiscal sustainability report sets out long-term projections for different categories of spending and revenue, analyses the public sector’s balance sheet and reports different indicators of long-term sustainability.

5. Mechanisms of coordination across sub-sectors of general government

The UK authorities report that the OBR’s fiscal forecasts cover the whole public sector, including central government, local government and public corporations. Furthermore, the government’s fiscal mandate and the medium-term budgetary framework target fiscal aggregates covering the whole of the public sector.
2. The implementation of the Directive by the Commission

2.1. Information on the steps taken by the Commission for the implementation of Article 3 and Article 14 of the Directive

In order to assist Member States in the practical implementation of individual requirements of the Directive relating to the reporting of fiscal data, Eurostat has established a Task Force on the implications of the Directive for the collection and dissemination of fiscal data. The Task Force is run in cooperation with DG ECFIN. Three Task Force meetings have already been held (29 June, 5 September and 6 November 2012).

The Task Force focuses on the requirements in Articles 3 and 14 of the Directive concerning the timely and regular public availability of monthly and quarterly fiscal data for all sub-sectors of general government, as well as the availability of data on contingent liabilities and other indicators that may point to a potential impact on the general government deficit and/or debt.

In this context, a conceptual framework for the national publication of infra-annual cash-based fiscal data (or the equivalent figures from public accounting if cash-based data are not available) and a reconciliation table showing the methodology of transition between fiscal and ESA95-based data have been proposed and already informally agreed. In addition, there is on-going discussion on the proposed templates, sector coverage, periodicity and timeliness for publication of the following indicators relating to the concept of contingent liabilities and other indicators defined in the Directive: government guarantees, liabilities of public corporations, non-performing loans and government participation in the capital of public and private corporations.

The Task Force is expected to produce a set of templates and related notes indicating the methodology, scope of compulsory details, periodicity and timeliness for national publication of individual indicators. For transparency purposes, it was informally agreed that all indicators required by the Directive would be published together by a national authority on a single dedicated national webpage or website. Eurostat also intends to collect and publish selected indicators, in particular data on contingent liabilities and non-performing loans. The Task Force’s results will be incorporated in a formal note to the Economic and Financial Committee. The changes needed to Eurostat’s collection and publication systems will be formally adopted by adding a supplement to the EDP questionnaire, in accordance with Council Regulation 479/2009, as amended.

2.2. Information on the steps taken by the Commission for the implementation of Article 4(3) of the Directive

In accordance with point 46 of the Inter-Institutional Agreement on budgetary discipline and sound financial management of 17 May 2006, the European Commission submits to the Budget Authority twice a year a complete financial programming covering the outstanding period of the multi-annual financial framework.

On 30 January 2012, the Commission transmitted to the Council and the European Parliament a revised financial programming for the years 2012 and 2013 following adoption of the 2012 EU budget. The report included total expenditure authorised in the 2012 EU budget and indicative programmed expenditure for the year 2013, with detailed information broken down by expenditure heading, highlighting changes since the previous update in the financial programming. The Commission presented the report to the Budget Committee of the Council on 2 February 2012.

On 25 April 2012, the Commission updated the financial programming for the year 2013 as part of the EU draft budget 2013, and transmitted it to the Council and the European Parliament. The reporting was presented in a simplified format, given that 2013 is the last year of the current multi-annual financial framework. On 21 May 2012, the Commission presented the report to the Budget Committee of the Council.

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71 2006/C 139/01.

2.3. Information on the steps taken by the Commission for the implementation of Article 4(7) of the Directive

Chapter III, Article 4(7), stipulates the following: ‘Member States’ quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months.’ In line with Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002 on quarterly non-financial accounts for general government (ESA table 25) and Council Regulation (EC) No 1222/2004 of 28 June 2004 concerning the compilation and transmission of data on the quarterly government debt (ESA table 28), Eurostat already collects quarterly data on the general government deficit/surplus and debt with a timeliness of t+3 months after the reference quarter.

The data are published on Eurobase at around t+112 days for all countries together with the EU aggregates. One exception is that, up to now, the data for the current year for Germany and France for ESA table 25 are transmitted but placed under embargo by the respective national statistical institutes. This practice would have to be discontinued by the end of the transposition period.

On 6 February 2012, Eurostat released for the first time a dedicated, regular press release on quarterly government debt. A similar initiative is planned for the quarterly deficit.

In the new transmission programme, ESA table 25 is set to disappear and to be partially replaced by extended coverage of the general government sector in table 0801, quarterly sector accounts. The practical implications of this are still under discussion.

2.4. Information on the steps taken by the Commission for the implementation of Article 16(3) of the Directive

Article 16(3) stipulates that ‘by 31 December 2012 the Commission shall assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States’. IPSAS provides a set of detailed accrual accounting standards developed for use by the public sector. In preparing this assessment, the Commission has carried out a public consultation, open from February to May 2012, offering individuals and organisations the opportunity to express their views on the suitability of IPSAS for the EU Member States. Over sixty contributions have been received, and a summary of the results is to be published by the Commission. The Commission has also invited public accounting experts from Member State governments to participate in a task force to discuss the issues involved in detail and to present their points of view based on their experience. The task force met three times between February and July 2012. Finally, the Commission has engaged consultants to survey current public accounting and auditing practices in the EU Member States.

The assessment report is due to be published by the end of 2012 and will cover the importance and usefulness of accrual accounting, the current use of accrual accounting in Member States, a summary and assessment of the suitability of the IPSAS standards, the links and differences between IPSAS and statistical accounting, the potential cost of implementing new accounting standards, and governance-related issues.