EU Mechanisms for linking strategic planning and Public Financial Management

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Outline

- The reformed EU fiscal governance framework
- EU Implications for national fiscal frameworks
- The Recovery and Resilience Facility: an exceptional tool
- The Technical Support Instrument
- *not covered:* (1) EU Multi-annual Financial Framework and (2) EU Cohesion Policy, both fixed for seven-year period

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The reformed
EU fiscal governance framework

Context: foundations of the EU fiscal framework

Maastricht Treaty (1992): third stage of the Economic and Monetary Union (Euro)

"*Member States shall avoid excessive government deficits*".

- Public deficit below 3% of GDP
- Public debt below 60% of GDP or sufficiently diminishing towards it.

Stability and Growth Pact (1997 – reformed in 2005, 2011, **2024**): Two EU Regulations to strengthen the monitoring and coordination of national fiscal policies:

- '**Preventive arm**' aims to ensure prudent fiscal policy
- '**Corrective arm**' a.k.a. Excessive Deficit Procedure aims to correct *gross policy errors* (=breach of deficit or debt reference value)

Budgetary Framework Directive (2011 – reformed in **2024**)

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The reformed framework: key principles

Balancing different objectives: strengthen **public debt sustainability** and promote sustainable and inclusive growth through **reforms and investment**.

Key principles:

- **Medium-term approach with more national ownership:** bringing together national fiscal policy, investment and reform commitments in a single national medium-term fiscal-structural plan
- **Risk-based differentiation: gradual and credible debt reduction** where needed thanks to prudent fiscal policy and underpinned by growth- and resilience-enhancing investment and reforms for EU priorities
- **Incentives for investment and reforms:** denominator of the debt-to-GDP ratio matters
- **Better enforcement** as counterpart to greater leeway for Member States to set their fiscal paths

The reformed framework: fiscal requirements

1. Basis for fiscal surveillance: **medium-term plans** prepared by Member States for a period of 4 or 5 years;
2. **Medium-term and risk-based approach**, with fiscal requirements **differentiated by country**, reflecting macro-fiscal situations, but based on a **common framework**;
3. Commitment to a net expenditure path (= medium-term budgetary constraints) that **ensures that debt converges to / remains at prudent levels** + respects some **common numerical safeguards** to ensure minimum annual reduction in debt and deficits (ex ante).
4. Possibility to **extend the adjustment period** (more gradual adjustment), in exchange for a set of investment and reform commitments that fulfill certain conditions

The reformed framework: stronger investment dimension

Public investment:

- Taking account for existing fiscal space for countries with low/medium debt sustainability risk
- More gradual fiscal adjustment underpinned by specific investment and reform commitments. Non-implementation of these could result in a shortening of the adjustment period (which implies more demanding fiscal targets).
- Exclusion of national co-financing of EU programmes from fiscal indicator
- RRP commitments taken into account for more gradual adjustment path for first plans
- Transitional arrangements for expenditure financed by RRF-loans.

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MTFSP Requirements: investment & reforms

For all Member States:

- How do you ensure delivery of investment and reforms, responding to country-specific recommendations?
- Explain how they address common priorities of the Union: Green transition; Digital transition; Social and economic resilience and the implementation of the European Pillar of Social Rights; Energy security; Build-up of defence capabilities where applicable
- Encouraged to discuss impact on economic activity, resilience and sustainability
- Inform on investment needs relating to common priorities of the Union
- Inform on forecasted level of public investment

The reformed framework: investment and reforms for a longer adjustment period

- **7 years instead of 4 years** to fulfil fiscal criteria in exchange for specific set of reform and investment commitments which are assessed by COM and Council.

- **The set of reforms and investments should fulfil the following criteria:**
  - be sufficiently detailed, front-loaded, time-bound and verifiable;
  - be growth- and resilience-enhancing;
  - support fiscal sustainability;
  - address common EU priorities;
  - address relevant country-specific recommendations, including under the Macroeconomic Imbalances Procedure;
  - ensure that the overall level of nationally financed public investment over the lifetime of the plan is not lower than the medium-term level before the period of the plan.

- **Council endorsement** entails a **timeline** for key steps and **monitoring indicators** for each planned reform.

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Implementation of the framework: adoption of first medium-term fiscal-structural plans (1)

Prior guidance by Commission on fiscal trajectories to Member States

Technical dialogues so that medium-term plans are in line with the Regulation

Submission of first medium term plans:

22 plans submitted in autumn 2024; 5 plans late due to elections (AT, BE, BG, DE, LT)

5 Member States requested extension of adjustment period (FI, FR, ES, IT, RO)

1) Commitments on net expenditure path for 4 [or 7] years
2) Commitments on reforms and investments underpinning an extension of fiscal adjustment to 7 years [choice of Member State]
3) Intentions on other reforms and investments to address Country-Specific Recommendations from regular EU economic governance ("European Semester") and common EU priorities.

Commission assessment of the plan on the basis of a **common and transparent framework** (debt sustainability analysis for fiscal path; common assessment framework for reforms and investments). Overall conclusion of assessment depends on (1) and (2). The reforms and investment under (3) are listed in the assessment without recommendation.

Council endorsement

Implementation of the framework: adoption of first medium-term fiscal-structural plans (2)

examples of reforms and investment commitments underpinning extension:

Pure RRP measures

- ES - Digital Transformation of Education
- FI – Measures promoting the green transition

RRP measures with additional specifications

- FI – Social security reforms
- IT – Investment to increase availability and affordability of childcare
- ES - Reforms to modernise the tax system and implement expenditure reviews

Additional measures

- ES - Reform of the work and job search visa system
- IT – Improvement of the efficiency of the tax system
- RO – Reform of the financing system for businesses
- FR – Review of tax expenditures

Implications from the EU level for National Fiscal Frameworks:

Setting a frame for strategic planning and PFM

Legal provisions on National Fiscal Frameworks

- Statistics and accounting
- National forecasts
- Numerical fiscal rules
- Medium-term budgetary frameworks
- Independent fiscal institutions

Other NFF elements: mutual learning

- Green budgeting
- Disaster risk financing
- Spending reviews
- Public investment management

The new EU framework:

Stronger Independent Fiscal Institutions

- Amendments to Budgetary Framework Directive (since 30 April 2024)
- Explicit legal base in EU acquis for all EU Member States
- Independence safeguards: staffing, no instructions, communication capacity , resources, info access, external evaluations
- Tasks relating to forecasts, monitoring fiscal rules, assessing the national fiscal framework, advice parliament
- Comply-or-explain principle
- After transition, assessing macroeconomic assumptions in MTFSPs
- Can be involved in assessing deviations from plan and in excessive deficit situations

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The new EU framework:

Reporting on fiscal risks from climate change

- New requirements to:
  - Take into account macro-fiscal risks from climate change when assessing sustainability of public finances and growth
  - Inform on contingent liabilities from disasters and climate change
  - Inform on past losses from disasters
- These provisions apply “to the extent possible”
- To be transposed until end of 2025 and to be applied on 2027 budgets and medium-term planning documents
- No specific method prescribed

The Recovery and Resilience Facility: An exceptional tool

Recovery and Resilience Facility

- Established in February 2021 to counter the economic impact of COVID19
- € 359 bn for grants and € 291 bn for loans made available
- On the basis of national recovery and resilience plans that make economies more sustainable and resilient, support the green and digital transition and address country-specific recommendations from EU surveillance
- Disbursed upon achievement of milestones and targets, monitored by COM
- One-off instrument, to be finalised in 2026

The Technical Support Instrument

Technical Support Instrument

- Technical support for design and implementation of structural reforms
- Advice, studies, training, expert visits, etc.
- free of charge, no national co-financing
- Including support for reforms in public financial management
- Demand driven, following project proposals by Member States
- Budget: € 864 million (current prices), 2021-2027

Conclusions

- EU economic surveillance framework links medium-term fiscal planning with reform and investment commitments: transparency and clear expectations
- More detailed and powerful for longer adjustment periods: incentive for reforms and investments
- Strengthening of national fiscal frameworks to enable reliable planning
- Solidarity in crisis linked to common objectives
- Technical support to ease implementation
- Reliable and based on rule of law

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Some links for further information on EU fiscal surveillance and national fiscal frameworks

https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en

Medium-term fiscal-structural plans

Recovery and Resilience Scoreboard

National Fiscal Frameworks in the EU

EU Technical Support Instrument

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