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WORKING DOCUMENT

From: General Secretariat of the Council
To: Working Party of Financial Counsellors

Subject: EGR - Written Replies by the Commission services on the amending Regulation 1467/97

Delegations will find attached the written replies by the Commission services on the amending Regulation 1467/97 ("The Corrective arm").

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WRITTEN REPLIES TO MEMBER STATES' QUESTIONS ON THE PROPOSAL FOR AMENDMENTS TO THE BUDGETARY FRAMEWORK DIRECTIVE 2011/85/EU

Block A: Independent Fiscal Institutions

Questions on Article 4(1), (3), (5), (6)¹:

1 Member States shall ensure that **annual and multiannual** fiscal planning is based on realistic macroeconomic and budgetary forecasts using the most up-to-date information. Budgetary planning shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be **either produced or endorsed by independent fiscal institutions established in accordance with Article 8. They shall be** compared with the most updated forecasts of the Commission and, if appropriate, ~~those of other independent bodies.~~ Significant differences between the chosen **macroeconomic and budgetary forecasts** ~~fiscal scenario~~ **of the Member State** and the Commission's forecasts shall be described with reasoning **explained**, in particular **including where** the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.

3. In order to support Member States in preparing their budgetary forecasts, the Commission shall provide forecasts for the expenditure of the Union based on the level of expenditure programmed within the multiannual financial framework.

5. Member States shall specify which institution is responsible for producing macroeconomic and budgetary forecasts and ~~shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters underpinning those forecasts.~~ At least annually, the Member States and the Commission shall engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts.

6. The macroeconomic and budgetary forecasts for **annual and multiannual** fiscal planning **produced by the national institutions** shall be subject to regular, **objective** ~~unbiased~~ and comprehensive evaluation **by an independent body** ~~based on objective criteria~~, including *ex post* evaluation. The result of that evaluation shall be made public and taken into account appropriately in future macroeconomic and budgetary forecasts. If the evaluation detects a significant bias affecting macroeconomic forecasts over a period of at least 4 consecutive years, the Member State concerned shall take the necessary action and make it public.

1. To address timing problems with the ex-ante involvement of IFI in the budgetary process, would the technical expenditure paths be proposed by the Commission in Autumn after the Autumn forecast?

In the euro area Member States, IFIs already endorse ex-ante the macroeconomic forecasts of the Draft Budgetary Plans and of the medium-term budgetary documents (Art. 4(4) of the Two-pack Regulation 473/2013). The additional tasks proposed would indeed require more time for the IFIs. The Commission is committed to ensure timely access of relevant information as much as possible

¹ Consolidated version of proposed amended Articles, newly proposed parts in bold.

but it will not be feasible to present the technical trajectories in the autumn. National authorities will have to integrate IFIs earlier in the budgetary planning process to ensure their timely access to relevant information (as requested in the proposed Article 8(3d) of the Budgetary Framework Directive).

2. Is it correct to interpret that no endorsement is needed when the macroeconomic and budgetary forecasts are produced by a body with functional autonomy?

Yes, it is correct as Article 4(1), as proposed, provides that forecasts are either produced or endorsed by independent fiscal institutions.

3. What if there are significant differences between the forecasts of the Commission and those of independent fiscal institutions?

The Commission will base its assessment on its own forecasts. Article 4(1), as proposed, provides that "Significant differences between the macroeconomic and budgetary forecasts of the Member State and the Commission's forecasts shall be explained, including where the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts". In case of significant differences, exchanges between COM and IFIs might help to identify the reasons for such differences.

4. Will any action be taken if a Member State fails to satisfactorily explain the difference between its forecasts and the Commission forecasts?

Article 4(1), as proposed, provides that "Significant differences between the macroeconomic and budgetary forecasts of the Member State and the Commission's forecasts shall be explained, including where the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts". The Commission can monitor the fulfilment of this obligation and, in any event, will base its assessment on its own forecasts.

5. Could the Commission elaborate on the (unchanged) Article 4(3)? What would be the specific purpose of this provision on the forecasts or the expenditure of the Union?

As contributions to the EU budget are an item of national expenditure, in this (unchanged) article the Commission commits to providing to the Member States forecasts of this expenditure based on the multiannual financial framework.

6. Is Article 4(5) targeting independent fiscal institutions or more broadly all the institutions involved in producing or assessing macroeconomic and budgetary forecasts?

This provision is meant to provide clarity as to which institution has produced the macroeconomic and budgetary forecast, be it an IFI, a ministry or any other body.

7. Who could be the independent body producing ex-post evaluations of forecasts as mentioned in Article 4(6) – the IFIs or some other institution?

It would depend on who has produced the forecast to be evaluated. If it is produced by the IFI, another independent body should do the evaluation. If the forecast is produced by another institution, for example by the national authorities, the ex- post evaluation could be done by the IFI or a third independent body.

8. What is meant by 'national institutions'? Wouldn't it be better to use the term "Member States" instead?

"Member States" refer exclusively to the authorities of the Member States, whereas "national institutions" encompass also independent bodies, such as IFIs, which can also produce the forecasts.

9. What is the purpose of Article 4(6)?

It serves to ensure that any forecast bias is detected by an independent body and addressed, thereby improving the quality of future forecasts. This, in turn, would reduce the risk of deviations from budgetary targets.

10. Why is “objective criteria” omitted?

In Article 4(6), as proposed, “comprehensive evaluation based on objective criteria” has been replaced by “objective and comprehensive evaluation” to simplify the text.

11. What does “taken into account appropriately” mean?

This means that if the evaluation identifies a systematic forecasting bias, the source of that bias should be addressed, thereby improving the quality of future forecasts.

12. How is significant bias measured and what does it mean?

“Significant bias” means a systematic deviation of the forecast from the outcome that (i) spans a longer period of time and (ii) is large enough to have notable implications for budgetary planning. The provision stipulates that if a period of at least four consecutive years of bias is detected, remedial action should be triggered, unless the cause of the bias has already been addressed.

Questions on Article 8:

1. Member States shall ensure that independent fiscal institutions, such as structurally independent bodies or bodies endowed with functional autonomy as regards the budgetary authorities of the Member States, are established by national laws, regulations or binding administrative provisions.

2. The institutions referred to in paragraph 1 shall be composed of members nominated and appointed on the basis of their experience and competence in public finances, macroeconomics or budgetary management, and by means of transparent procedures.

3. The institutions referred to in paragraph 1 shall:

(a) not take instructions from the budgetary authorities of the Member State concerned or from any other public or private body;

(b) have the capacity to communicate publicly about their assessments and opinions in a timely manner;

(c) have adequate and stable own resources to carry out their mandate in an effective manner, including any type of analysis within their mandate;

(d) have adequate and timely access to the information needed to fulfil their mandate;

(e) be subject to regular external evaluations by independent evaluators.

4. Member States shall ensure that the institutions referred to in paragraph 1 have the following tasks:

(a) producing the annual and multiannual macroeconomic and budgetary forecasts underlying the government’s medium-term planning or endorsing those used by the budgetary authorities;

(b) producing debt sustainability assessments underlying the government’s medium-term planning or endorsing those provided by the budgetary authorities;

(c) producing assessments on the impacts of policies on fiscal sustainability and sustainable and inclusive growth, or endorsing those provided by the budgetary authorities;

(d) monitoring compliance with country-specific numerical fiscal rules in accordance with Article 6;

(e) monitoring compliance with the Union fiscal framework in accordance with Regulations [XXX preventive arm of the SGP] and [XXX corrective arm of the SGP];
(f) conducting, on a regular basis, reviews of the national budgetary framework, in order to assess the consistency, coherence and effectiveness of the framework, including mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors of general government;
(g) participate in regular hearings and discussions at the national Parliament.

5. Member States shall ensure that the budgetary authorities of the Member State concerned comply with the assessments or opinions issued by the institutions in the context of the tasks referred to in paragraph 4. Where such budgetary authorities do not comply with those assessments or opinions, they shall publicly justify the decision not to comply within a month from the issuance of such assessments or opinions.

13. The Fiscal Council might have its own chapter in the state budget; therefore, the National Audit Office has the right to audit its budgeting. Would this compromise the required independence of the Fiscal Council? Or is it necessary to stay completely outside the state budget chapters and, in this way, to be totally independent?

The fact that the National Audit Office has the right to audit the budgeting of the Fiscal Council does not compromise the independence of the Council. However, while a separate budget line is an important element in safeguarding the independence of IFIs, it is not the only one. Article 8(3) proposes a list of aspects to be taken into account, mainly drawing on the Two Pack Regulation 473/2013.

14. In some cases, a Court of Audit is responsible for evaluating budget proposals and the underlying forecasts before the budgets are adopted by the parliaments. Does a Court of Audit meet the definition of an independent fiscal institution?

National Courts of Audits are currently acting as independent fiscal institutions in several Member States (e.g., Finland, France, Lithuania) where they cover (parts of) the already existing legal mandate of IFIs. These practices could continue. However, the transposition check for the still to-be-decided amendments to the Directive cannot be pre-empted here for specific cases.

15. What do you mean with the term “own resources” in Article 8(3c)?

The provision aims at ensuring that the IFI has sufficient and stable resources to be able to perform its tasks in an independent and effective manner. This includes the freedom to decide on its own on the use of the funds within its legal mandate. It is not meant to dictate the exact form or labelling of this funding. Indeed, the term “own” here should not be confused with “resources raised” by the IFIs.

16. Which institution could be performing regular external evaluations of IFIs, as mentioned in Article 8(3e), and what would be the content of such evaluations? Does the Commission intend to dispose regular external evaluations dedicated to all IFIs at the same time to monitor the implementation of the Directive in a harmonized way?

These evaluations could, for example, be performed by peers (i.e. other IFIs), academics or multilateral organisations (such as the OECD), but not by political bodies like, for example, parliamentary committees. They could cover the whole range of activities and characteristics of the IFI and result in recommendations on how the IFI could become more effective in achieving its goals. Evaluations would not be organised centrally by the Commission.

17. Is the extension of the functions of our IFI warranted? This does not appear to be in line with the conclusions of the Ecofin Council of March 2023.

The ECOFIN Council conclusions of 14 March 2023 state that “the current role of IFIs in producing or endorsing macroeconomic projections should be maintained and adapted to the medium-term fiscal-structural plans while minimum standards could be explored. IFIs should not play a role in the design phase or the national plans.” The Commission proposals take this into account.

IFIs have contributed to increased fiscal discipline in a system focused on annual planning by fostering more realistic macroeconomic forecasts and greater adherence to fiscal rules; these elements are maintained in the Commission proposal. With the increased medium-term focus of the new economic governance framework and its emphasis on increasing national ownership, the tasks of IFIs should be adapted to the reinforced medium-term planning. As the planning is centred on a planned path for net expenditure, an independent production or endorsement of budgetary forecasts is important to ensure realistic planning. This would entail that IFIs could also provide opinions and assessments on debt developments and on the impacts of policies on fiscal sustainability as this would be an important part of medium-term budgetary planning.

IFIs would in no way contribute to the design of national medium-term fiscal-structural plans. This is evident from the fact that they only appear in the preventive arm Regulation in Article 22 where they are requested to compare budgetary outturns, as reported in the progress reports, with the net expenditure path and, if applicable, to analyse underlying factors of a possible deviation between the two. IFIs are also requested, in the corrective arm Regulation and in the context of an EDP, to give an opinion on the relevant factors and on the adequacy of measures taken and envisaged with respect to the targets. These provisions, requiring independent analysis from the Member State concerned alongside its official positions, are meant to increase national ownership and credibility in the implementation of the EU fiscal framework.

In addition to this, IFIs are asked to conduct, on a regular basis, a review of the national budgetary framework. They are also asked to be available to participate in regular hearings and discussions at the national parliament; this is proposed to support the budgetary decisions of the parliaments.

Many IFIs already perform all or some of these new tasks to a varying extent. For example, as regards producing or endorsing budgetary forecasts, IFIs from almost all Member States are in some way already involved in annual forecasts: The NL-CBP produces the fiscal forecast used by the government, IFIs in EL and MT officially endorse the budgetary forecast. About half the IFIs report that they assess the budgetary forecasts, mostly before they are sent to parliament, sometimes afterwards; the French and the Estonian IFI offer good examples for checking the realism and consistency of budgetary forecasts of the government. In 19 Member States, IFIs are involved in multiannual budgetary planning, with good examples in EE, MT and PT.

The proposed amendments also set minimum standards for the IFIs, to guarantee their independence, access to information and resources. In many cases, these standards do already exist to some degree – largely because of the Fiscal Compact’s common principles on the role and independence of the IFIs in Commission Communication of 20 June 2012 (COM(2012) 342 final) and because of the Two Pack regulation 473/2013 applicable to the euro area Member States. The amendments propose to extend them to all EU Member States.

18. Could the Commission specify the tasks of the IFIs in Article 8 and explain how they relate to the IFIs involvement in the preventive and corrective arm?

The tasks in Article 8(4) refer to the national planning process which can be different from the surveillance process at EU level. The exception is Article 8(4e) which refers to IFIs’ role in the

preventive and corrective arm as stated in Article 22 of the proposed preventive arm Regulation (assessment of compliance of budgetary outturns data reported in the annual progress reports with the net expenditure paths and, where applicable, an analysis of the factors underlying a deviation from the net expenditure path) and Articles 2(3) and 3(5) of the proposed amended corrective arm Regulation (opinion on the relevant factors and opinion on the adequacy of the measures taken and envisaged with respect to the targets, in the context of the EDP).

19. Can the tasks a-g in Article 8(4) continue to be allocated to two or more national IFIs as they might have been until now?

The amended Directive does not regulate how many IFIs a Member State can have, so Member States that currently have split the tasks on two IFIs should be able to continue to do so, for example leaving monitoring compliance with national rules and/or the ex-post evaluation of the national framework to one IFI and the production or endorsement of forecasts, debt sustainability assessments etc. to another IFI.

20. Is Article 8(4a) just referring to the forecasts that would underpin the Member States' medium-term fiscal structural plan, i.e., the forecasts at the start of the plan?

This is referring to both the annual and the multiannual forecasts underpinning national budgetary documents which are produced solely for the purpose of the national budgetary process. These national budgetary documents may differ from the medium-term fiscal structural plans (as defined in the newly proposed preventive arm Regulation) which are produced in the framework of EU-level economic surveillance, in terms of, for example, the time horizon and the budgetary items on the revenue and expenditure side covered, the level of detail required or, where applicable, the treatment of sub-national levels of government.

21. Will the independent fiscal institutions be required to endorse the annual budgetary projections included in the annual progress reports?

Annex III to the proposed preventive arm Regulation provides that the assessment of the IFIs referred to in the proposed Article 22 be included in the annual progress reports. Article 22 of the proposed preventive arm Regulation requires an assessment to be made by IFIs of compliance of the budgetary outturns data reported in the annual progress reports with the net expenditure paths, and where applicable, an assessment of the factors underlying a deviation from the net expenditure paths. The IFI assessment to be included in the annual progress reports is therefore only about ex-post data, not about ex-ante projections.

22. Can the Commission confirm that the endorsement of budgetary forecasts relevant for fiscal planning can also be achieved in federal states by endorsing the national medium-term fiscal plan as a whole?

The endorsement of budgetary forecasts implies an explicit validation of the forecasts of major budgetary items covering the general government level. The Directive covers the general government if not otherwise indicated.

23. Can the Commission confirm that the mandate to monitor domestic debt rules can be exercised by the Courts of Auditors?

The national fiscal rules covered in the Directive are those that promote compliance with the obligations from the TFEU, applying at general government level. Member States have also a number of rules designed for other purposes and, in some cases, covering sub-national entities that are not linked with the TFEU obligations. These rules would not be covered by the provisions of the Directive and existing practice in these areas would not be affected. In addition, as explained in the reply to Question 14, Court of Auditors could, in principle, qualify as independent fiscal institution and, in that case, also monitor rules that are covered by the Directive.

24. Isn't it rather the role of the European Commission to verify whether the national budget frameworks of the Member States comply with EU law, as referred to in Article 8(4e), and with this specific directive?

The European Commission will be responsible for checking compliance with this Directive. The provision in Article 8(4e) does not remove the prerogatives of the Commission and the Council to decide in this area; however, a bigger involvement of IFIs would increase national ownership, inform the decision to be taken by Commission and Council and increase the transparency of the debate.

25. Could the task under Article 8(4f) be clarified?

The provision aims at ensuring that national fiscal rules and institutions in place fulfil their purpose and that they are mutually consistent.

26. Which other institutions could take part in the parliamentary hearings mentioned in Article 8(4g)?

The proposed provision aims at promoting a well-informed and transparent fiscal policy discussion in the national parliament by giving the IFI a forum to directly meet the budgetary authority on a regular basis. It aims at ensuring the readiness of the IFI to participate in such exchanges without compromising in any way the prerogative of the national parliament to invite to hearings whomever they deem useful.

27. The "Comply or explain" rule is set out in Article 8(5), with reference to the "assessments or opinions issued by the IFIs". Why does this provision not mention the endorsement?

It is expected that all tasks, including the endorsement, in Article 8(4) (with the exception of 8(4g)) would result in the issuance of an opinion or an assessment by the IFIs. For example, when an IFI does not endorse a forecast, this constitutes a negative assessment on the plausibility of the forecast, which is publicly available. An opinion could be expressed based on a more detailed assessment, containing more specific explanations.

28. In case the "Comply or explain" rule is not limited to the endorsement, it would create difficulties in its application, since the budgetary authority would potentially have to justify even ordinary differences of opinion compared to the IFI: Could you provide a clarification for this provision?

The purpose of this requirement is to make IFIs' advisory role in the policy making process more meaningful. However, the amended Directive does not prescribe a precise way in which the explanation should be conveyed, leaving the choice to the government how to implement it. Those Member States to whom the Fiscal Compact applies (euro area Member States, Bulgaria, Denmark, Romania) are already subject to a 'comply or explain' principle.

29. Can the Commission confirm that already implemented provisions from the Two Pack will remain valid under an amended Directive?

The Commission proposal builds indeed on existing legislation, including the Two Pack regulation 473/2013. The latter is not subject to revision in the current proposals.

30. A general question on the EFB: If the Commission does not intend to amend the Decision 2015/1937 on the establishment of an independent advisory European Fiscal Board, does that mean that the Member States will not need to adapt their national law concerning the relationship between the IFIs and the EFB?

This is correct. The Commission proposal does not contain anything specific on the relationship between the IFIs and the EFB. Nevertheless, as stated in the explanatory memorandum of the

proposed new preventive arm Regulation, the Commission will explore how to strengthen the role of the European Fiscal Board. New tasks for the European Fiscal Board could include informing the periodic evaluation of the reformed framework and providing assessments on the implementation of central elements of the reformed governance system. The Board could also provide an opinion to inform the Council decision on activating (or extending) the general escape clause.

Block B: Accounting, statistics, and reporting

Questions on Article 2(a):

In addition, the following definition shall apply:

'budgetary framework' means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular:

(a) systems of ~~budgetary~~ **public sector** accounting and statistical reporting;

31. Why has the term budgetary accounting been changed in Article 2 (definition of budgetary framework) to public sector accounting?

In Article 2(2), point a), the definition "systems of budgetary accounting" has been changed to "systems of public sector accounting" in order to ensure consistency with other parts of the Directive, in particular with the proposed Article 3(1).

32. Is this extending the scope of reporting beyond the general government sector to include the wider public sector (addition of commercial public sector bodies)?

The proposal is not meant to extend the scope beyond the general government sector.

Questions on Article 3:

1. As concerns national systems of public accounting, Member States shall have ~~in place~~, **by 2030, integrated, comprehensive and nationally harmonised public accrual financial** accounting systems ~~comprehensively and consistently~~ covering all subsectors of general government and containing the **cash and accrual** information needed to ~~generate accrual~~ **prepare** data ~~with a view to preparing data based on the ESA 95 2010 standard~~. Those public **sector financial** accounting systems shall be subject to internal control and independent audits.

2. Member States shall ensure timely and regular public availability of fiscal data for all subsectors of general government as ~~defined~~ **set out** by Regulation (E~~CU~~) No ~~2223/96~~ **549/2013 of the European Parliament and of the Council**. In particular, Member States shall publish

(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:

- monthly for central government, state government and social security sub-sectors, before the end of the following month, and
- quarterly, for the local government sub-sector, before the end of the following quarter; **quarterly debt and deficit data separately for central government, state government, local government and social security funds, before the end of the following quarter or after publication of the relevant data by the Commission (Eurostat).**

(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard.

3. The Commission (Eurostat) shall publish the quarterly government finance statistics data in accordance with tables 25, 27 and 28 of Annex B to Regulation (EU) No 549/2013, every 3 months.

33. Can the Commission elaborate more on its assessment of subsidiarity and proportionality of the proposal to make obligatory a nationally harmonised system of integrated and comprehensive financial accounting across all sectors of general government until 2030?

The Commission does not propose new European rules on public accounting. At the same time, the proposal recognises that the decentralised nature of fiscal policymaking in the EU and the general need for national ownership of EU rules make it essential that the objectives of the EU budgetary coordination framework are reflected in the national budgetary frameworks including public accounting systems. This was already the case with the budgetary frameworks directive as adopted in 2011. The current proposal is similarly made as part of a directive and sets out the general principles, while not prescribing any specific accrual-based accounting standards, leaving this choice to the discretion of Member States. The reliance on national standards ensures the necessary flexibility and leaves substantial scope for national decision-making, whereas the general principles of having integrated, comprehensive and nationally harmonised accrual financial accounting systems have already been (or are being) implemented by many Member States. The main new element in Article 3(1) is the introduction of a deadline until when the new standards should be introduced. This deadline was set in line with previous experiences in introducing new accounting standards (see also Question 36). The proposal respects the proportionality principle because it does not go beyond what is necessary to achieve the objectives sought by the instrument. Proportionality is also ensured by clarifying this provision, which will ease the implementation of the Directive.

34. Can the Commission elaborate more on its conclusion, that “the proposed amended Directive is also a suitable tool to achieve its objective, as it enables Member States to adapt the requirements to their own specificities.”, and as to how in the Commission’s view a federal state could adapt the obligation to have a nationally harmonised system of integrated and comprehensive financial accounting across all sectors of general government until 2030 to its specificities?

To comply with the proposed text of the Directive, the general government reporting entities in the Member States should prepare accrual-based annual financial statements that constitute a complete whole comprising a statement of financial position (or a balance sheet) and a statement of financial performance (or a profit and loss account).

The proposal does not require harmonisation vertically across all levels of general government. The intention was that the systems should be nationally harmonised at least horizontally at each government level (central / regional / local), to avoid many mismatched standards at a given level of government.

A non-harmonised approach at the sub-national level requires translation of diverse input into consistent figures at the federal level which entails significant resource needs; in addition, Eurostat has pointed out that a multitude of different types of data sources used for the compilation of the EDP tables entails higher and hitherto only partially mitigated risks for data quality.

35. Has the Commission already carried out an impact assessment of the proposed amendments? In particular, are there any cost estimates related to the implementation of an amended Article 3(1)?

While no impact assessment of the proposed amendments has been conducted, the Commission has engaged very intensely with all stakeholders seeking to feed a broad-based reflection on most of these amendments.

The most recent costs estimates relating to an implementation of amended Article 3(1), prepared by PwC on behalf of Eurostat, are based on a (hypothetical) full transition to international public sector accounting standards. [<https://ec.europa.eu/eurostat/documents/9101903/9700113/Updated-accounting-maturities-and-EPAS-implementation-cost-June+2020.pdf>]

These costs may be considered to over-estimate the costs of the implementation of Article 3(1), as the accounting standards that are actually to be reached would be set by the Member States, tailoring them to their specific needs and the existing systems. Moreover, an upgrade of public accounting IT systems may be considered likely to happen anyway in a seven-year period and this would cover a substantial proportion of the costs of the transition to an accrual-based accounting system. Indeed, some Member States, which have not yet adopted public accruals accounting, have already implemented or are implementing many individual reforms that would make the costs related specifically to accrual accounting more incremental. These reforms may for example include digitalisation of accounting processes, IT renewal and creation/improvement of asset registers.

36. How will the introduction of a new accounting system be evaluated and who will be responsible for verifying its integration of the system and its compliance with this Directive? What is the rationale behind setting the year 2030 as a deadline?

The European Commission will be responsible for checking compliance with this Directive. Concerning the rationale behind setting the year 2030 as a deadline, Member States are in different stages of work, many are arguably already well on the way to implementation of public accruals accounting in the next few years, others need some time to work. The proposed timeline corresponds to the past experience of other Member States in designing and implementing an accruals accounting project. It seems right to allow some time – in line with our experience of past reforms timetables – for all Member States as needed.

37. Regarding Article 3(1), the timing of the proposal appears to be reasonable. However, could you clarify the possible implication of this provision on the way the State Budget is prepared and submitted? Who is required to carry out “independent audits” of public sector financial accounting systems?

The proposal does not address budgeting, it addresses public sector financial accounting and reporting, i.e., the preparation of accrual-based annual financial statements. The proposal does not interfere with the preparation and submission of the State Budget.

The Directive does not prescribe who is required to carry out “independent audits” of public sector financial accounting systems, and this text is unchanged in the Commission’s proposal; it is in the Member States’ discretion to decide how to organise independent audit in their countries.

38. Does the replacement of 2(a) in Directive 2011/85/EU mean that the publication of the monthly cash based fiscal data for all sub-sectors of general government (monthly tables) will no longer be required?

The replacement indeed means that the publication of the monthly cash (or equivalent) data would no longer be required by the EU legislation.

39. The proposal sets only a requirement for quarterly data and no longer includes the requirement for a transition table between cash-based data and ESA data. Could you clarify whether the quarterly deficit data are still meant to be cash-based? If so, should they still

be complemented by a reconciliation table? Or does the new provision mean that Member States are called to publish only accrual data?

The quarterly deficit data are no longer meant to be cash-based (or equivalent). As, under the proposed amendments, the Directive would only regulate the publication of data consistent with ESA and EDP definitions, a reconciliation table would no longer be needed.

40. What is the purpose of Article 3(2), i.e. is it the sole purpose to simplify? What exactly is meant with “fiscal data”, i.e. does it mean also cash-based data as referred to in recital 10?

The wording “fiscal data” is part of the Directive currently in force. The experience with the cash-based (or equivalent) monthly data has shown that in some Member States the publication is not well known to or understood by the users (see SWD(2020) 211 final - Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States). This may partly be caused by the required format of the data being in-between ESA definitions and national budgetary definitions. While high-frequency (e.g., monthly) data are undoubtedly useful, it appears that the format of such publication and related requirements should be best decided nationally, in close cooperation with the users (e.g., the IFIs). It is therefore not necessary to cancel the current national regulations, especially if the format of the data is appreciated by the users. At the same time, the removal of the provision from the EU legal act to report monthly cash-based data allows tailoring the publication better to national needs and budgetary definitions. With the cash (or equivalent) monthly data requirements being left at the discretion of Member States, the Directive will regulate in Article 3(1) and (2) the publication of data that are consistent with ESA and EDP definitions. Recital 10 will be adjusted to reflect this.

41. According to Article 3(2), Member States shall publish quarterly debt and deficit data “before the end of the following quarter or after publication of the relevant data by the Commission (Eurostat)”: could you clarify the suitable timing for this publication?

Some Member States prefer to delay the national publication of their deficit and debt data, including quarterly data, until the validation and consequent publication of the figures by Eurostat. The provision aims to allow this flexibility.

42. Could the Commission confirm that Article 3(3) will not need to be transposed into national law as it refers solely to Eurostat? Furthermore, if a table 25 will be included in the future in Regulation (EU) No 549/2013, will the Regulation be amended in a legislative procedure?

This provision does not need to be transposed into national law, as its substance is unchanged with respect to the Directive’s provision that is currently in force (article 4(7)), which reads as follows: “Member States’ quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months”. Table 25 has already been included in Regulation 549/2013 through the amending Regulation (EU) 2023/734 (OJ L 97, 5.4.2023, p. 1–114).

Questions on Article 14(1), (3):

1. Within the framework of the annual and multiannual budgetary legislation processes, Member States shall ~~identify and present~~ publish all general government bodies and funds which do not form part of the regular budgets at subsector levels ~~but are part of the general government, including subsectors~~ level, together with other relevant information. ~~The of general government. Member States shall also publish values corresponding to the combined impact on general government balances and debts of those general government bodies and funds shall be presented in the framework of the annual budgetary processes and the medium-term budgetary plans~~ whereby the impact on the balances shall include past and expected future operations and the impact on debts shall include outstanding and expected new liabilities.

3. For all subsectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impact on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, potential expenses and obligations arising from court cases, including the extent thereof. Member States shall also publish information on disaster and climate related contingent liabilities to the extent possible. Member States shall publish information on past calls on one-off guarantees and expenditure recorded for standardised guarantees. Published information shall also include information on economic losses incurred due to disasters and climate related shocks, including the fiscal costs borne by the public sector and the instruments used to mitigate or cover them. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts.

43. What is actually meant by the requirement in Article 14(1), is it just a list of bodies that needs to be published?

The Directive currently in force already requires to “identify and present” such bodies and funds as well as their combined impact. The changes here are, thus, rather in wording. The provision concerns public entities that are not covered by the annual or multiannual budgets but are part of the perimeter of the general government. Hence, their operations affect general government balances and their liabilities add up to the public debt and can be a major source of fiscal risk.

44. Is the obligation from Article 14(1) contingent on exceeding a certain threshold?

There is no threshold for Article 14(1) but it is expected that Member States concentrate on entities with the highest fiscal risk, by analogy to Article 14(3) of the Directive, which refers to “contingent liabilities with potentially large impact on public finances”.

45. Does “expected new liabilities” refer only to precise numerical liabilities that are directly guaranteed by state legislation or does it also include risk assessments of other expected liabilities?

The liabilities referred to in article 14(1) should capture the impact on general government debt of bodies and funds which do not form part of the regular budgets but are part of the general government. The provision therefore refers to direct non-contingent financial liabilities.

46. The requirements in Article 14(3) are an extension of what is currently required to be reported in terms of contingent liabilities. What exactly is meant by disaster and climate related contingent liabilities? Is it about the economic damage in the whole national economy? Why costs for the public sector and not only state? Guidance would be needed on how these contingent liabilities should be reported including advice on how they should be measured.

Climate change poses different risks to the economy and to public finance, including physical risks and transition risks. The management of these risks require a whole of government assessment of the past and future potential costs from climate change, as disaster and climate related contingent liabilities and reconstruction costs are shared between different parts of the public sector.

The Commission could work, together with the Member States, to develop specific non-binding guidance on the type of reporting on disaster and climate-related contingent liabilities, to support Member States in the transposition of this requirement.

47. What is the purpose of the new reporting requirements in Article 14(3) which seem to impose too much burden on the Member States?

The proposed reporting requirements on court cases are important as such cases can constitute an important source of fiscal risk. Adding this category of contingent liabilities was suggested during the suitability review of the Directive when 11 Ministries of Finance highlighted court cases as one of the most important sources of risk. This is confirmed by the Commission's database of fiscal measures which shows, for 2014-2022, a deficit-increasing effect in 21 cases in 10 Member States and a deficit-reducing effect in five cases in five Member States (focusing only on impacts above 0.1% of GDP). Finally, it is important to note that the requirement refers to the possible liabilities arising from open court cases; it does not require any reporting on the probability of such losses in total or in specific cases.

The proposed reporting requirements related to climate change support the green transition which demands a better quantification of climate-related fiscal costs and risks. As Member States are exposed to different risks and have different approaches to tackle them, the reporting could allow a mutual learning process. Reporting is meant to increase awareness and transparency on fiscal risks to public finances, their management and financing of the costs incurred in case of materialisation of such risks. Member States could start with identifying the impacts from acute physical risks, and then expand to chronic physical risks and to transition risks depending on available or emerging methodology/approaches. Starting points to support such reporting could be the national risk assessments in the framework of the Union Civil Protection Mechanism, risk assessments produced outside EU processes in the Global Facility for Disaster Reduction and Resilience (where 13 Member States take part), the Disaster Risk Management Knowledge Centre at the Commission's Joint Research Centre, work at the World Bank or the European Environmental Agency and information available from the Commission's Climate-ADAPT platform. Member States participate in these initiatives (or are covered by them) to a different degree.

48. Does “information on disaster and climate-related contingent liabilities to the extent possible” mean a separate risk report that is sent to the Commission, or should the information be incorporated to already existing data in compliance to the directive? What specific information is required, and in what format the possible risk assessments are expected to be made?

Information on disaster and climate-related contingent liabilities should be publicly available and part of the regular information produced in the national budgetary process.

Block C: Medium-term orientation

Question on Article 5:

Each Member State shall ~~have in place~~ **establish its specific** numerical fiscal rules ~~which are specific to it and which to~~ effectively promote compliance with its obligations deriving from the TFEU in the area of ~~budgetary policy~~ **fiscal planning** over a multiannual period for the general government as a whole. Such rules shall promote in particular:

- (a) compliance with the reference values **and provisions** on deficit and debt set in accordance with the TFEU;
- (b) the adoption of a multiannual fiscal planning ~~horizon period, including adherence to the Member State's medium-term budgetary objective~~ **consistent with the provisions of Regulation [XXX preventive arm of the SGP].**

49. Is the Commission proposing Member States to modify their national numerical fiscal rules in accordance with the new legislation by referring that “Member State shall establish its specific numerical fiscal rules”?

As before, national numerical fiscal rules are required to promote compliance with EU requirements. The amendments clarify that the national fiscal rules referred to in the Directive are only those that clearly promote compliance with the EU requirements.

Question on Article 6(2):

2. If numerical fiscal rules contain escape clauses, such clauses shall set out a limited number of specific circumstances, consistent with the Member States’ obligations deriving from the TFEU in the area of budgetary policy **and Regulation XXX [preventive arm of the SGP]**, and stringent procedures in which temporary non-compliance with the rules is permitted. **Escape clauses shall have clear time limits.**

50. Should the national escape clauses also be modified including the specification on the time limits?

Clear specification of time limits would have to be introduced for the escape clauses of existing national fiscal rules. This does not imply a strict maximum length of the application of an escape clause but a specification when an escape clause expires if there has not been a specific decision taken to prolong its application.

Question on Article 9(2c):

2. Medium-term budgetary frameworks shall include procedures for establishing the following items:

(c) a description of medium-term policies, **including investment and reforms**, envisaged with an impact on general government finances **and sustainable and inclusive growth**, broken down by major revenue and expenditure item, showing how the adjustment towards the ~~medium-term~~ **national** budgetary objectives **over the medium term as referred to in Article 2, point (e)**, is achieved compared to projections under unchanged policies;

51. Will the Commission provide clear horizontal instructions and guidelines how to assess the impact of medium-term policies on sustainable and inclusive growth? How would “reforms and investments” be covered?

The proposed amendments to the Directive aim to clarify the requirements currently in force. Specifically, the envisaged medium-term policies underpinning the medium-term plan comprise reforms and investments envisaged over the planning horizon. By its nature, the proposed amended Directive gives leeway to Member States to follow a country-specific approach. The Commission could work, together with the Member States, to develop specific non-binding guidance to support Member States in the transposition of this requirement.

Question on Article 10:

Annual budget legislation shall be consistent with **the national budgetary objectives over the medium term referred to in Article 2, point (e)**. ~~the provisions of the medium-term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium-term budgetary framework as set out in Article 9(2) shall constitute the basis for the preparation of the annual budget. Any departure from those provisions shall be duly explained.~~

52. Does “consistency” of annual budget legislation mean that the medium term fiscal path from the medium-term plan is binding for the annual budget? Would the Commission find a less demanding expenditure path acceptable if an improved outlook would still allow to reach a deficit target from the medium-term plan?

The provision to ensure consistency of annual budgets with the national medium-term plans is not new and was introduced by the Directive in 2011. As the Directive provisions refer to the national fiscal framework and, thus, to the plans that define the Member State’s medium-term budgetary framework, the annual budgets should be consistent with the national medium-term plans and reflect the budgetary objectives set therein.

At the same time, the proposed amended Directive provision of Article 9(2)(a) states that these objectives should be consistent with the provisions of the new preventive arm regulation. Therefore, the targets of the annual budget should be consistent with the national medium-term fiscal structural plan. Circumstances such as an improved economic outlook, that make it easier for a government to implement the original national medium-term fiscal-structural plan, cannot be the basis for a request to revise the plan.

Block D: Other

Question on Article 1:

This Directive lays down detailed rules concerning the characteristics of the budgetary frameworks of the Member States. Those rules are necessary to ensure Member States’ compliance with obligations under the TFEU with regard to avoiding excessive government deficits.

53. Could the Commission confirm that the term “excessive government deficit” is also relevant for the debt-to-GDP ratio? If the meaning is narrowed down only to the government balance, then we should refer in the text also to the “debt” or sustainability of public finances”.

In line with the TFEU language in Article 126 and in Regulation 1467/97, the term “excessive government deficit” refers both to excessive deficit based on the deficit criterion and to excessive deficit based on the debt criterion.

Question on Article 15(1):

1. Member States shall bring into force the provisions necessary to comply with this Directive by 31 December ~~2013~~**202x**. They shall forthwith communicate to the Commission the text of those provisions. The Council encourages Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures, and to make them public.

54. What is the Commission view on the exact date of entry into force of provisions regarding IFIs and potential transitional provisions allowing IFI to reach full capacity in order to perform new tasks? Would the Member States be granted more than a year to adopt the necessary provisions?

The timeline for transposition is to be decided in the legislative process.