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WORKING DOCUMENT

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

Subject: EGR – Second round with colour-coded comments (Directive)

Delegates will find enclosed in view of the FiCo meeting of 10th October draft Presidency amendments (with the appropriate colour code) on selected parts of the directive on requirements for budgetary frameworks of the Member States.

This document includes some technical draft suggestions to be considered by delegates in order to steer the debate in the Financial Counsellors Working Party. Due to the multiple cross-references in the proposal, these suggestions may imply changes in other articles or recitals, which could be amended in due time. As a rule, deletion or addition of provisions will not result in a change in the numeration of previous or subsequent articles in the drafts presented to the working party. “[...]” implies that the Presidency does not provide now a proposed draft for the article.

Black bold reflects the amendments proposed by the Commission to the existing regulation.

Red bold reflects the amendments to be discussed for first time in FiCo WP.

Blue bold reflects new amendments following the discussions and oral comments in FiCo WP

CHAPTER I

SUBJECT MATTER AND DEFINITIONS

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.

Article 2

For the purposes of this Directive, the definitions of ‘government’, ‘deficit’ and ‘investment’ set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure annexed to the TEU and to the TFEU shall apply. The definition of subsectors of general government set out in ~~point 2.70 of Annex A to Regulation (E~~CE~~EU) No 549/2013 ~~2223/96~~ **of the European Parliament and of the Council**³⁰ shall also apply.~~

In addition, the following definition shall apply:

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

- (a) systems of **general government** ~~public sector~~ accounting and statistical reporting
- (b) rules and procedures governing the preparation of forecasts for budgetary planning
- (c) country-specific numerical fiscal rules, ~~which~~ **that** contribute to the consistency of Member States’ conduct of fiscal policy with their respective obligations under the TFEU, expressed in terms of a **summary** indicator of budgetary performance, such as **net expenditure as defined in Regulation XXX [preventive arm of the SGP]**, the government budget deficit, borrowing, debt, or a major component thereof
- (d) budgetary procedures comprising procedural rules to underpin the budget process at all stages
- (e) medium-term budgetary frameworks as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar,

- including the setting of policy priorities and of **national budgetary** medium-term ~~budgetary~~ objectives **over the medium-term**
- (f) arrangements for independent monitoring and analysis, to enhance the transparency of elements of the budget process
 - (g) mechanisms and rules that regulate fiscal relationships between public authorities across subsectors of general government
 - (h) **independent fiscal institutions as bodies structurally independent or bodies endowed with functional autonomy as regards the budgetary authorities of the Member States established by national legal provisions in accordance with Article 8.**

CHAPTER II

ACCOUNTING AND STATISTICS

Article 3

1. As concerns national systems of ~~general government public~~ accounting, Member States shall have in place, **by 20302 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 **the European National and Regional Accounts**. 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~~CEU~~) No ~~2223/96~~**549/2013 of the European Parliament and of the Council**³¹. 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.

CHAPTER III

FORECASTS

Article 4

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 if including where** the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts.
2. The Commission shall make public the methodologies, assumptions and relevant parameters that underpin its macroeconomic and budgetary 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.
4. ~~Within the framework of a sensitivity analysis, the macroeconomic and budgetary forecasts shall examine paths of main fiscal variables under different assumptions as to growth and interest rates. The range of alternative assumptions used in macroeconomic and budgetary forecasts shall be guided by the performance of past forecasts and shall endeavour to take into account relevant risk scenarios.~~
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 ex post evaluation by an independent body or other bodies with functional autonomy vis-à-vis the fiscal authorities of the Member States different from the one producing the forecast** 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.
7. ~~Member States' quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months~~

CHAPTER IV

NUMERICAL FISCAL RULES

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-medium term** 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]**³²

Article 6

1. Without prejudice to the provisions of the TFEU concerning the budgetary surveillance framework of the Union, country-specific numerical fiscal rules shall contain specifications as to the following element
 - (a) The target definition and scope of the rules
 - ~~(b)~~ the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent ~~bodies or~~ **fiscal institutions established in accordance with Article 8 2(h) or bodies with functional autonomy vis-à-vis the fiscal authorities of the Member States**
 - (c) the consequences in the event of non-compliance
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]~~

Article 7

The annual budget legislation of the Member States shall ~~reflect their~~ **be consistent with the** country-specific numerical fiscal rules in force.

CHAPTER V

INDEPENDENT FISCAL INSTITUTIONS

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, ensuring a high degree of functional autonomy and accountability, in accordance with the following paragraphs.

2. Member States may establish one or more independent fiscal institutions.
3. 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.
4. 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 and if requested by the national Parliament, participate in regular hearings and discussions;
 - (c) have adequate and stable own resources to carry out their tasks mandate in an effective manner, including any type of analysis within their tasks 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
5. Member States shall ensure that the following tasks are undertaken by one of the institutions referred to in paragraph 1 have the following tasks:
 - (a) Producing or endorsing the annual and multiannual macroeconomic and budgetary forecasts in parallel to those underlying the government's medium-term planning or endorsing those used by the budgetary authorities;
 - (b) Producing the annual or multiannual budgetary forecasts in parallel to those underlying the government's medium-term planning
 - (c) producing debt sustainability assessments in parallel to those underlying the government's medium-term planning or endorsing those provided by the budgetary authorities;
 - (d) producing assessments analysis on the impacts of policies on fiscal sustainability and sustainable and inclusive growth, or endorsing those provided by the budgetary authorities;
 - (e) monitoring compliance with country-specific numerical fiscal rules in accordance with Article 6;
 - (f) monitoring compliance with the Union fiscal framework in accordance with Regulations [XXX preventive arm of the SGP] and [XXX corrective arm of the SGP];³³
 - (g) conducting, on a regular basis, reviews of the national budgetary framework, in order to assessing the consistency, coherence and effectiveness of the national budgetary framework, including mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors of general government;
 - (h) participate in regular hearings and discussions at the national Parliament.
6. 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 5. 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.

CHAPTER VI

MEDIUM-TERM BUDGETARY FRAMEWORKS

Article 9

1. Member States shall establish a credible, effective **national** medium-term budgetary framework providing for the adoption of a fiscal planning horizon **period** of ~~at least 3-4 years~~, **a length in line with the medium term fiscal-structural plan as defined in Regulation [preventive arm]** to ensure that national fiscal planning follows a multiannual fiscal planning perspective.
2. **National m**Medium-term budgetary frameworks shall include procedures for establishing the following items:
 - (a) comprehensive and transparent multiannual budgetary objectives **as referred to in Article 2, point (e)** in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that they are consistent with any **country-specific** numerical fiscal rules as provided for in Chapter IV **of this Directive in force and the relevant provisions of Regulation XXX [preventive arm of the SGP]**
 - (b) projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies
 - (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
 - (d) an assessment as to how in the light of their direct **medium-term and** long-term impact on general government finances, the policies envisaged are likely to affect the **medium-term and** long-term sustainability of the public finances **and sustainable and inclusive growth. The assessment shall specify, to the extent possible, the macrofiscal risks from climate change and ~~their~~-its environmental and distributional impacts, and the implications on public finance general government of climate related mitigation and adaptation policies over the medium-term and long-term**
3. ~~Projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts in accordance with Chapter III~~

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~~

Article 11

~~No provision of this Directive shall, **in no way**, prevent a Member State's new government from updating its medium-term budgetary framework **plan** to reflect its new policy priorities. In **such** this case, the new government shall indicate the differences ~~from~~ **between** the previous **and the new** medium-term budgetary framework **plan**~~

CHAPTER VII

TRANSPARENCY OF GENERAL GOVERNMENT FINANCES AND COMPREHENSIVE SCOPE OF BUDGETARY FRAMEWORKS

Article 12

Member States shall ensure that any measures taken to comply **in compliance** with Chapters II, III and IV are consistent across, ~~and comprehensive in coverage of~~, all subsectors of general government **and cover comprehensively those subsectors. To that effect Member States** This shall, in particular, require the consistency of **consistent public-sector general government** accounting rules and procedures, and the integrity of their underlying data collection and processing systems

Article 13

1. Member States shall establish appropriate mechanisms of coordination across subsectors of general government to provide for comprehensive and consistent coverage of all subsectors 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.
2. In order to promote fiscal accountability, the budgetary responsibilities of public authorities in the various subsectors of general government shall be clearly laid down.

Article 14

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.**
2. Member States shall publish detailed information on the impact of tax expenditures on revenues **for the national budgetary objectives as referred to in Article 2, point (e), based on a transparent methodology.**
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 may 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 may 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

Article 14.a.

- ~~1. By 14 December 20XX the Commission shall publish a review of the effectiveness of this Directive.~~
- ~~2. By 31 December 2025, the Commission shall report on the state of play and future direction of public sector financial accounting in the Union, taking into account the progress made since its 2013 assessment of the suitability of the International Public Sector Accounting Standards for the Member States.~~

CHAPTER VIII

FINAL PROVISIONS

Article 15

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.
2. When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.
3. The Commission shall 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 to the Council by ~~14~~ **31** December ~~2012~~ 20XX

Member States shall communicate to the Commission the text of the main provisions which they adopt in the field covered by this Directive.

Article 16

1. By 14 **31** December 2018 ~~2025~~**30**, and every five years thereafter, the Commission shall publish a review of the ~~suitability~~ effectiveness of this Directive.
2. By 31 December 2025, the Commission shall report on the state of play and future direction of ~~general government~~ **public sector** financial accounting in the Union, taking

into account the progress made since its 2013 assessment of the suitability of the International Public Sector Accounting Standards for the Member States.

~~3. The review shall assess, inter alia, the suitability of:
the statistical requirements for all sub-sectors of government;
the design and effectiveness of numerical fiscal rules in the Member States;
the general level of transparency of public finances in the Member States.~~

~~4. By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States.~~

Article 17

This Directive shall enter into force on the twentieth day following its publication in the *Official Journal of the European Union*.

Article 18

This Directive is addressed to the Member States.

Done at Brussels,