Medium-Term Budgetary Frameworks in the EU Member States

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Structure of the presentation

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- Approaches to MTBFs
- Benefits of MTBFs
- MTBF-related provisions in the EU law
- Defining features of MTBFs
- Role of IFIs in regard to MTBFs
- Conclusions
What is a Medium-Term Budgetary Framework?

Set of institutional policy instruments that allow the extension of the horizon for fiscal policy-making beyond the annual budgetary calendar.
MTBFs over time

- MTBFs are not a recent invention
- UK: MTBF in various forms since 1960s
- DE: MTBF based on Act of 1967
- IT: legislation on medium-term planning adopted in 1988
- FI, NL and SE: medium-term perspective in fiscal planning since mid-1990s
- AT, EE, FR, PL and SK: MTBFs either introduced or revamped in 2000s
- Wave of new/revamped MTBFs in response to the Budgetary Frameworks Directive
Approaches to MTBFs

• *Qualitative approach*

MTBF = set of *arrangements and procedures* that preside over the production of multi-annual budgetary figures; overall architecture (actors, procedures and products)

• *Quantitative approach*

MTBF = set of *figures* itself, i.e. the multi-year budget or budget plan
Benefits of MTBFs

**MTBFs:**

- Enhance transparency of the medium-term budgetary objectives of a country
- Allow better time consistency in the conduct of fiscal policy
- Help address the "common pool" problem of public resources
- Constitute a valuable planning tool improving quality and stability of decision-making process, facilitating structural reforms
MTBF-related provisions in EU law

- **Stability and Convergence Programmes**
  - perceived rather as an EU level instrument than a national fiscal policy making tool

- **Six-Pack (Budgetary Frameworks Directive)**
  - response to the need to anchor medium-term fiscal planning in the national context
  - lists indicators for which projections should be prepared for at least 3 years + other components

- **Two-Pack (Regulation on budgetary monitoring)**
  - common budgetary timeline for national medium-term fiscal plans and annual budgets
  - budgetary planning based on independent macro forecast
Requirements for MTBFs in the Directive

MTBFs shall include procedures for establishing:

- Multiannual budgetary objectives in terms of general gov't deficit, debt and other indicators
- Projections of major expenditure and revenue items of general gov't based on unchanged policies (more detail for central gov't and social security)
- A description and impact of medium-term policies envisaged
- Impact of the envisaged measures on the long-term sustainability of public finances.
Defining features of MTBFs

- Political commitment
- Planning horizon
- Coverage
- Level of detail
- Formulation of targets
- Exclusion of certain items
- Carryover arrangements
- Binding nature
Political commitment

- Varies across countries
- Parliament involvement = more weight to the plans set within the MTBFs
- Passing them as laws provides additional pressure to respect them
- In majority of MS, governments adopt the multiannual plans
- In some MS parliamentary adoption does take place (AT, CZ, EL, FR, LT, LU, LV, RO and UK)
Planning horizon

- Trade-off between the length of the period covered and the stability of the plans set.
- The BF Directive requires a planning horizon of at least 3 years.
- Vast majority of MTBFs indeed cover 3 years.
- Some MTBFs cover 4 years (AT, DE, DK, EE, EL, FI, IT, LU, NL and PT).
- Most MTBFs are extended on an annual rolling basis, whereas FI, NL and UK set plans for a fixed period.
Coverage

- Broader sectoral coverage enables the central gov't to control better the global budgetary execution for which it is held accountable.
- The BF Directive requires comprehensive planning, i.e. in terms of the general gov't.
- All MS provide info on general gov't fiscal plans in the SP/CPs but coverage of sectors may differ in the national planning documents.
- ¾ MTBFs cover (nearly) entire general gov't.
- MTBFs covering only central governments should be looked at in conjunction with other elements of the framework (e.g. debt brake rules for lower levels of gov't).
Level of detail

- Depends on the underlying national fiscal rules
- MTBFs usually contain revenue projections but they typically hinge on some form of expenditure restraint.
- Options range from global expenditure ceilings for the central government to departmental expenditure ceilings.
- In some cases: more detailed ceilings set for the first year(s) of the framework and less detailed ones for the outer years (e.g. AT, FR)
Formulation of targets

- Ceilings usually expressed as:
  - Nominal level of expenditure
  - Real growth of expenditure
  - Expenditure as % of GDP

- Nominal terms and % of GDP facilitate monitoring but give governments less control and can be overly rigid.

- Setting ceilings in real terms seems most effective operational tool notwithstanding the complexity involved in regular adjustments.
Exclusion of certain items

- Broader coverage is favourable in the light of sustainability considerations...
- ...but controllability argument calls for certain exclusions.
- Often items such as interest payments or unemployment benefits are excluded from the MTBF ceilings (e.g. FI, UK).
- Alternatively MTBFs foresee flexible ceilings for cyclically-sensitive items and other expenditure categories (e.g. AT, IE, LV).
Carryover arrangements

- Arguments to allow government units to make use of unspent appropriations in the following budget year(s) in order to address "the December fever" phenomenon.
- Some MTBFs set limits on the amount that can be carried over and time in which it can be spent (e.g. EE and IE).
- Other MTBFs allow limitless accumulation of reserves potentially compromising the stringency of the framework (e.g. AT).
**Binding nature (1)**

- MTBF is a tool to ensure that annual targets for key parameters respect the strategic fiscal policy objectives.

- Substantial variety in the formulation of a link between MTBFs and annual budgets

- Weaker: e.g. "be in line/consistent", "follow the objectives of", "take into account", "form the basis" etc.

- Stronger: e.g. expenditure set in the budget "should be lower than" in the MTBF (LV), total expenditure in the budget "should be taken" from the MTBF (CZ)
Binding nature (2)

- Difficult to give a binary verdict if an MTBF is binding or not; it is rather matter of degree
- Nuanced approach might be more appropriate
- Ex-ante: options range from the expectation of no change between the moment the plans are set and the moment they are executed to the presumption that all plans can be changed even without explaining; between them there is a plethora of models.
- Ex-post: options range from obligation to make up for past slippages to readjustment of plans to the new situation without explanation.
## Binding nature – tentative classification

<table>
<thead>
<tr>
<th>Level of strictness in terms of respecting the plans set out in the medium-term planning documents</th>
<th>Member State</th>
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<tbody>
<tr>
<td><strong>1.</strong> Ceilings/targets <em>are not expected to be changed</em> whatever the circumstances (unless a new government comes to power or division of tasks between government levels is changed)</td>
<td>SE, FI</td>
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<td><strong>2.</strong> Expenditure ceilings <em>can only be increased provided that sources of funding</em> of the additional expenditure are identified ex-ante</td>
<td>DK, NL</td>
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<td><strong>3.</strong> Ceilings/targets <em>can be adjusted in response to changes in a number of specific parameters</em> defined by legislation or other public procedural document (e.g. change in expenditure on pensions, unemployment benefits etc.) and such changes need to be explained publicly</td>
<td>AT, IE, LV</td>
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<tr>
<td><strong>4.</strong> Ceilings/targets <em>can be changed in a number of situations</em> foreseen by legislation or other public procedural document (e.g. in view of a substantial change in the macroeconomic forecast, new government coming to power, extraordinary circumstances, etc.) and such changes need to be explained publicly</td>
<td>BE, BG, EL, HU, IT, MT, PL, RO</td>
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<td><strong>5.</strong> Ceilings/targets <em>can be changed at the discretion of government</em> but changes need to be <em>explained</em> and reputational cost is involved</td>
<td>CY, CZ, EE, ES, FR, LT, LU, PT, UK</td>
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<tr>
<td><strong>6.</strong> Ceilings/targets <em>can be changed at the discretion of government without</em> any public <em>explanation</em></td>
<td>DE, HR, SI, SK</td>
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Role of IFIs in regard to MTBFs

- Production or endorsement of macroeconomic forecasts underpinning MTBFs: obligatory for euro area MS
- Production or endorsement of budgetary forecasts underpinning MTBFs: currently only in MT
- Ex-ante assessment of MTBF compliance with fiscal rules: e.g. FR
- Ex-post assessment of execution: hardly ever done but would have the potential to raise awareness of MTBFs and motivate governments to respect the plans due to potential reputational costs involved.
Conclusions

- The Directive inspired introduction or serious reform of MTBFs in most Member States.
- The Directive is not prescriptive on details, hence there is a plethora of solutions adopted.
- The crisis has showed that the previously unequivocal praise of strictly binding MTBF models may no longer be fully warranted.
- There is a need to reflect on how best to shape these MTBFs so that they provide highly effective support for responsible fiscal policy.
- There is scope for more IFI involvement in monitoring MTBF execution.
Link to ECFIN paper on MTBFs

Thank you for your attention