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Domestic Medium-Term Budgetary Frameworks in the EU: Fit for Purpose and for the Future?

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Directorate-General for Economic and Financial Affairs

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Abstract

Medium-term budgetary frameworks (MTBFs) are a key element of national fiscal frameworks and they are becoming increasingly relevant in the EU economic governance framework. Considering the role envisaged for medium-term planning in the reformed EU economic governance framework, this paper takes stock of MTBFs progress and developments achieved in the EU Member States in the last decade. EU legal provisions adopted after the great financial crisis have contributed to the development of domestic MTBFs in the EU, setting minimum requirements and a common legal basis for establishing such frameworks. The diverse medium-term planning practices reflect country-specific circumstances but also point to areas that could be further developed to foster stable and binding MTBFs that are at the same time flexible enough to be resilient to shocks. For instance, medium-term planning could be more effective. Moreover, the scope of domestic MTBFs could be broader to enhance their capacity to deal with existing and future challenges, such as inflation and climate change.

JEL Classification: H50, H60.

Keywords: Budgetary Frameworks Directive, expenditure ceilings, fiscal policy, medium-term budgetary frameworks, multiannual fiscal planning, national budget, public expenditure, public finances.

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1. INTRODUCTION

This discussion paper presents key findings on the implementation and functioning of domestic MTBFs in the EU over the last decade. It updates the assessment presented in "Medium-Term Budgetary Frameworks in EU Member States" (Sherwood, 2015) and complements it with reflections on elements that have not been covered at the time. These consist in the emergence of high inflation and how to cope with it when budgeting over the medium term; public financial management (PFM) tools that are a natural component of medium-term plans but outside the scope of the Council Directive 2011/85 on national budgetary frameworks (the Directive); and the macro-fiscal relevance of climate change and how it could be taken into account by domestic MTBFs. Most importantly, this paper highlights possible weaknesses and sources of instability in medium-term budgeting, which would have to be considered to make domestic MTBFs fit for the future, also in light of the Commission proposals for a reformed EU economic governance framework.[1] The paper also proposes possible ways to address these issues.[2]

The paper starts by investigating whether medium-term planning in EU Member States has followed the EU provisions for MTBFs set out in the Directive[3] and in EU Regulation 473/2013[4] and which aspects have been more problematic. Findings show that domestic MTBFs are largely in line with the Directive provisions. While the heterogeneity of practices reflects to some degree national preferences, it is also due to a patchy implementation of some of the MTBFs provisions. Full implementation would require fine tuning some practices and some methodological clarifications (e.g., regarding budgetary projections at unchanged policies or the impact of medium-term policies on long-term sustainability). The concerned Member States could benefit from available examples of implementation and best practices.

Addressing the question whether domestic MTBFs are fit for purpose, the paper delves into the effectiveness of MTBFs, in particular the extent to which national medium-term plans have provided a stable and binding anchor for annual budgets. Evidence on this aspect is mixed, with shortcomings stemming from a gap between national legislation and implementation, insufficient minimum requirements at the EU level, and the dominant preference for indicative MTBFs (in the form of the Stability/Convergence Programme (SCP)), a source of unstable medium-term plans. Effectiveness is in some cases also impaired by an identical calendar and frequency of adoption of the annual budget and of the medium-term plan and weak accountability mechanisms for revisions and/or deviations. Some of these points are addressed by the Commission proposals for a reformed economic governance framework. Domestic MTBFs would have to be consistent with the national medium-term fiscal structural plans introduced by the proposed new Preventive Arm Regulation and the national medium-term fiscal structural plans would be subject to monitoring at EU level and by national independent

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[1] The provisions of the amended Directive (COM(2023) 242 final) aim to ensure consistency of domestic MTBFs with the relevant provisions of the Commission proposal for a new Regulation 1466/97 (COM(2023) 240 final and annexes 1 to 7).

[2] Although similar in scope and consistent with the National Medium-Term Fiscal Structural Plans (NMTFSPs) set out in the Commission proposal for a new Preventive Arm Regulation (COM(2023) 240 final and annexes 1 to 7), the MTBFs mentioned in this paper are not identical with NMTFSPs. Domestic MTBFs are governed by the current Directive 2011/85 provisions on MTBFs outlining the elements that should make the MTBF and how it interacts with the national fiscal rules and budgetary process.

[3] Following the principle of subsidiarity and given the heterogeneity of the Member States, the purpose of the Directive is to set minimum requirements for MTBFs on the procedures guiding the production of the quantitative information of the medium-term plans and their content. This discussion paper analyses additional issues that have to be dealt with when shaping the national MTBF and how they could best be approached.

[4] EU Regulation 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, also known as the Two-Pack regulation aims to improve the coordination of fiscal policies across the euro area Member States. It lays down a calendar to produce national medium-term fiscal plans (common budgetary timeline) and offers the euro-area Member States the option to use the Stability Programmes to set the national plans.

fiscal institutions (IFI). The link of the domestic MTBFs with the annual budget would be stronger. Other issues, in particular for domestic MTBFs, will have to be taken into account when transposing the relevant Directive provisions in national law. Overall, overcoming the identified weaknesses of medium-term plans across EU Member States would contribute to promote fiscal discipline.

The recent past provides a glimpse into the issues that domestic MTBFs would need to factor-in more forcefully in the future. High inflation, climate-related disasters, and public investment for the green and digital transition are some of these changes with a strong medium-term and budgetary dimension. Again, the Commission proposals for a reformed economic governance framework would address these points to some degree (e.g., incentives for public investments to support the twin transition, reporting requirements in the context of climate-related disasters). At the same time, when looking at whether EU MTBFs are fit for the future, the paper also outlines those features and arrangements that would make MTBFs more resilient to a changing environment.

The paper is structured as follows: the second section provides insights on the evolution and state of play of medium-term planning across EU Member States, considering the national and EU legal provisions establishing such practices. The third section zooms-in on the effectiveness of medium-term planning and on factors that could explain some of the weaknesses of domestic MTBFs. The fourth section presents some developments that could challenge the stability and binding nature of medium-term plans (e.g., inflation, climate change), calling for a broadening of the scope of MTBFs. Section five concludes.

2. DOMESTIC MTBFs IN EU MEMBER STATES. STOCK-TAKING

This section assesses the performance of MTBFs with respect to EU requirements, based on various sources. It provides an overview of medium-term planning in the EU Member States and how domestic MTBFs have developed during the Covid-19 pandemic, focussing on key elements of MTBFs, established by the main EU provisions set in the Directive. While the Directive sets minimum standards, some EU Member States go beyond the EU provisions for MTBFs in their national fiscal framework. EU Regulation 473/2013 has also influenced the landscape of medium-term planning in the Member States, notably through its provisions for a common budgetary timeline. The findings summarised in Annex 1 reflect information from official national documents, answers to the MTBF survey of the Commission Fiscal Governance Database (FGD) and from various exchanges with national officials.

Medium-term planning has become more prominent since the adoption of EU provisions for MTBFs.[5] The MTBF Index of the Commission FGD gives a summary of the underlying trend in medium-term planning across the EU Member States. Since 2006, the index has increased steadily, illustrating the strengthening of medium-term planning of fiscal policy across five different dimensions [6].

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[5] EU Regulation No 1466/1997 (the preventive arm of the Stability and Growth Pact) first introduced the concept of country specific MTO and required Member States to submit annually to the Commission their medium-term budgetary plans in the form of stability and/or convergence programmes (SCPs). The 2011 Directive sought to overcome the "ownerdship deficit" associated with the SCPs by setting minimum requirements for national MTBFs. Since the adoption of the Directive, the EU Regulation 473/2013 and the Treaty on Stability, Coordination and Governance (2012) have sought to complement and reinforce the medium-term perspective in national budgetary planning.

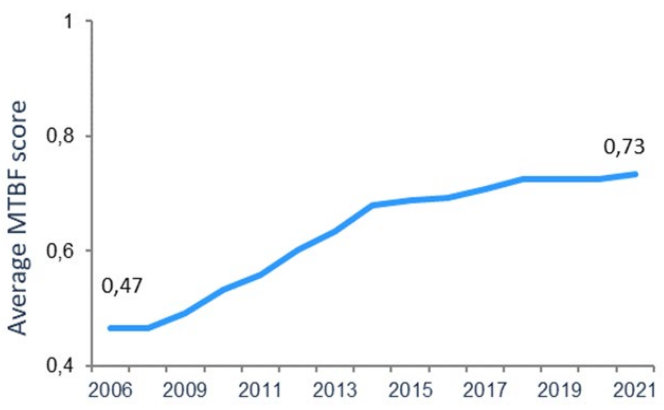
[6] The MTBF index value is the arithmetic mean of five dimensions:

(D1) the coverage of the targets/ceilings included in the national medium-term fiscal plans (NMTFP);

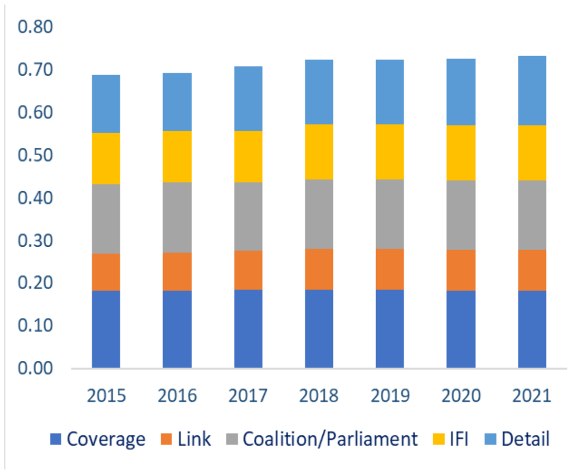
(D2) connectedness between targets/ceilings included in the NMTFPs and the annual targets;

At 0.73, the 2021 value of the index remains below the maximum value of 1, which means that some dimensions score less well than others (see Graph 1). This is notably the case for the link between the annual budget with the medium-term plans, the involvement of independent fiscal institutions (IFIs) in the preparation and/or the level of detail of the national medium-term fiscal plans (see Graph 2).

Graph 1. **MTBF Index**



Graph 2. **MTBF Index historical composition**



Source: Commission Fiscal Governance Database, 2022.

Note: MTBF Index historical composition computed according to the 2015 MTBF Index methodology.

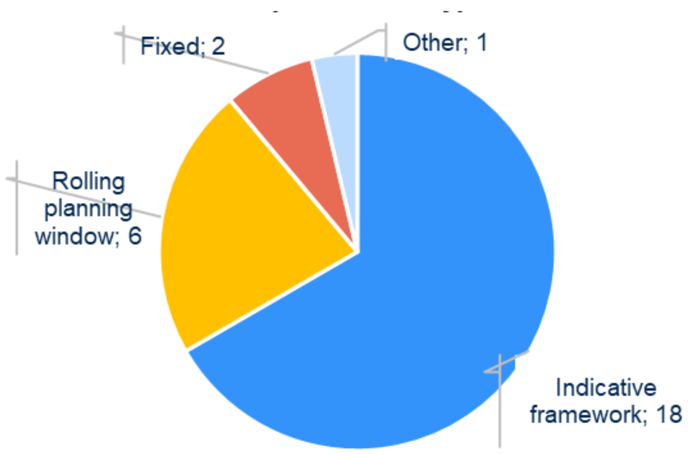
2.1 CURRENT TYPES OF MTBFs AND SUPPORTING DOCUMENTS

EU Member States follow different approaches to medium-term planning. Most EU Member States have indicative frameworks (very often following the SCP model), which means that the national medium-term plans can be revised at least every year and sometimes more often, to reflect changes in forecasts. A few EU Member States have fixed MTBFs – fixed over the legislature or over a shorter period – where the national targets set over the planning horizon for various budgetary aggregates cannot be revised.[7] Some fixed MTBFs have a rolling nature, with a fixed planning window in which the oldest year is dropped every year and another one is added to the medium-term plan, while the national targets for the remaining years remain unchanged (see Graph 3 and Annex 1). Fixed medium-term plans can be expressed in real or nominal terms; revisions are possible, but only under strict and clear conditions. Many Member States with fixed MTBFs have expenditure ceilings in place.

(D3) the involvement of national parliament or use of a coalition agreement when preparing the medium-term budgetary plans;
(D4) the involvement of independent fiscal institutions in the preparation of the NMTFPs;
(D5) level of detail included in the NMTFPs.
The maximum value of each index dimension is of 0.2 and the MTBF Index maximum value is of 1.

[7]In some EU Member States, a domestic fixed MTBF as regards national rules and targets currently coexists with annually updated SCPs (SCPs are an indicative MTBF, because the EU Regulation 1466/97 requires to update them annually). In this case, it is possible that a fixed domestic MTBF is complied with, while the EU-level MTO is not achieved or progress towards it is not made. This is due for instance to the fact that a fixed MTBF can pursue other national fiscal objectives (expressed in expenditure terms, a debt anchor for example or a trend-based policy), different from the structural balance, or that the national correction mechanism was not triggered even in case of a significant deviation from the national MTO or the national medium-term plans were revised without accounting for past deviations from the MTO. In its proposal for a reformed economic governance framework, the Commission aims to address these issues.

Graph 3. **MTBF by type**



Source: Commission Fiscal Governance Database, 2022.

EU Member States present the national medium-term plans in the document of their choice. As there is no EU requirement regarding the MTBF document, the documents that have outlined the national medium-term plans over the last decade are either the Stability and Convergence Programmes (SCPs), a national document or a coalition agreement, or a combination of both. However, in practice, some Member States refer to medium-term planning documents such as the SCPs although these are not legally designated as part of the national medium-term budgetary framework (see Annex 1). This usually happens when the SCP is annexed to the official medium-term planning document or serves as basis to its production.

2.2 CONTENT OF CURRENT DOMESTIC MEDIUM-TERM PLANS

This sub-section provides an overview of the content of MTBFs currently in force from the perspective of the relevant provisions of the Directive (see Annex 2). The domestic MTBF should include the following elements: (i) multiannual budgetary objectives, (ii) multiannual budgetary projections for revenue and expenditure at unchanged policies, (iii) a description and quantification of the budgetary impact of the policies envisaged over the medium-term and (iv) an assessment of the impact of these policies on the long-term sustainability of public finances. A summary of evidence on these elements from EU Member States is provided in Annex 1.

(i) **All EU Member States specify multiannual budgetary objectives in their medium-term plans.** The multiannual objectives are set in terms of key budgetary aggregates (e.g., general government balance and debt) and are set over a period of at least three years.

(ii) **Evidence on multiannual budgetary projections at unchanged policies is overall available, but to various degrees of detail.** With three exceptions, domestic MTBFs in the EU include projections for the general government revenue and expenditure at unchanged policies over the medium-term. In nearly half of the Member States, the MTBF includes projections at unchanged policies in more detail, by main revenue and expenditure category. In the remaining Member States, the projections are at aggregate level for revenue and expenditure. This divergence of practice could be explained by the fact that the meaning and relevance of unchanged policies throughout the medium-term plan and budgetary process is not clear (see Box 1), which makes it challenging to include projections for each major revenue and expenditure item at unchanged policies over the medium-term.

Only a few domestic MTBFs provide details on projections at unchanged policies for the different administrative layers. In more than two thirds of Member States, no such information is published. In the remaining cases, information is detailed enough, while in three Member States the available projections are detailed, but not at unchanged policies.

(iii) **Quantitative and qualitative information on medium-term policies by revenue and expenditure category, however, remains limited.** The Directive requires that domestic MTBFs provide a description and quantification of the impact of medium-term policies, with details by major revenue and expenditure item. Moreover, MTBFs should include a comparison of the medium-term plan with projections at unchanged policies.[8]

The description of the envisaged medium-term policies in the medium-term fiscal plans is diverse and not always quantitative. In two thirds of the Member States, medium-term fiscal plans include a qualitative or a quantitative assessment of the envisaged policies. In general, the quantitative assessment covers policies that have a significant budgetary impact (typically above 0.1% of GDP). In the remaining cases, the description is either incomplete, non-systematic[9] or not provided.

The information is sometimes scattered across budgetary documents which hampers the comparison of the medium-term plan with the no-policy-change scenarios. There is room for improvement in the presentation of the budgetary impact of medium-term policies by major revenue and expenditure items. This information is generally presented in the medium-term planning document or in different budgetary documents in half of the Member States. In the other Member States, this information is either not available, provided at aggregate level or partial[10]. Overall, most Member States provide this information to a certain extent and in a way that still allows to compare the numbers, although with a certain effort. In a quarter of cases, such a comparison is not possible. During and after Covid-19, some Member States have discontinued some practices or have simplified their budgetary documents, dropping some of the elements needed for this comparison.

(iv) **Evidence on the impact of the broad set of envisaged medium-term policies on the long-term sustainability of public finances is scarce.** A third of the Member States produce technical reports for each medium-term plan or with a different frequency. Such reports are issued by the ministry of finance, by the national IFI or by other public institutions in different levels of detail. In Sweden, this assessment is presented in the convergence programme, which is not the medium-term plan. A third of the Member States follow the lines of the Code of Conduct of the Stability and Growth Pact (SGP) focussing on the impact of demography, old age, and health-related expenditure on long-term fiscal sustainability. The remaining Member States do not publish such assessments at all.

For most Member States, it is challenging to assess the impact of the envisaged medium-term policies on the long-term sustainability of public finances. The main challenge comes from the fact that this Directive provision is interpreted as equivalent to the similar, yet not identical one included in the Code of Conduct of the SGP[11]. This leads to differences in implementation as some Member States consider that this provision is implemented in the section on debt sustainability analysis of the SCPs, which only reflects the impact of ageing population and fiscal risks from contingent liabilities. As such, they do not really provide an impact assessment of the envisaged medium-term policies on long-term sustainability.

[8] In its 9 November 2022 communication on orientations for a reform of the EU economic governance framework, the Commission acknowledges that Member States should be free to re-modulate annually the composition of the net expenditure path in terms of projected primary expenditure and discretionary revenue measures. In other words, the principle of a fixed MTBF does not imply a fixed composition of the adjustment.

[9] The envisaged medium-term policies are described in very broad terms or only over a shorter time horizon.

[10] Partial implementation means that Member States either use a shorter time horizon or do not distinguish between major revenue and expenditure items reflecting the medium-term policies.

[11] The Code of Conduct of the SGP of 5 July 2016 states that the stability and convergence programmes should outline the strategies to ensure the sustainability of public finances, especially considering the economic and budgetary impact of ageing populations and the fiscal risks stemming from contingent liabilities.

Box 1. **DEFINITION OF UNCHANGED POLICIES ACROSS THE EU MEMBER STATES**

The production of medium-term projections at unchanged policies in the MTBF requires to define unchanged policies and present the associated methodology (1). However, only half of the Member States provide a national definition and methodology for unchanged policies and two Member States refer to the definition of the Code of Conduct of the SGP (p.19). The remaining Member States do not provide such information. Despite having a definition in place, some medium-term plans present projections over the medium-term which mix various policy scenarios and the methodology they use to determine medium-term projections at unchanged policies remains unclear. At the same time, the projections at unchanged policies, when available, are presented in different documents or computed according to different methodologies.

(1) Recital 21: "Each Member State should be able appropriately to define unchanged policies and those definitions should be made public together with the assumptions involved, the methodologies and other relevant parameters."

The national medium-term fiscal plans are generally detailed, but some areas deserve additional efforts. All EU Member States have today a fiscal horizon of at least 3 years based on national multiannual budgetary objectives. However, it is not always possible to explore the medium-term plans following the different steps that have led to their production. The reference medium-term budgetary projections at unchanged policies suffers from lack of clarity in their definition and production. The description of the envisaged medium-term policies is patchy and mainly qualitative. Finally, the assessment of the impact of the medium-term plan on the sustainability of public finances would deserve to be enhanced, to trace the impact of measures taken to address overlapping crises and competing priorities (e.g., green and digital transition, defence).

Detailed information on medium-term plans does not directly increase their effectiveness but is a desirable feature of MTBFs. The information provided in the medium-term plans contributes to the assessment of the quality of the envisaged medium-term policies and can influence policy ownership at different administrative levels. Consistently provided, such information fosters transparency, accountability, and national/political ownership of the medium-term plans.

The Commission proposal for a new preventive arm Regulation aims to address these weaknesses within a common EU level framework by spelling out the features of the national medium-term fiscal structural plans (NMTFSPs). In particular, the proposal requires Member States to design and present NMTFSPs setting out their fiscal targets and measures to address macroeconomic imbalances and priority reforms and investments over a period of at least four years. These new features would promote national ownership of medium-term plans. The proposal for an amended Directive would promote consistency of the national medium-term objectives with the new preventive arm Regulation and contribute to strengthen domestic MTBFs with provisions on the role of IFIs in the production or endorsement of the medium-term macroeconomic and budgetary forecasts, a stronger medium-term budgetary orientation and reflection of fiscal risks and costs of climate-related disasters and mitigation and adaptation policies. At the same time, the amended Directive preserves Member States' leeway for a more comprehensive national approach for medium-term budgeting.

3. ARE DOMESTIC MTBFs FIT FOR PURPOSE? ABOUT MTBFs' EFFECTIVENESS

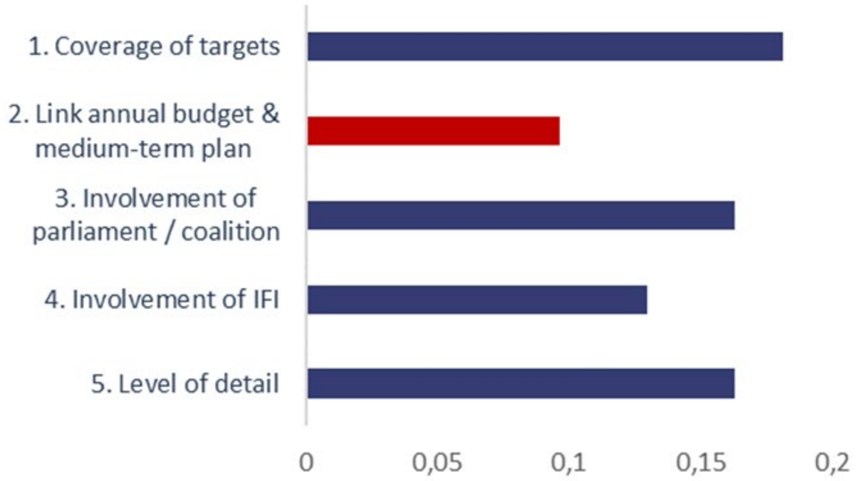
Addressing the question whether MTBFs are fit for purpose, this section explores their effectiveness. The legal provisions for medium-term planning in Member States aim to anchor the budgetary process to the medium term, to increase predictability and transparency around the envisaged policies and their impact on the sustainability of public finances, the overarching goal being to promote fiscal discipline and improve the quality of public finances. The effectiveness of medium-term planning is assessed through the lens of the link between the medium-term plan in force and the annual budgets (section 3.1) and stable/fixed nature of medium-term plans (section 3.2). Evidence on MTBF effectiveness is mixed, in part due to insufficient legal requirements at the EU level, a gap between national legislation (transposition) and implementation, a high preference for indicative MTBFs (mostly in the form of the SCP), the calendar and frequency of adoption of the annual budget and of the medium-term plan and weak accountability mechanisms for revisions and/or deviations.

3.1 THE MEDIUM-TERM PLAN AS ANCHOR FOR THE ANNUAL BUDGET

The 2011 Directive provisions for medium-term budgetary planning set minimum requirements, not the upper bar in terms of outcomes. The Directive requires Member States to establish credible and effective national MTBFs without being explicit on specific features that could support credibility and effectiveness. The commonly accepted indicators of effective medium-term plans are their stability and binding force over annual budgets. In this respect, the Directive (Article 10) aims to make MTBFs more binding by linking the annual budget with the medium-term plans (see Annex 2) and requires new governments to provide explanations in case of updates in the medium-term plans to reflect their policy priorities (Article 11). Yet, the link of the annual budget with the medium-term plan remains de facto weak, and conditions for revisions and for providing explanations in case of revisions or deviations from medium-term plans are not specified.

The provisions for a binding MTBF aim to anchor the annual budget over the medium-term by making the annual budget legislation consistent with the medium-term budgetary framework. Article 10 of the Directive sets out how to link the production of the annual budget with the medium-term budgetary framework in three steps: (1) ensure overall consistency, (2) use medium-term revenues and expenditure projections as a starting point in the preparation of the annual budget and (3) duly provide explanations for any departure from the medium-term plans. Over the last ten years, annual budgets have become de jure more linked with the medium-term plans, as all EU Member States have adopted national legal provisions in this sense. However, de facto, Member States have implemented these provisions in ways leading to situations where this link has not been genuinely strengthened. This is in line with the outcome of the 2021 update of the Commission Fiscal Governance Database (see Graph 4) where this dimension of the MTBF Index has the lowest score, well below the possible maximum of 0.2.

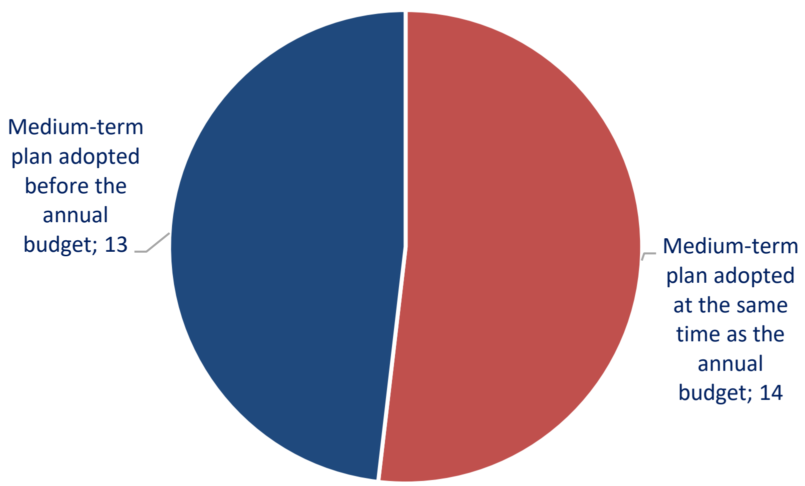
Graph 4. **The 2021 MTBF Index across its five dimensions**



Source: Commission Fiscal Governance Database.

The lack of consistency of the annual budget with the medium-term plans can be explained by two main reasons. At face value, the annual budget legislation is overall consistent with the provisions of the medium-term budgetary plans, as it refers to the aggregate budgetary targets set over the medium-term in a more or less detailed manner. Yet, such consistency is not really genuine for the following reasons. First, some EU Member States with indicative frameworks adopt their medium-term plans at the same time as the annual budget, which automatically ensures that the budgetary objectives for year T+1 are the same, as the medium-term plan is modified every year (see Graph 5). Second, most EU Member States have defined the budget balance as the reference fiscal indicator in the budgetary process. While this puts more weight on compliance with this indicator, it takes away the focus from revenue and expenditure. Thus, as consistency is ensured only for the main aggregate but not its components, the link between the annual budget and the medium-term plan is not so strong.

Graph 5. **Adoption of annual budget and medium-term plan**



Source: Commission Fiscal Governance Database, 2022.

When expenditure and revenues set in the medium-term plans guide the annual budget, such information tends to increase transparency and ownership. Thus, more information is available on the authorities' approach to achieving the overall budgetary objectives, either through higher taxes or lower expenditure, or both. However, only in some Member States the annual revenues and/or expenditure aggregates are comparable with the multi-annual aggregates. In many cases the accounting standards in the annual budget are different from those of the medium-term plans. Annual budgets include more details on expenditure when the Member States set expenditure ceilings over the medium term. In five cases, this information is available because the annual and medium-term budget plans are adopted at the same time.

However, the link between the annual budget process and medium-term planning is not always genuine and it is not clear whether the medium-term is driving the annual budget or the other way around. In practice, having the same adoption calendar for the annual and medium-term plans every year makes the annual targets identical to the targets of the medium-term plan, weakening the effectiveness of medium-term planning, a situation possible in those Member States where MTBFs are indicative and adopted in autumn. This gives a leading role to the annual process, as targets of the medium-term plans are modified every year and aligned with those of the annual budgets. In practice, national authorities might even favour such national arrangements to simplify the reporting since there are no differences to explain between the medium-term plans and the annual budgets.

Moreover, other EU requirements have influenced medium-term planning. For instance, the Two-Pack provisions gave euro-area Member States the possibility to present their medium-term plans in national documents (national medium-term fiscal plans, NMTFPs) or in the Stability Programmes. Some non-euro-area Member States also use the Convergence Programmes as their NMTFP (see Graph 3). However, because SCPs need to be annually updated in line with the preventive arm regulation (EU Regulation 1466/97), this has made national medium-term plans more volatile. In fact, these medium-term plans are indicative and do not exert a real constraint on policy decisions in the annual budget. Nonetheless, even fixed MTBFs (with or without a rolling window) have failed to ensure a strict alignment between the annual budget and the medium-term objective. This situation can be explained by the focus on a different underlying medium-term fiscal policy objective (structural balance for the EU fiscal framework versus debt anchor, trend-based policy, or expenditure in the national fiscal framework), the absence of an accountability and correction mechanism, pursuing a nominalist strategy aiming to deliver on the headline balance (see footnote 4).

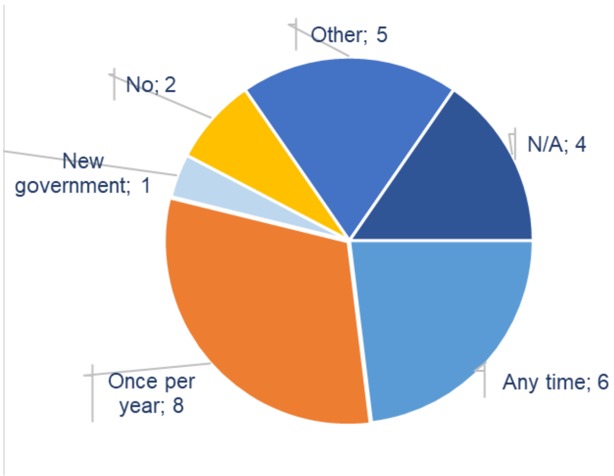
Some Member States perform better than others when it comes to adhering to the medium-term plans. One explanation is the strong link between effective MTBFs, national ownership and political commitment. Typically, in these Member States the government adopts the medium-term fiscal plan, which in some cases is sent to the national parliament for information or debate. In some Member States, the parliament adopts the plan, sometimes in the form of a law (Sherwood, 2015). In addition, Member States with better fiscal outcomes often implement expenditure ceilings. These appear to support effective medium-term planning as these ceilings concern the budgetary aggregate under the control of the government, past slippages are compensated in the future and a deviation from the medium-term targets would have reputational costs.

3.2 IMPLEMENTING STABLE AND BINDING MEDIUM-TERM PLANS

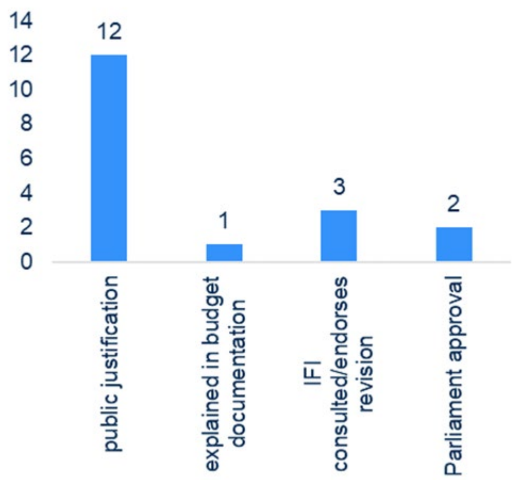
The stability of medium-term plans rests on the limited possibility to revise them under pre-set objective and justifiable conditions, while their binding force is influenced by the implications of a deviation of the annual budget from the medium-term plans.

In practice, all EU Member States allow for updates of their medium-term plans. Two thirds of the Member States update their MTBFs annually. In a few cases, the MTBF can in theory be updated with every new available forecast, typically in spring and autumn (see Graph 6). The Directive allows that a new MTBF is adopted when a new government is elected. For those Member States with fixed frameworks (fixed time windows and fixed plans), the absence of overlapping years in the planning horizon does not require to compare the new medium-term plan with the old one. However, if elections take place before the end of the plan, a comparison is required[12]). Half of EU Member States always indicate the differences between two successive medium-term plans, while a quarter never does so. The remaining quarter would usually indicate the differences between successive medium-term plans and refer to key macroeconomic and budgetary indicators or objectives and include the new policies. When the medium-term is revised, it is generally accompanied by a public justification or a form of endorsement/approval by public institutions (IFI, Parliament) (see Graph 7).

Graph 6. **Medium term plans can be revised...**



Graph 7. **If a medium-term plan is revised...**



Source: Commission Fiscal Governance Database, 2022 update.

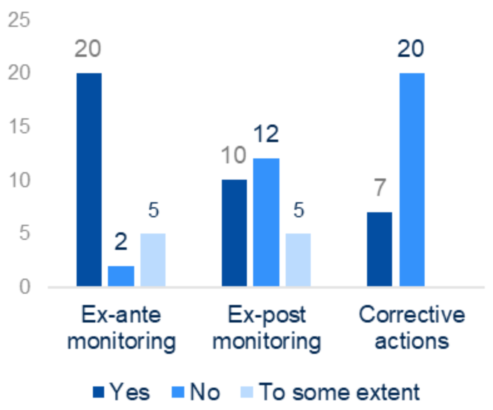
Explanations for deviations of the annual budget from the medium-term plans are not always systematic and come in various forms. However, as for fiscal rules, the strength of MTBFs is driven by the degree to which they guide fiscal policy making through monitoring and enforcement mechanisms (Belu Manescu and al., 2023), which in turn leads to more robust national fiscal frameworks. Less than half of the EU Member States provide detailed and/or convincing explanations for deviations of the annual budget from the medium-term plans. In other cases, such explanations have been irregular or not very detailed. The explanations can be presented in the explanatory memorandum of the budget, in the budget law, in the medium-term planning documents (in which case they explain ex-post the deviations in the annual budget) or in public statements or hearings in the Finance Committee of the legislator. Most Member States do not have ex-post monitoring (budget execution) or corrections of deviations from the medium-term plan in force (see Graph 8).

Explanations for deviations are often provided by the authorities without an independent opinion (see Graph 9). The government or the Ministry of Finances provide explanations for deviations of the annual budget from the medium-term plans, prompted by a negative assessment of the IFI. In some Member States, such practices may have been reinforced by the comply-or-explain principle that applies to the signatories of the Fiscal Compact regarding compliance with the balanced budget rule. In about a quarter of cases, the explanations are typically provided, and they are independent from such reports. By design, deviations do not occur if the adoption of the medium-term plans and of the annual budget takes place at the same time, which de facto makes the targets for year T+1 identical. Most often, the finance ministry does the ex-ante or ex-post monitoring of the

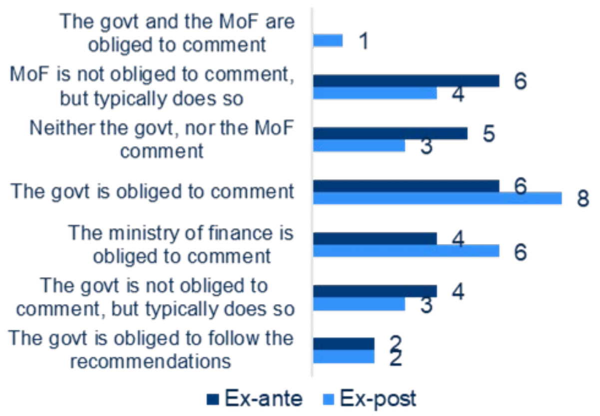
[12] There is limited evidence on this practice as only France, the Netherlands and Finland have fixed plans.

consistency of the annual budget with the medium-term objectives, without an independent institution providing a separate opinion. The Commission proposal for an amended Directive aims to address this issue with the provision for national budgetary authorities to ensure compliance with the opinions of the independent fiscal institutions or to publicly justify a decision not to comply with such opinions on the medium-term macroeconomic and budgetary forecasts.

Graph 8. **Monitoring and correcting deviations**



Graph 9. **In reaction to monitoring report**



Source: Commission Fiscal Governance Database, 2022 update.

The Covid-19 pandemic has disrupted certain practices and the return to the pre-pandemic approaches is not certain. The activation of the General Escape Clause of the Stability and Growth Pact and the high uncertainty surrounding macroeconomic forecasts have weakened some medium-term planning practices. Some Member States have made changes to their MTBFs to accommodate the COVID-19 related spending (Weise, 2023), have not produced the medium-term documents and the explanation of deviations of the annual budget from the medium-term plans was deemed unnecessary due to the exceptional circumstances. While such situations cannot be prevented, their occurrence tends to weaken those frameworks that have not reached a mature state.

4. ARE DOMESTIC MTBFs FIT FOR THE FUTURE? ABOUT MTBFs' RESILIENCE

This section provides insights on the scope of domestic MTBFs and their resilience to a changing environment, also given new challenges and policy priorities. Climate change, inflation, or public financial management arrangements for the significant investments needs stemming from Russia's war against Ukraine, the green and digital transition or the adaptation to climate change can be dealt with by domestic MTBFs in different ways; related EU-level requirements cannot prescribe a comprehensive and uniform solution to these challenges. Moreover, this section provides national authorities with a range of options to be explored when transposing the amended Directive (if adopted) as this would require opening national laws or adopting new ones anyhow. This section also builds on the recommendation of the European Court of Auditors (ECA, 2019) to further strengthen medium-term budgetary frameworks also considering international standards and best practice and to improve their scope and effectiveness.

4.1 ELEMENTS OF PUBLIC FINANCIAL MANAGEMENT

Medium-term budgeting can be more efficient if it is accompanied by certain public financial management (PFM) elements. Used parsimoniously, PFM elements promote efficient budget-making and contribute to achieving the budgetary targets. The most common PFM elements in this context are carryover arrangements, multiyear expenditure commitments and margins/buffers (Cangiano et al., 2013). Carryover arrangements support the medium-term orientation in the annual budget cycle, give some leeway to line ministries in the use of resources over the medium-term and support more efficient spending by addressing the year-end spending rush (see Box 2). Multiyear expenditure commitments can come from political promises and legal or contractual obligations. As they have implications over several years, there are various ways to control them, either with a limit above which the spending ministry needs to obtain official approval or a stricter approach for all multiyear commitments requiring official approval (e.g. in parliament). Explicit or implicit margins/buffers absorb the unexpected developments in expenditure without requiring a change in priorities.

Certain PFM elements contribute to balancing the quest for more binding medium-term plans and to avoid pro-cyclical adjustments. Some EU Member States have forward-looking expenditure controls in their MTBFs. According to the 2022 update of the Commission FGD, 21 Member States have reported to include some form of forward-looking expenditure control in their national medium-term budgetary framework. Such reported controls include a system of reserves to carryover unused resources, buffers, spending reviews, multiyear expenditure commitments or controls that apply to capital spending. These features sometimes complement the national expenditure ceilings in place in the Member State.

Box 2**. CARRYOVERS: DEFINITION, PROS AND CONS**

A carryover is the right to use an unspent appropriation beyond its original period. There can also be negative carry-forward: borrowing against future appropriations. Although they can be interesting to use, carryovers should remain exceptional (Lienert, Ljungman, 2009). Carryovers can be useful in medium-term budgetary frameworks if the government follows a medium-term orientation of fiscal policy and a less strict adherence to annual outcomes. Carryovers are also useful for multi-year projects. Nonetheless, countries with accrual accounting systems have fewer reasons to use carryovers as they measure the actual utilisation of resources.

Advantages of carryovers

Budgetary frameworks with carryover arrangements give some leeway on the re-allocation of resources over time without compromising their binding nature. Carryovers allow to move the unspent appropriations to the next year (thus avoiding the "December fever") and indirectly promote spending efficiency, as spending ministries prioritise efficient spending knowing that extra funds remain available the next year(s). In a similar fashion, carryovers allow the manager of multi-year projects to focus on respecting the overall envelope instead of annual appropriations, thus improving the management of such longer-term projects. It can be useful to distinguish between carryovers on current and capital expenditure. Keeping carryovers in place while practicing accrual accounting still has benefits, as they can provide incentives to identify efficiency gains.

Disadvantages of carryovers

The use of carryovers should be restricted to specific expenditure items, capped and timebound. For example, carryovers should not apply to over-budgeting entitlements (i.e., expenditure determined by law), debt servicing, and transfers to sub-national governments. A fiscal stimulus that applies during a specific period should not be carried over (spending needs to be made at a precise moment or otherwise be lost). Moreover, spending large amounts of accumulated carryovers can weaken the predictability of the framework and compliance with fiscal rules (deficit target, debt target or expenditure target) and the bindingness of MTBFs. Large carryovers are a fiscal risk and fiscal frameworks and budgetary planning should reflect them.

Guiding principles for the use of carryovers

Some rules are necessary when putting in place carryovers. The carryover should be justified/necessary. The share of carryover balances in total spending should remain limited. These principles can be applied on a case-by-case basis or by establishing general rules. A case-by-case evaluation is time consuming and only makes sense when such instances are limited and apply to large spending categories. A standardised approach granting year-end flexibility should rely on criteria communicated in advance to ensure predictability and stability in spending. Quantitative limits on carryovers can be limits on the amount carried over, a limit on the cumulative amount of carryover and/or a limit on the amount that can be drawn from carryovers. The rules should also spell out how to use carryovers: for the same type of spending or a more general allocation. Using carryovers from capital expenditure for current expenditure should be prohibited.

4.2 INFLATION

Changes in the inflation forecast can imply that the medium-term trends underpinning the MTBF in nominal terms become outdated and are no longer a reliable reference for budgetary planning in the annual cycle. While frequent updates of the medium-term plans weaken their anchor role over the annual budget, medium-term budgetary plans need to be capable to consider inflation surprises because budgetary planning is done in nominal terms and because some expenditure items (e.g., wages, pensions, unemployment benefits) have different elasticities to price developments and need to be adjusted to inflation. This complex situation calls for specific arrangements in MTBFs to enable them to deal with changes in the underlying trends (within normal ranges), while preserving the binding nature of medium-term plans.

As the main challenge from inflation spikes is related to permanent and temporary expenditure increases, MTBFs could put more emphasis on expenditure. There are different ways to reflect expenditure developments in MTBFs, namely by resorting to using real or nominal expenditure ceilings, budgetary margins or buffers. Real expenditure ceilings (i.e., expenditure expressed in volume) take on board price changes when translating real ceilings in nominal terms in the annual budgetary process. Nominal expenditure ceilings (i.e., expenditure expressed in value) are more frequent but require adjustments for unexpected price increases. In 2021, 18 EU Member States have reported having an expenditure rule in place and the most prevalent form of expenditure planning is in nominal terms. Implicit or explicit budgeting margins can be established to deal with the uncertainty around expenditure projections (see Box 3).

The options available to deal with changing inflation when making medium-term expenditure projections have their pros and cons. On the one hand, nominal terms are better understood, easy to communicate and provide a clear reference across budgetary documents (e.g., annual budget, medium-term plan). They are also counter-cyclical to a certain extent. Real expenditure targets can ensure that compliance is not affected by inflation surprises and can remain valid if the government intends to provide the same volume of goods and services (Ayuso-i-Casals, 2012). Real targets would still be affected by inflation through the GDP developments, although to a lesser extent. Yet, the conversion of real targets into budgetary aggregates would require taking into account that different public expenditure items have different price elasticities, which in principle would require the use of different deflators. As such conversions tend to reduce transparency, one would need to pay particular attention to avoid opportunistic adjustments aiming at securing room for additional spending (Ljiungman, 2008).

Some guiding principles in using explicit or implicit margins and buffers are equally desirable. Margins and buffers should be used parsimoniously and set to levels that put a genuine constraint on expenditure over the medium-term. First, the use of such reserves should be possible under clear rules about the conditions and timing to access them. Second, if they are set in a too generous way, margins and buffers can weaken medium-term planning (Sherwood, 2015).

Box 3. **DEALING WITH INFLATION SURPRISES IN THE MEDIUM-TERM BUDGETARY PLANS: EVIDENCE FROM EU MEMBER STATES**

Nominal expenditure ceilings

Nominal expenditure ceilings are the most frequent form of expenditure setting over the medium term. The adjustment of nominal expenditure ceilings to changes in inflation differ among Member States.

- *Denmark* sets nominal expenditure ceilings in levels over a 4-year rolling window (one year is deleted and one year is added every year) covering three quarters of general government spending. The ceilings can only be adjusted by law, but some technical adjustments are possible to reallocate expenditure between different administrations, to deal with price and wage developments or to make technical corrections.
- *Sweden* also has fixed nominal expenditure ceilings over a 3-year rolling window covering central government and pensions. The only way to adjust for inflation is in the new year added to the plan.
- In *France*, the nominal expenditure limits for the State budget cover three years, of which only the first two are binding.

Real expenditure ceilings

Some EU Member States use real expenditure ceilings over the medium-term. In *Latvia*, real expenditure growth should remain below potential growth and inflation is used to convert it into nominal expenditure.

- In *Belgium*, the real growth of the federal health-related expenditure should stay below 1.5% and a health-related index is used to convert it into nominal terms;
- In the *Netherlands*, multiannual real expenditure ceilings covering 98% of general government spending net of cyclical social assistance and unemployment benefits; but including interest payments (Belu and Bova, 2020) are defined in a coalition agreement every four years and expressed in euros. The deflator is an independent estimate of the private sector wage and price growth by the Central Planning Bureau. It is used to convert real ceilings into nominal ones every year at the time of the budget preparation and leaves room for compensation between low and high price elasticity expenditure items.
- In *Finland*, the expenditure ceilings are binding over four years and are based on a political commitment. They are set in real terms and in levels and apply to 45% of general government spending. Every year, at the start of the budget preparation, the real expenditure ceiling is converted into nominal terms using a central government price index. The index is a weighted average of various price and wage indices (e.g., pension index, CPI, state subsidy index, building cost index), but the government does not disclose the weights it uses. The Finnish ceiling has worked well in previous crises because the fiscal stimulus and financial costs were not under the ceiling, contrary to spending since the Covid-19 pandemic (on health, defence).

Margins and buffers

MTBFs can deal with changes in underlying inflation via explicit or implicit budgeting margins. An explicit expenditure margin is usually expressed as a percentage of total spending. In *Sweden*, the margin increases by 0.5pp. each year from 1% of total expenditure in the current year to 3% three years ahead to reflect the uncertainty around the inflation forecast. The *Netherlands* have a central contingency reserve of 0.1% of total spending, *Canada* of 1.5% to 2% of total spending, the *UK* a 0.75% to 1% margin of total spending. In the *UK*, a small departmental reserve can be used if the additional needs are genuinely unforeseen, unavoidable and unabsorbable by departmental budgets. *Australia* has a similar rule in place, giving access to reserves to cover unexpected forecast developments, but not to fund new policies (World Bank, 2013). In *Finland*, the unallocated reserve and the supplementary budget reserve can cover unexpected spending needs. Implicit margins rest on the use of conservative forecasts for setting the expenditure ceilings, for example by assuming GDP growth below trend or assuming more binding interest rates' developments.

4.3 CLIMATE CHANGE

MTBFs are particularly relevant for climate policies because of their intrinsic medium-term horizon. They are an appropriate tool to provide an encompassing view on climate mitigation and adaptation policies and climate-related risks, which can create large public financing needs over the medium to long-term. However, MTBFs currently have a limited climate dimension, including with respect to the fiscal aspects of climate change (e.g., reducing the risks, preventing or recovering from extreme weather events), or with respect to structural changes with a slower onset such as the green transition to a low-carbon economy. MTBFs can provide relevant information at different levels, for instance on climate-related disaster financing strategies, disaster risk reduction policies and green investments.[13]

Climate-related disasters have affected most EU Member States, even if unevenly, due to different geographic situations and GDP levels. Very often, after a disaster, the State acts as insurer of last resort, covering emergency relief, recovery, and reconstruction of damaged assets, which entails significant costs for public finances. At the same time, evidence on disaster risk financing indicates that most EU Member States have an ad-hoc approach to dealing with the cost of climate-related disasters (Radu, 2022). Moreover, climate change is expected to amplify the frequency and intensity of most natural disasters [14]. These findings support this reflection on ways to reflect the macro-fiscal aspects of climate change into national fiscal frameworks (e.g. tools to increase the financial resilience to climate-related disasters and to reflect investments driven by climate policies).

There are diverse ways to reflect the fiscal aspects of climate policies in MTBFs. For instance, medium-term budgetary documents can provide information on the fiscal risks from climate change and related government contingent liabilities. For this, medium-term forecasts could incorporate the macro-fiscal impacts of climate change and associated fiscal risks using historical disaster loss data as a proxy for future losses and climate-related fiscal risks, before developing any forward-looking methodologies.

Besides fiscal risks, MTBFs can provide information on climate risk management and financing strategies to address climate-related fiscal risks. Such strategies build on climate-related disaster risk assessments to pre-arrange access to and availability of funds for emergency support, recovery, and reconstruction. The most common budgetary arrangements and instruments are the budget flexibility (e.g., the possibility to reallocate funds under expenditure ceilings, escape clauses for deviations from targets under exceptional circumstances), pre-arranged funds (e.g., contingency reserves, natural disaster funds, precautionary reserves) (see Box 4). Risk transfer instruments (i.e., disaster insurance) complement these budgetary arrangements.

Disaster risk reduction (DRR) measures are the first line of defence against climate-related disasters but require significant public investment. DRR is achieved mainly with investment in climate resilient infrastructure. The multiannual nature of the investment cycle is compatible with the medium-term planning horizon of MTBFs, ideally with a distinction for capital expenditure (see Section 4.1). Meeting environmental objectives, greening the budget and financing the transition to a low-carbon economy also call for a medium-term perspective that can be provided by MTBFs.

[13] The provisions of the amended Directive (COM(2023) 242 final) cover reporting requirements for EU Member States on macrofiscal risks from climate change, climate-related contingent liabilities and economic losses and budgetary arrangements to manage them.

[14] Under current trends, by the end of the century the annual economic losses are projected to be at least fifteen times higher than the historical average (1.36% of EU GDP) under the current trend in global warming (https://joint-research-centre.ec.europa.eu/system/files/2020-06/pesetaiv-infographic-economics.pdf).

Box 4. **THE COST OF CLIMATE-RELATED DISASTERS IN MTBFs. EVIDENCE FROM EU MEMBER STATES**

Reporting on fiscal costs and risks from climate change and related disasters in the budgetary frameworks of EU Member States is limited. The Directive provides a non-exhaustive list of contingent liabilities with a potentially large impact on public budgets for EU Member States. Reporting on national fiscal risks is however limited, mostly qualitative and outside the budgetary cycle (e.g., *Finnish* Security Strategy for Society, *Maltese* national risk assessment). *T*he *Lithuanian* Law on the Budget Structure requires the government to present the medium-term fiscal risks and to provide an annual assessment. The *Romanian* 2022-2024 Fiscal Strategy provides model-based simulations of annual physical losses and intervention costs for a 1-in-100-year event. *Finland* reflects fiscal risks from climate change in the long-term projections.

Budgets of EU Member States use the embedded flexibility to cover disaster-related fiscal costs, but with a short-term view. For instance, *Sweden* uses budgetary reallocations that need the approval of the Riksdag. In *Luxembourg*, the Ministry of Home Affairs and the High Commissioner for National Protection have flexible budgets to cover disaster costs. The budgetary procedures in *Hungary* allow a flexible allocation of funds for emergency response and in *Slovenia* such flexibility is granted for natural disasters. Until Covid-19, *Finland* had no flexibility in the budgetary framework, but a 2019 measure allows to increase expenditure ceilings. Another form of budget flexibility is given by national escape clauses.

National budgets can include dedicated funds for the realisation of specific fiscal risks. Nearly all EU Member States recurrently set aside contingency reserves (i.e., resources to finance unanticipated events/natural disasters). *Malta* has an annual contingency reserve of 0.1 to 0.5% of GDP for urgent, temporary and unforeseen circumstances. The four different contingency reserves of *Lithuania* amount to about 0.5% of total expenditure. As of 2021, *Ireland* had a contingency reserve of €2.1 bn, a recovery fund of €3.4 bn and a €1.5 bn rainy-day fund. The latter has been spent during the Covid-19 pandemic. In *Spain*, 2% of expenditure aims to keep the annual budget in line with the plans, similar to the *French* precautionary reserve. In *Latvia*, the fiscal safety reserve is set to at least 0.1% of GDP based on quantifiable fiscal risks. In *Sweden*, the reserve can be used when certain fiscal risks materialise. *Romania* uses ex-ante and ex-post budgetary mechanisms: the Intervention Fund for post-disaster expenditure, which can be supplemented from the State Reserve Fund or topped-up via budgetary rectifications.

Budget reserves or natural disaster funds can be immediately available. In *Bulgaria*, a reserve for unforeseen and/or urgent expenditure is planned annually under the State Budget Act for the prevention, containment and management of the consequences of disasters. *Czechia* has a reserve for extraordinary expenses under the Integrated Rescue System Act and the Government Budget Reserve under the Crisis Act. *Poland* has an annual reserve of up to 0.2% of GDP for general contingencies in the State budget and it covers prevention and emergency intervention. The budget sets aside an additional 0.5% of GDP spending for emergencies and disasters. The State reserve of *Estonia* can be used for emergency situations and the State budget draws a 4-year financing plan for disaster risk management.

Source: Disaster Risk Financing: Main Concept and Evidence from EU Member States (Radu, 2021).

5. CONCLUSIONS

This discussion paper aims to inform policy makers about the state of play of the implementation of the EU legislation for domestic medium-term planning and MTBFs. Building on this evidence, the paper highlights the weaknesses in practices and their sources. It points to possible ways to improve medium-term fiscal planning and feeds into the debate on how to strengthen national fiscal frameworks and in the Commission proposal for an amended Directive.

Effective MTBFs are stable over time and strong enough to guide the annual budget. They are more binding than is currently often the case, which, however, makes it more difficult to change them if required by unforeseen developments. Thus, MTBFs need to combine those features that are central to effective medium-term planning and conducive to fiscal discipline with elements that make them more agile to changing conditions and new priorities.

While the implementation of current MTBFs in the EU Member States is largely in line with the EU requirements in place since 2011, there is room for improvement. The heterogeneous evidence reflects national specificities and a sub-optimal implementation of some of the MTBFs provisions. The production of budgetary projections at unchanged policies and the assessment of the budgetary impact of policies over the medium and long-term have proven to be particularly problematic. These are implementation issues which could be relatively easily addressed drawing on existing implementation examples, best practices and peer reviews and with clearer and comprehensive methodologies. A more prominent role of the national IFIs in the medium term macroeconomic and budgetary forecasts and debt sustainability analysis would also contribute to tackling the issue.

While domestic MTBFs seem to have had a positive impact on fiscal outcomes, there is scope to improve their effectiveness. The factors that explain the mixed evidence of effective medium-term planning during the last decade include a gap between national legislation and implementation, the EU legal provisions setting only minimum requirements for MTBFs, the preference for indicative MTBFs (the dominant medium-term planning document is the SCP), in some cases the choice of the calendar and frequency of adoption of the annual budget and of the medium-term plan, weak accountability mechanisms for revisions and/or deviations. Progress in this area would often require some legal changes, and stronger national ownership and political commitment, which can be fostered by stronger public scrutiny of MTBFs, possibly from IFIs.

The Commission proposal for a reformed economic governance framework gives a central role to medium-term budgetary planning and should go together with stronger MTBFs. National MTBFs should be consistent with the preparation of binding medium-term plans over 4 years that take into account the debt sustainability implications of the medium-term fiscal orientation and the macroeconomic and budgetary impact of reforms and investments, and that can be revised only under pre-determined conditions, with stronger accountability mechanisms for revisions and/or deviations from the medium-term plans and more national ownership.

Many elements discussed in this paper do not lend themselves to detailed EU-wide rule setting, and the way rules and requirements are applied and implemented at the national level does matter. To be fit for the future, MTBFs need to be able to deal with identified challenges. High inflation, climate-related disasters, and public investment for the twin transition are three of the major challenges with a strong medium-term and budgetary dimension which are currently not sufficiently reflected in domestic MTBFs. Adapting to this evolving context rests on a broader scope for MTBFs including PFM arrangements for multiannual commitments and carryover arrangements, disaster risk reduction and climate adaptation and a generalised use of expenditure ceilings to guide policy makers in their decisions over the medium term.

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ANNEX 1. Summary table on Directive 2011/85 implementation

Article	Question	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK
Medium-term planning document(s)(by law) (national document/SCP/both)		both	SP	both	national document	both	both	national document	both	national document	SP	national document	national document	both	both	both	both	both	national document	national document	national document	national document	CP	both	national document	national document	both	SP
Medium-term planning document(s) (in practice) (national document/SCP/both)		both	SP	both	both	both	both	national document	both	both	SP	both	national document	both	both	national document	both	both	both	national document	national document	national document	CP	SP	national document	national document	both	both
Type of MTBF (fixed/rolling/indicative)		indicative	indicative	indicative	indicative	rolling	indicative	rolling	indicative	rolling	indicative	rolling	fixed	indicative	indicative	indicative	rolling	rolling	indicative	indicative	indicative	fixed	indicative	indicative	indicative	rolling	indicative	indicative
Article 9(2)(a)	Is the medium-term trajectory of general government deficit and debt available?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
	Is there any other fiscal indicator provided over the same time horizon such as expenditure or revenues?					√		√				√						√				√				√		
Article 9(2)(b)	Are the projections based on unchanged policies for each major expenditure and revenue item of general government available for the entire medium term-perspective?	X	√(p)	√	√	X	√(p)	√(p)	√	√	√	√	√(p)	√(p)	√(p)	√	√	√(p)	√(p)	√	√	√(p)	√(p)	√	X	√	√(p)	√
	Is there a definition provided for unchanged policies (recital 21)?	√	X	√	X	√	√	√	√	√	√	√	√	X	X	X	√	X	√	X	√	√	X	X	X	√	X	√
	Are more specifications on central government and social security available?	X	X	X	X	X	√	√(p)	√	X	X	X	X	X	√	√(p)	X	X	X	√	X	√	X	X	√	√(p)	√	X
Article 9(2)(c)	Are the medium-term policies with an impact on public finances described? How is this description: detailed by policy, concise?	√	√(p)	√	√	√(p)	√	√	√	√	√(p)	√	√	√(p)	√	√(p)	√	√	√	√	√(p)	√	X	√	√	√	√	√
	Is there a comparison of medium-term plans with the NPC projections? What form does it take: a table, a dedicated paragraph, other? Is it straightforward or more convoluted?	√(p)	√(p)	√	X	√(p)	√(p)	√(p)	√	√(p)	√(p)	√(p)	X	X	√	X	√	√(p)	√(p)	√	√	√(p)	X	X	X	√(p)	√(p)	√(p)
	Is the impact of the medium-term policies broken down by major revenue and expenditure item presented? How detailed is the presentation (at aggregate level/for each envisaged policy)?	√	X	√	X	X	√	√	√	√	√	√	√(p)	X	X	√	√	√	√(p)	√	√(p)	√	√	√(p)	X	√	√	√
Article 9(2)(d)	Is there an assessment of the long term impact of the envisaged medium term policies on the long term sustainability of public finances? (√* published with a different frequency)	√*	X	X	X	√	√*	√	X	X	X	X	X	X	X	X	√	X	X	√	X	√	X	X	X	X	X	√
Article 10	Is there a reference to the priorities set over the medium-term in the annual budget legislation?	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√	√	√
	Is there a specific reference to the revenue and expenditure projections and priorities set over the medium-term in the annual budget legislation? (√*) available because annual budget and medium-term plan are adopted at the same time)	√	√(p)	√*	√(p)	√	√(p)	√	√(p)*	√(p)	√	√	√(p)	√	√	√(p)	√(p)		√(p)*	X	√	√	X	√*	X	√	√	√(p)
	If they occur, are departures in the annual budget from the MTBF duly explained?	√	√(c)	√(c)	√(c)	√(c)	√	√*	√(c)	√*	√(c)	√(c)	√(c)	√	X	√*	√(c)	√*	√(c)	√(c)	√(c)	√(c)	X	√(c)	√*	√	√	√*
	Are the explanations provided convincing/superficial? Are they a public statement, official document, annex document to the budgetary document?	√	√ (p)	√	√ (p)		√		√	√	√				√		√	√			√	√				√	√ (p)	
Article 11	Are differences between two consecutive MTBFs after a change in government presented and explained?	always	always	always	never	usually	always	usually	always	always	usually	always	usually	usually	always	never	never	always	usually	usually	always	always	never	never	always	always	always	usually

ANNEX 2. Directive 2011/85 on national budgetary frameworks: MTBFs provisions

Article 9(2)(a): *Medium-term budgetary frameworks shall include procedures for establishing the following items:*

(a) comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules as provided for in Chapter IV in force.

Article 9(2)(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;*

Article 9(2)(c): *a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;*

The article requires describing and quantifying the impact of medium-term policies, with details by major revenue and expenditure item, and to present how the medium-term plan compares with projections at unchanged policies. Although the Directive does not say it explicitly, the envisaged medium-term revenue and expenditure policies should be fixed over the medium term, as can be deducted from the provision of Article 10 for the annual budget to be consistent with the expenditure and revenue projections of the MTBF[15].

Article 9(2)(d): *an assessment as to how in the light of their direct long- term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances;*

The article refers to the broad set of policies presented in each medium-term fiscal plan and the provision is about their impact on the sustainability of public finances in the long run.

Article 10: *Annual budget legislation shall be consistent with 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.*

The provisions of this article set out how to link the production of the annual budget with the MTBF in three steps: (1) ensure overall consistency, (2) use medium-term revenues and expenditure projections as a starting point in the preparation of the annual budget and (3) duly provide explanations for any departure from the medium-term plans.

Article 11: *No provision of this Directive shall prevent a Member State's new government from updating its medium-term budgetary framework to reflect its new policy priorities. In this case, the new government shall indicate the differences from the previous medium-term budgetary framework.*

[15] In its 9 November 2022 communication on orientations for a reform of the EU economic governance framework, the Commission acknowledges that Member States should be free to re-modulate annually the composition of the net expenditure path in terms of projected primary expenditure and discretionary revenue measures. In other words, the principle of a fixed MTBF does not imply a fixed composition of the adjustment.

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