



Ownership of the governance framework

A scene setter

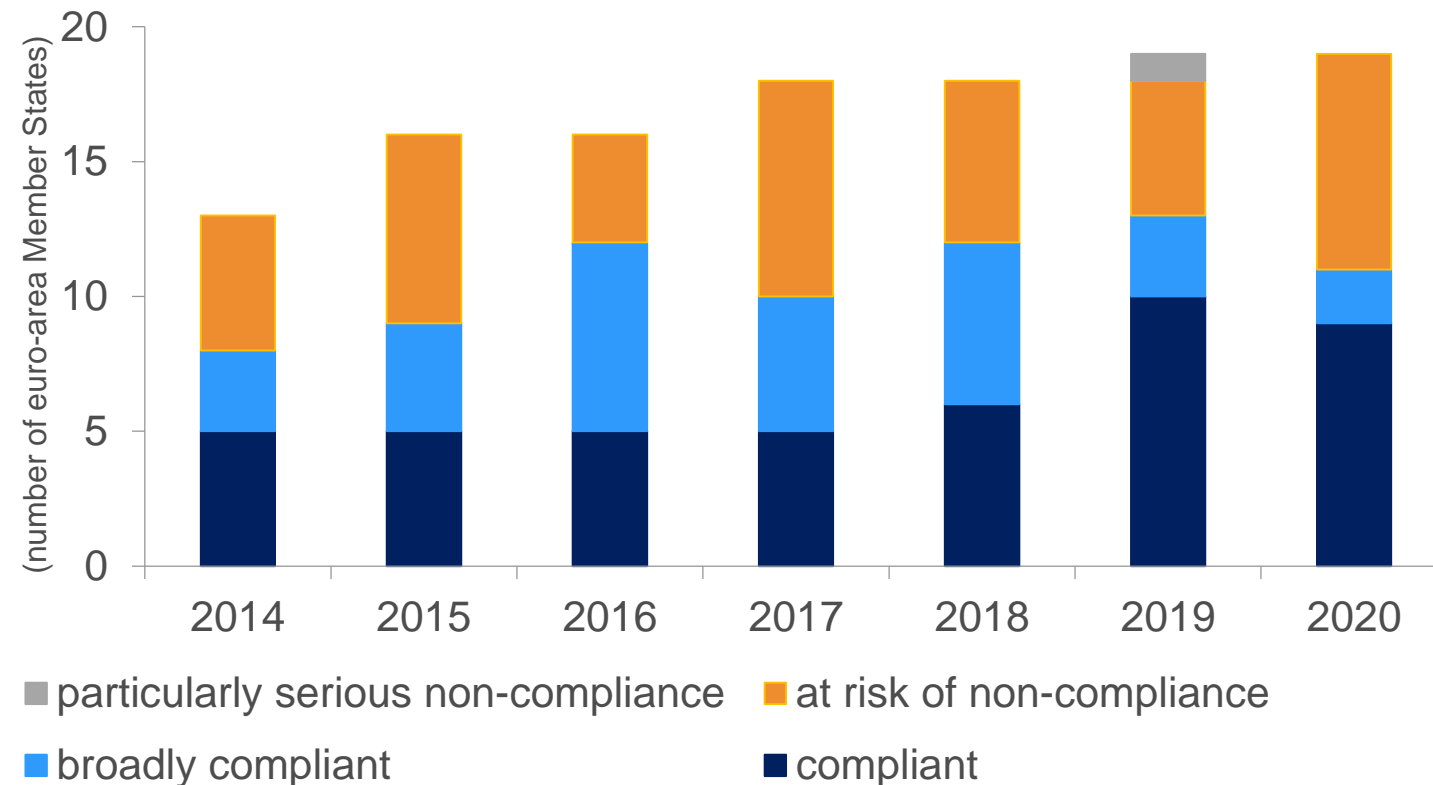
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Introduction

Weak compliance with the EU fiscal framework

Compliance of draft budgetary plans with Stability and Growth Pact



- **Corrective arm** => effective in reducing and maintaining deficits <3% of GDP
- **Preventive arm** => mixed compliance

Source: [European Commission \(2020\), staff working document accompanying the Commission Communication of 5 February 2020, 'Economic governance review', SWD\(2020\) 210.](#)

Root causes of weak compliance

Short term focus

Focus on annual figures rather than medium-term allowed for accumulation of deviations.

Unrealistic requirements

E.g. debt reduction benchmark, reducing credibility.

Complexity

Multi-layered provisions (Treaty, secondary legislation, soft law, interpretative texts)

Lack of national ownership

National fiscal frameworks to boost ownership

In the EU fiscal framework, national institutions are a tool to support ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level ([SWD Suitability Review 2020](#)).

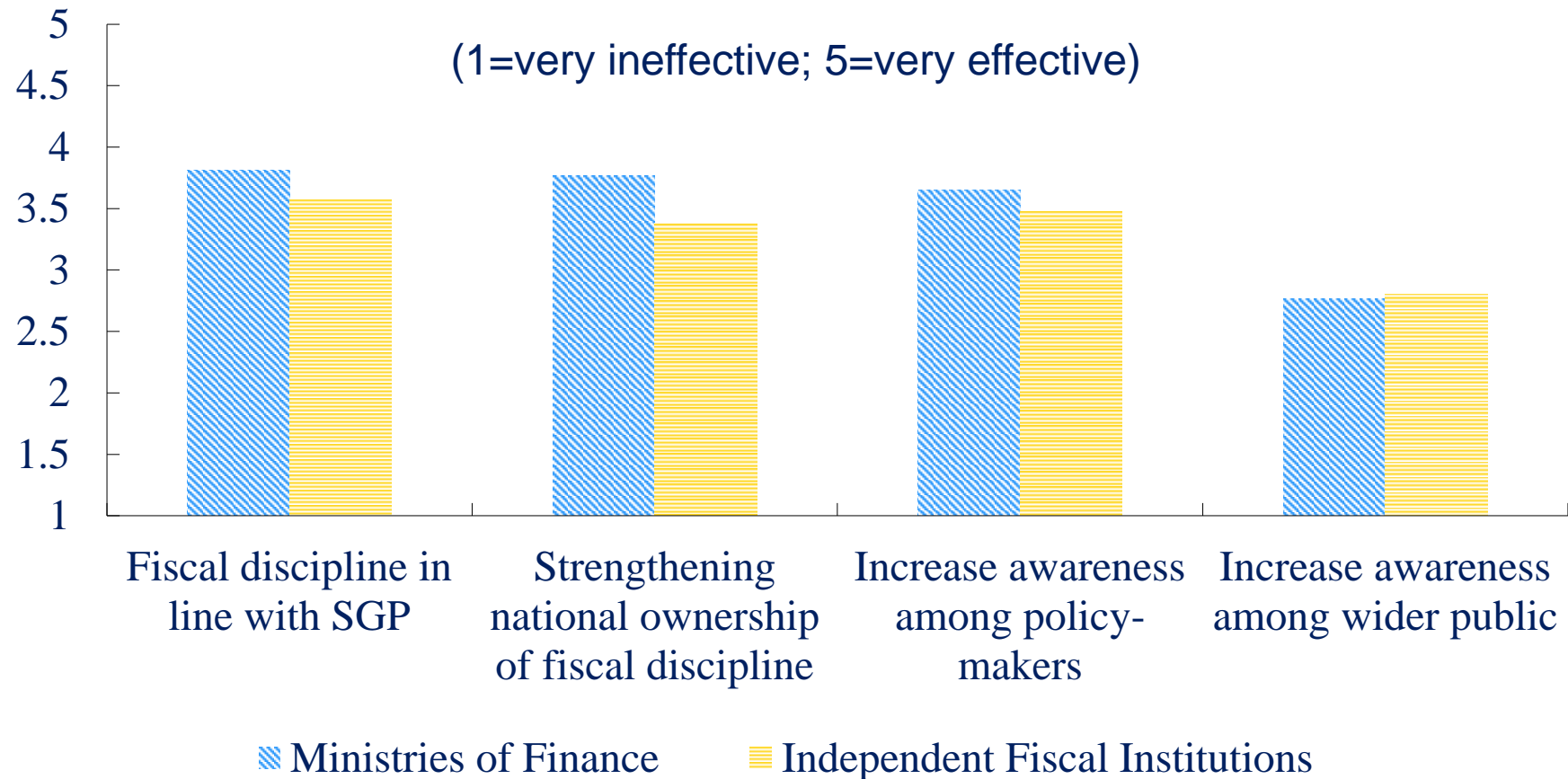
- (1) There is a need to build upon the experience gained during the first decade of the economic and monetary union. Recent economic developments have posed new challenges to the conduct of fiscal policy across the Union and have in particular highlighted the need for strengthening national ownership and having uniform requirements as regards the rules and procedures forming the budgetary frameworks of the Member States. In particular, it is necessary to specify what

Source: [Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States](#)

How have NFFs contributed to ownership and compliance?

Perceived impact

To what extent has the Directive been effective in contributing to the achievement of ...?



Source: 2018 stakeholder survey for the Directive Suitability Review,
https://ec.europa.eu/info/sites/default/files/economy-finance/swd_2020_211_en.pdf

Main achievements

Statistics

Harmonisation of statistical practices & improvements in data production and publication

⇒ Yet, still diverging public sector accounting standards & limited transparency on extra-budgetary funds

Medium term budgetary frameworks (MTBFs)

All Member States have MTBFs, with design and scope improved over time

⇒ Yet, MTBFs are volatile and non-binding, budgeting predominantly an annual exercise

Independent Fiscal Institutions

Number and scope of IFIs have increased, more realistic forecasting and transparency of rule compliance

⇒ Yet, IFIs display quite diverging standards, at times limited resources and capabilities

Fiscal rules

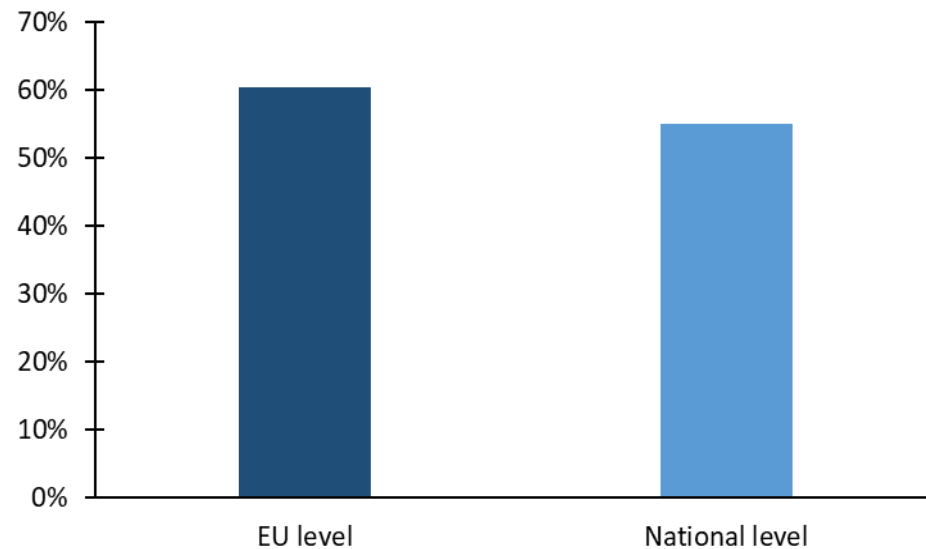
All Member States are endowed with national fiscal rules, with design improved over time

⇒ Yet, rule complexity has increased and rule compliance is still suboptimal

A zoom on national fiscal rules

National rule compliance

Average compliance with fiscal rules at EU and national level (1998-2019)



Source: Commission services.

Note: Compliance a dummy variable, with 1 = compliance and 0 = non-compliance. It is an average across all types of fiscal rules. The differences between compliance at EU and national levels are affected by differences in the time period they were in place. For the EU fiscal rules, the sample does not include periods in which Member States were under an excessive deficit procedure.

Work for Report on Public Finances in EMU (2022), with Cristiana Belu Manescu, Martijn Hoogeland and Philipp Mohl

Only numerical compliance (not legal) as ex-post deviation of outcome from target, either as:

- a dummy variable (0=non-complied, 1=complied)
- as % of GDP (+ = *overcompliance*; - = *shortfall*)

[Novel dataset of national rule compliance \(1998-2019\)](#)

How do national rules support compliance with EU rules?

=> addressing the following questions:

- 1) Does existence of a national rule matter for EU rule compliance?
- 2) Does compliance with national rule matter for EU rule compliance?
- 3) Does the design of national fiscal rules matter for EU rule compliance?

$$\text{compliance}_{i,t}^{EU,type} = \beta_1 \text{compliance}_{i,t-1}^{EU,type} + \beta_2 \text{compliance}_{i,t}^{national} + \beta_3 X_{i,t-1} + \theta_t + \vartheta_i + u_{i,t}$$

Independent variable: dummy for existence of national rule, national compliance dummy, national compliance variable

Control variables: change in output gap, debt levels t-1, interest payments, adjustment programme, election years, country and time-fixed effects

Estimation with bias-corrected fixed-effects estimator. Also, *robustness estimation* through difference-GMM.

Main indicative findings

- 1) The existence of national fiscal rules *per se* does not seem to matter for EU compliance.
- 2) Having a national rule that is complied with seems to matter for EU compliance.
- 3) A strong rule design reinforces the relationship between national and EU compliance.

Establishing causality between national and EU compliance is technically and conceptually challenging

=> Steps could be pursued towards improving national fiscal frameworks with better rule design and by enhancing rule compliance through improved monitoring and enforcement mechanisms

Open issues

Strong national institutions, such as national fiscal rules, independent fiscal institutions and medium-term budgetary frameworks, support compliance with the EU fiscal framework

- How can the EU fiscal framework and the NFFs better enhance each other?
- What lessons can we learn from ...
 - ..challenges in translating the EU framework into the national setting?
 - ...challenges in implementing the EU framework?
- Is a rebalancing towards more local needed?

Thank you



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