



Medium-Term Planning in the EU: state of play and possible ways forward

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Outline

- Overview of Medium Term Budgetary Frameworks (MTBFs) in the EU
- Desirable improvements of MTBFs
- Conclusions

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Definition and approaches to MTBFs

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

- *Quantitative approach* = set of **figures**
- *Qualitative approach* = set of **arrangements and procedures**

Benefits of MTBFs

- Enhance transparency, time consistency, address the "common pool" problem of public resources, improve quality and stability of budgetary decision-making process, facilitate the implementation of structural reforms

MTBF-related provisions in EU law

- *Stability and Convergence Programmes*
 - perceived rather as an EU instrument than a national tool
- *Six-Pack (Budgetary Frameworks Directive)*
 - to anchor medium-term fiscal plans in the national context
 - lists aggregates for which projections should be prepared for at least 3 years + other components
- *Two-Pack (EU Regulation on budgetary monitoring)*
 - common budgetary timeline for national medium-term fiscal plans and annual budgets
 - independent macroeconomic forecast

Requirements for MTBFs in the Directive

MTBFs shall include procedures for establishing:

- **Multiannual budgetary objectives** for general government deficit, debt and other indicators
- **Projections** of major expenditure and revenue items of general government **based on unchanged policies**
- 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

Level of detail

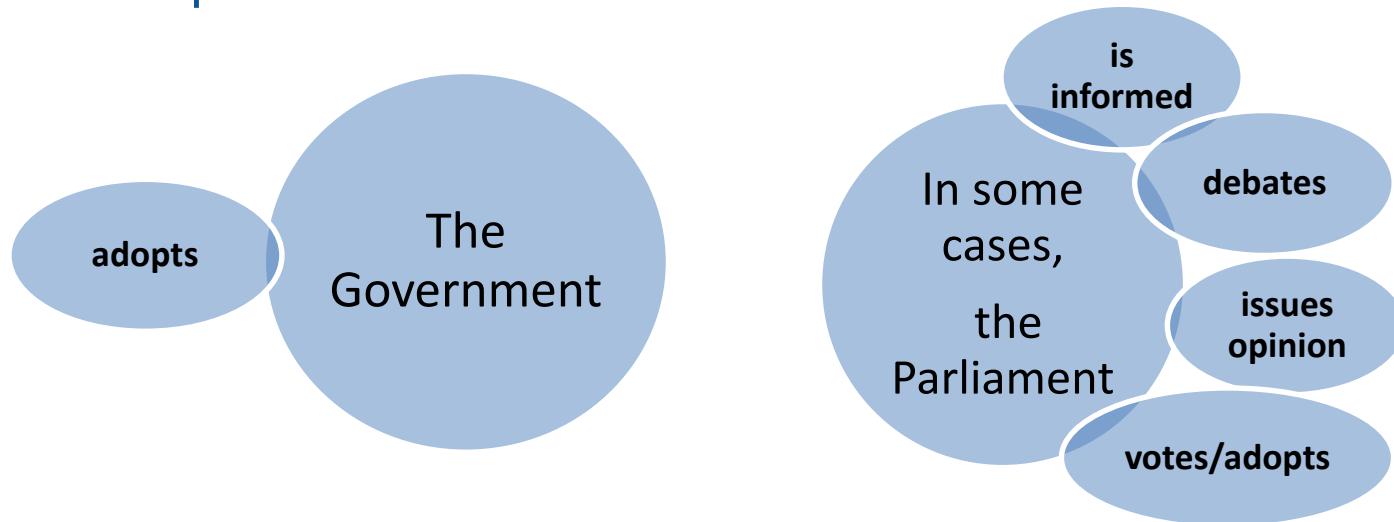
Coverage and exclusion of certain items

Formulation of targets

Binding nature

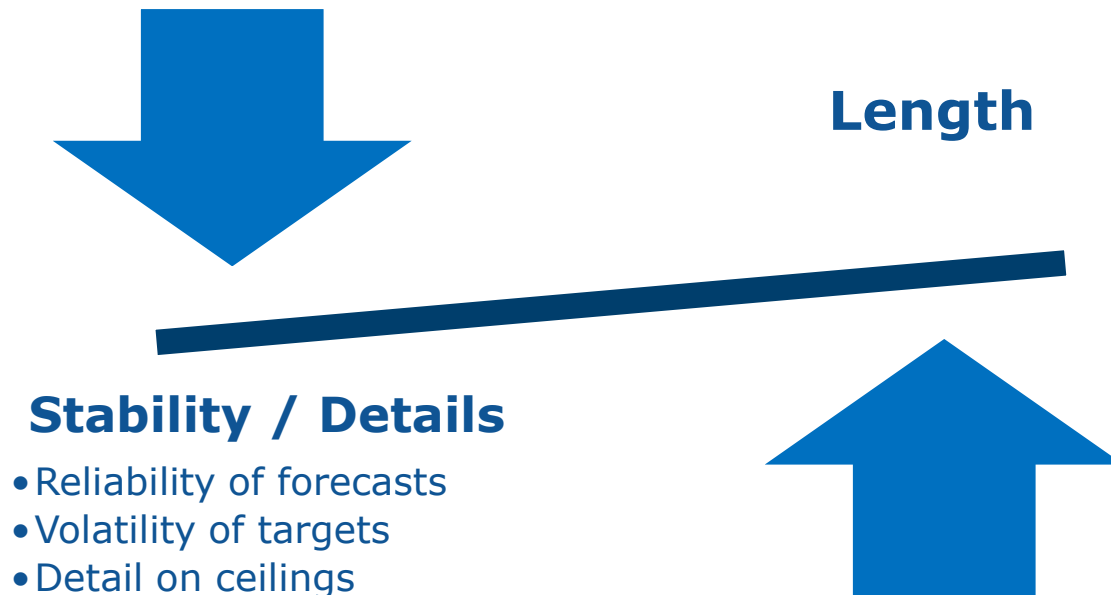
Political commitment

- Broad spectrum of commitment across countries
- Passing MTBFs as laws provides incentive to respect targets / limits
- Active Parliament involvement typically gives more weight to the plans



Planning horizon vs stability and level of detail in plans

- The Budgetary Frameworks Directive requires a planning horizon of at least 3 years...
- ...but weak safeguards against volatility of targets



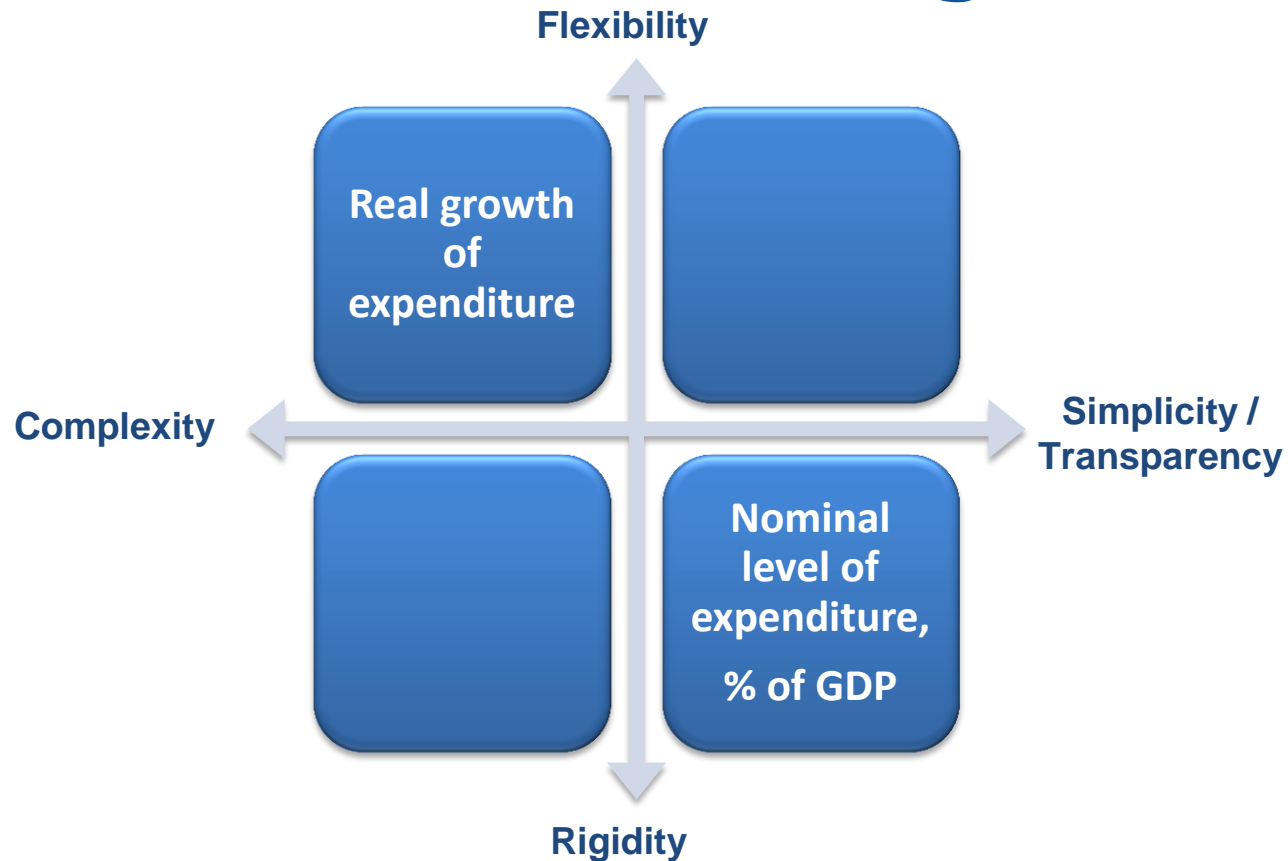
Coverage

- The Budgetary Frameworks Directive requires comprehensive planning and the Stability / Convergence Programmes provide information on general government fiscal plans
- Coverage of sectors may differ in the national planning documents
- For federal states: challenge to put all the information together in a comprehensive and timely manner

Exclusion of certain items

- Broader coverage is favourable in the light of sustainability considerations...
- ...but controllability argument warrants certain exclusions (interest payments, cyclically-sensitive items)

Formulation of targets



Ceilings in real terms seem to be the most effective operational tool but they add complexity and require regular adjustments¹

Binding nature

- MTBFs are a tool to ensure that annual targets for key parameters respect the fiscal policy objectives
- Large variety in formulating the link between MTBFs and annual budgets, from "*take into account*", "*form the basis*" etc. to "*should be lower than*"...
- Classifying the MTBFs according to their binding nature is a matter of degree
- Ex-ante vs ex-post binding character

Binding nature – possible classification

	Level of strictness in terms of respecting the plans set out in the medium-term planning documents	Member State
1	Ceilings/targets <i>are not expected to be changed</i> whatever the circumstances (unless a new government comes to power or division of tasks between government levels is changed)	SE, FI
2	Expenditure ceilings <i>can only be increased provided that sources of funding</i> of the additional expenditure are identified ex-ante	DK, NL
3	Ceilings/targets <i>can be adjusted in response to changes in a number of specific parameters</i> 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	AT, IE, LV
4	Ceilings/targets <i>can be changed in a number of situations</i> 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	BE, BG, EL, IT, MT, PL, RO
5	Ceilings/targets <i>can be changed at the discretion of government</i> but changes need to be <i>explained</i> and reputational cost is involved	CY, CZ, EE, ES, FR, HU, LT, LU, PT, UK
6	Ceilings/targets <i>can be changed at the discretion of government without</i> any public <i>explanation</i>	DE, HR, SI, SK

Role of Independent Fiscal Institutions in regard to MTBFs

- Production or endorsement of macroeconomic forecasts underpinning MTBFs: obligatory for euro area MS
- Ex-ante assessment of compliance with fiscal rules
- Ex-post assessment of execution: potential to raise awareness on role of MTBFs and incentivise governments to respect the plans

Outline

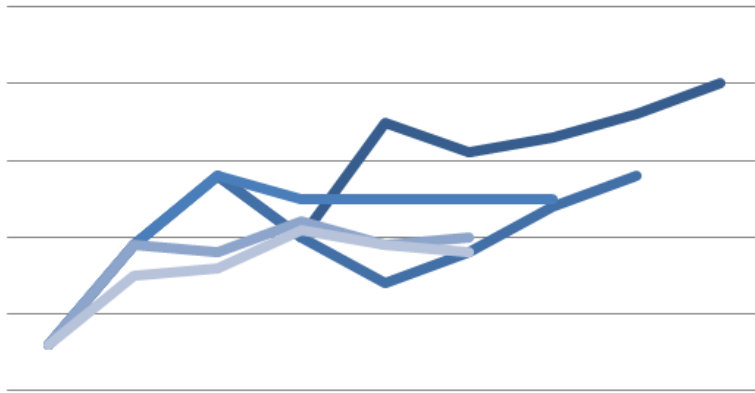
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Enhancing the effectiveness of medium-term planning

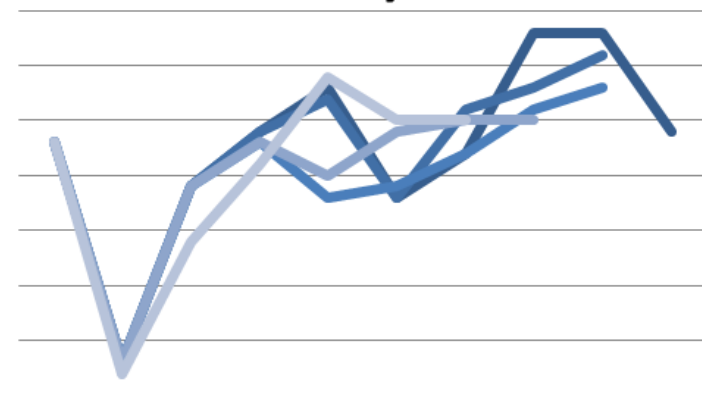
- The EU requirements inspired introduction or serious reform of MTBFs in most Member States...
- ...but they are not prescriptive on details, hence there is a broad spectrum of solutions adopted
- The limited binding nature – "moving target syndrome"- undermines their effectiveness

"Moving target" syndrome

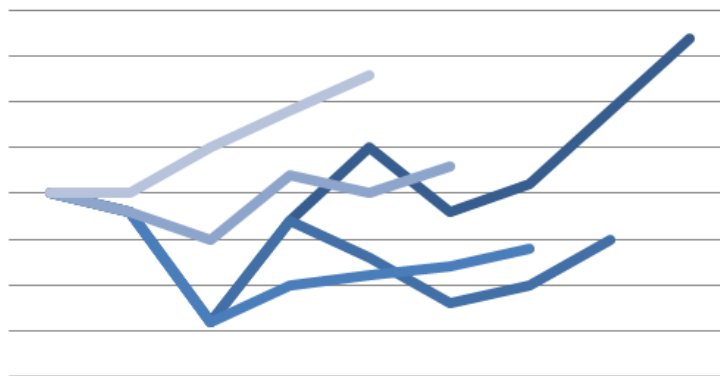
Country A



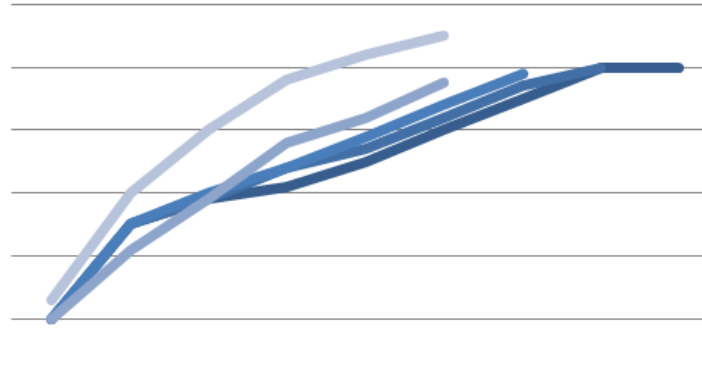
Country B



Country C



Country D



Adopting best practices and increasing national ownership

- Extending the coverage of planning documents
- Enhancing the binding nature of MTBFs
- Increasing transparency in communicating and explaining adjustments to plans
- Strengthening the political commitment underpinning the MTBFs and the role of parliaments in preparing the multi-annual fiscal plans

The proposal for a "Fiscal Compact" directive

- Framework of binding and permanent rules effectively promoting compliance with the EU rules
- Including but not restricted to:
 - (a) debt oriented **medium-term objective** in terms of structural balance
 - (b) **medium-term path of expenditure** net of discretionary revenue measures and consistent with the medium-term objective
 - fixed for the whole national legislature
 - as soon as a new government takes place
 - must be respected by the annual budgets
 - (c) **correction mechanism** for deviations; definition of exceptional circumstances

Conclusions

- More predictability and transparency
- Binding character is crucial for effectiveness
- Emerging consensus towards having a debt-oriented medium-term anchor operationalized by means of an expenditure rule
- IFIs involvement useful

Link to ECFIN paper on MTBFs

[http://ec.europa.eu/economy_finance/
publications/eedp/dp021_en.htm](http://ec.europa.eu/economy_finance/publications/eedp/dp021_en.htm)



**Thank you
for your attention**