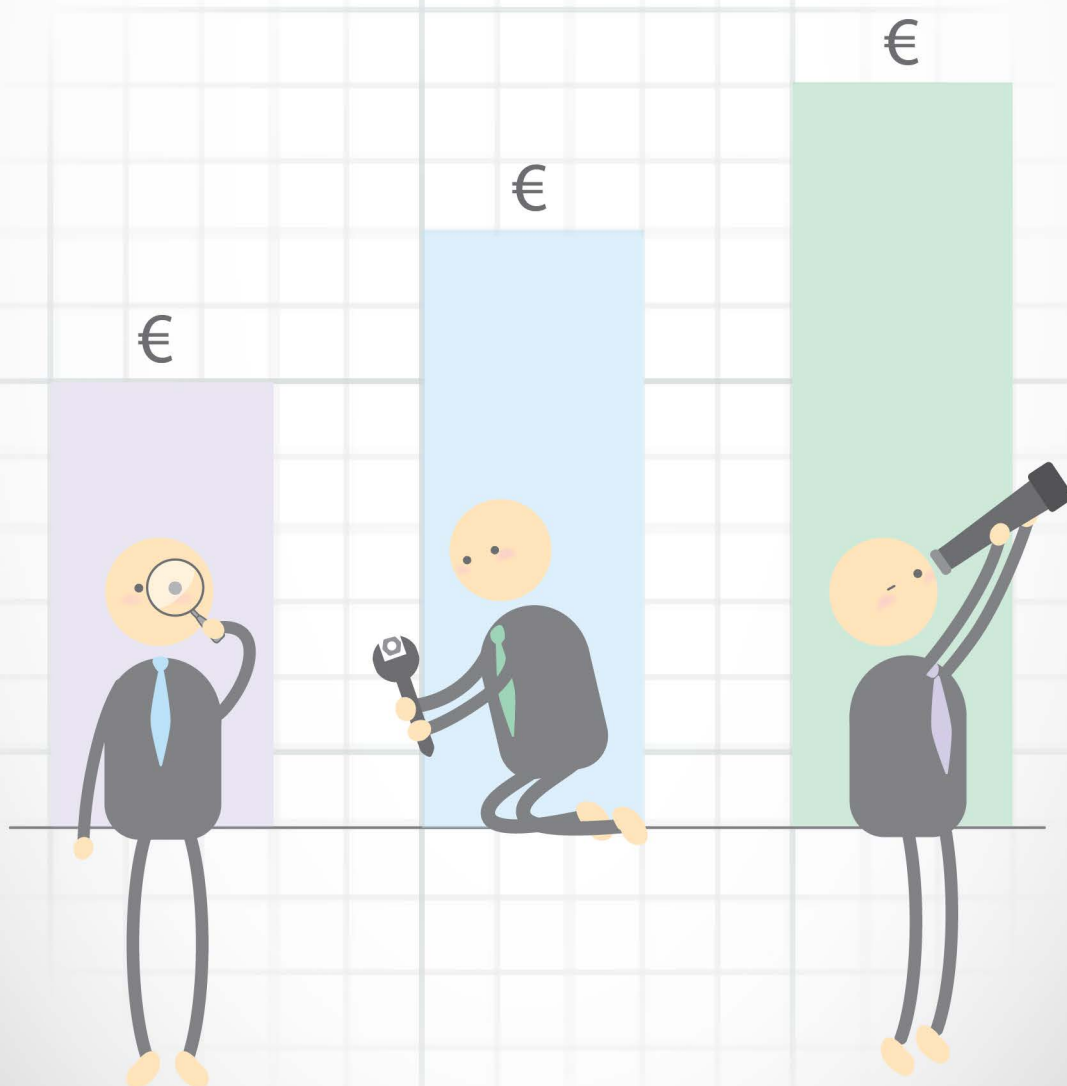


EU Economic Governance

Guide to the Main Elements

Paper prepared by the IIEA Economic Governance Group
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List of acronyms used in this report

AGS: Annual Growth Survey

AMR: Alert Mechanism Report

CAM: Commonly Agreed Methodology

CPB: Centraal Planbureau

CSO: Central Statistics Office

CSR: Country-Specific Recommendation

EAC: Ex-ante coordination

ECB: European Central Bank

EDP: Excessive Deficit Procedure

EFB: European Fiscal Board

EMU: Economic and Monetary Union

EPC: The Economic Policy Committee of the European Council

ERSI: Economic and Social Research Institute

EU: European Union

GDP: Gross Domestic Product

IFAC: Irish Fiscal Advisory Council

IHREC: Irish Human Rights and Equality Commission

MIP: Macroeconomic Imbalance Procedure

MTBFs: Medium-Term Budgetary Frameworks

MTEF: Medium-Term Expenditure Framework

MTO: Medium Term Objectives

NED: National Economic Dialogue

NESC: National Economic and Social Council

NRP: National Reform Programme

OECD: The Organisation for Economic Co-operation and Development

SGP: Stability and Growth Pact

SSISI: Statistical and Social Inquiry Society of Ireland

TFEU: Treaty on the Functioning of the European Union

TSCG: Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

TSG: Tax Strategy Group

Introduction

The global economic and financial crisis exposed shortcomings in the economic governance and budgetary surveillance in the European Union (EU). When Economic and Monetary Union (EMU) was adopted in the EU, Monetary Union was achieved by the establishment of the euro as the single currency and the creation of the independent European Central Bank (ECB) to set a single monetary policy. However, Economic Union was left in a much less developed and formalised position. Economic and budgetary policies were left in the hands of the individual Member States, with a relatively loose coordination through the setting of economic policy guidelines and through the budgetary commitments of the Maastricht Treaty and the Stability and Growth Pact (SGP).

The financial crisis led to significant constitutional, legislative and administrative changes at an EU level. These changes have strengthened economic governance but have also made it increasingly complex. These changes include the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), the series of legislative measures known as the “six-pack” and the “two-pack” and the Five Presidents’ Report on Completing Economic and Monetary Unionⁱ. The changes are designed to go beyond a focus on Member States’ nominal fiscal balances and to look at the structural and medium-term position of their economies. They also seek to identify at an early stage developments in other parts of the economy that may give rise to economic and fiscal problems later on. This EU-wide process is organised through what is known as the European Semester, which sets out the timing and sequencing of the various elements over the year.

The economic governance procedures and rules have grown rapidly and continue to be amended and updated by the Commission and the Member States. As a result of this, the Commission has produced a Vade Mecum on the SGP which brings together all the elements relevant to the implementation of the SGP, the budget rules and the economic surveillance processes. It aims to improve the transparency of how the Commission applies the rules.

The aim of this paper is to distil the Vade Mecum, which is 236 pages long, and other relevant texts into a relatively short and comprehensible guide to the rules and how they are being implemented. There is some overlap between the different elements of economic governance described in this paper, but we attempt to set them out in the most logical and understandable way. The structure of the paper is as follows:

- **Section 1** outlines the European Semester, which brings together the economic coordination and surveillance processes into an annual cycle;
- **Section 2** sets out the budgetary frameworks within which Member States now operate, both for the current year’s budget and for medium-term projections and planning;
- **Section 3** examines the Stability and Growth Pact, looking at both the Corrective Arm and the Preventive Arm;
- **Section 4** deals with the role of Parliaments in EU economic governance;
- **Section 5** deals with the independent fiscal councils, which have been established in the Member States to watch over the implementation of the budgetary rules, and the European Fiscal Board;
- **Section 6** outlines the proposal to set up National Productivity Boards in the Member States.

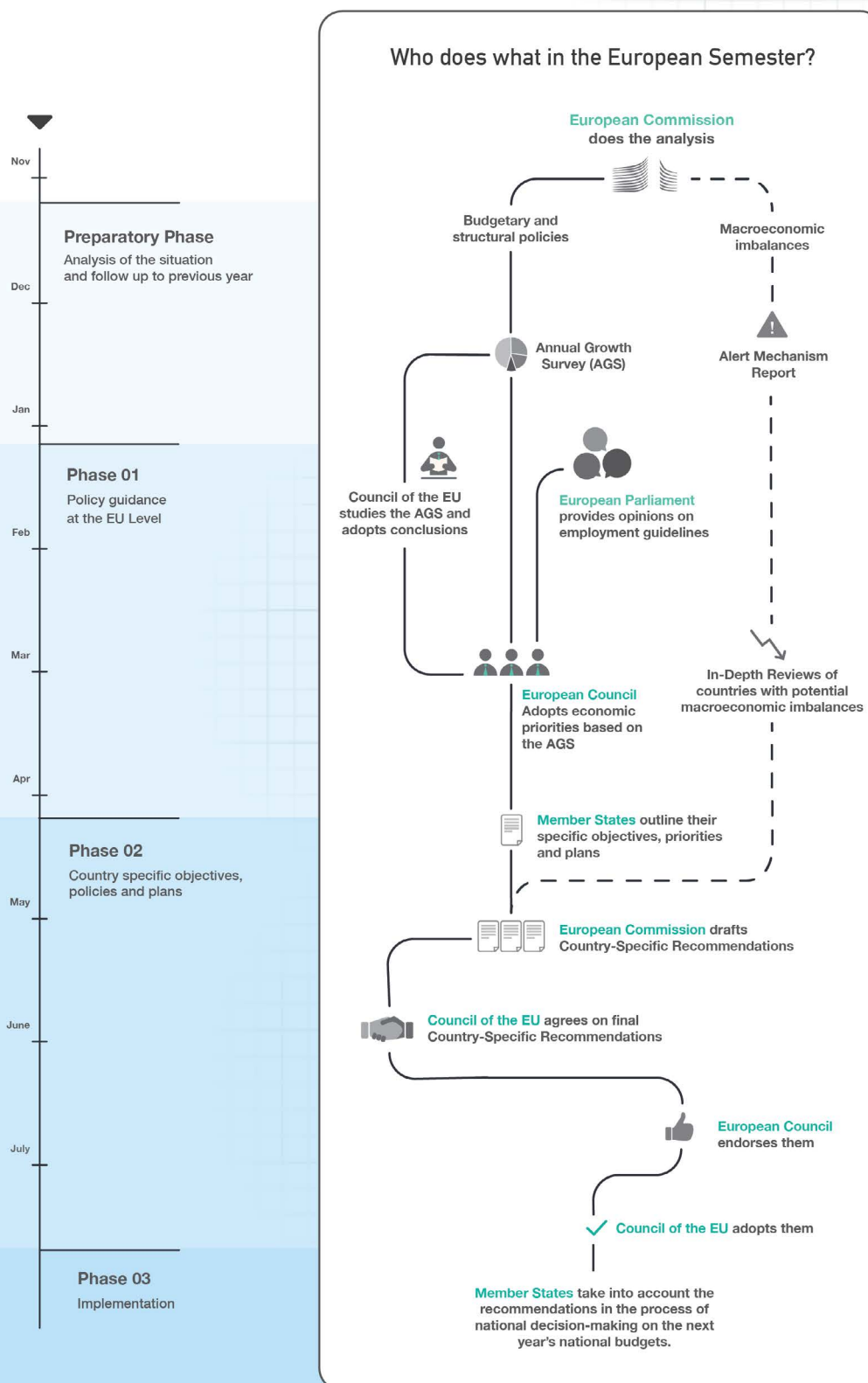
ⁱ A list of all legislative texts referenced in this paper can be found in Annex 1. The Five Presidents’ Report on ‘Completing Europe’s Economic and Monetary Union’ is available here: https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf



1. European Semester

The European Semester brings together all the economic coordination and surveillance processes into a coherent annual timeline and sequence. It is set out graphically below.

Table 1:



1. THE EUROPEAN SEMESTER

Annual Growth Survey (AGS)

The Annual Growth Survey (AGS) is the first step in the European Semester process. Published by the European Commission in November each year, the AGS provides Member States with policy guidance for the following year and attempts to set out what EU-level actions can contribute to economic growth in the Member States. It also seeks to foster economic convergence across the Union, boost employment and “strengthen social fairness”.

The AGS for 2016ⁱⁱ, the sixth such survey since the Semester was launched, sees the outlook for the EU economy as improving modestly overall, but unevenly. The three main priorities for EU-level and Member State action are seen as: investment; structural reforms; and sound public finances. The investment pillar in the 2016 report focuses on rolling out the Commission’s €315bn investment plan and implementing strategies to improve the functioning of the financial system with regard to the real economy. Structural reform efforts are focused on more integrated and competitive product and services markets, while the fiscal pillar urges progress on removing taxation measures which discourage employment, among others.

The AGS for 2016 was accompanied by a set of recommendations for the euro area.ⁱⁱⁱ The euro area recommendations amount to a potentially important change from the earlier Semester cycles as they come at the beginning of the Semester cycle rather than towards the end, along with the Country-Specific Recommendations, as has happened hitherto. This reinforces the “European phase” of the Semester, which takes place from November until February. The “national phase” is from February until June. The emphasis being placed on the euro area recommendations reflects a belief that significant overall gains can be made for the bloc if structural reforms are implemented simultaneously in Member States, rather than in one national economy at a time. The euro area recommendations also seek to push Member States towards making the best possible policy choices via “benchmarking, pursuing best practices and peer pressure”.^{iv}

Macroeconomic Imbalance Procedure (MIP)

The purpose of the Macroeconomic Imbalance Procedure (MIP) is to monitor, correct and prevent economic imbalances in Member States’ economies. The global economic recession and the related euro area crisis have highlighted the need for a system to be in place to ensure the early detection and correction of such imbalances. The MIP came into force in December 2011 as part of the “six-pack” of legislative acts. The timing of the MIP is early in the European Semester. Countries in EU programmes of financial assistance are exempt from the MIP as they are scrutinised separately.

This outline of the MIP is divided into two parts. The first describes how the MIP takes place, while the second provides greater detail on its composition and includes an examination of how well the MIP Scoreboard would have indicated the build-up of imbalances in the lead up to Ireland’s recession.

The Alert Mechanism Report (AMR) and the MIP Scoreboard

The MIP begins in November with the publication of the Alert Mechanism Report (AMR). The report uses a set of indicators to assess whether there are macroeconomic imbalances arising in the Member States. It considers whether an In-Depth Review is necessary for each Member State. The decision to carry out an In-Depth Review is based on two factors.

First, In-Depth Reviews are typically carried out on a Member State if there has been one the previous year in order to assess the state of imbalances that were previously identified. Second, the Commission decides whether to carry out an In-Depth Review based on an analysis of the MIP Scoreboard.

The aim of the MIP Scoreboard is to identify countries that warrant in-depth studies in order to determine whether the potential imbalances identified in the early warning system are benign or problematic. Indicator thresholds have generally been established through a statistical approach based on the distributions of the indicators’ values for EU countries over

ii Annual Growth Survey 2016, European Commission (26 November, 2015) http://ec.europa.eu/europe2020/pdf/2016/ags2016_annual_growth_survey.pdf

iii Recommendation for a Council Recommendation on the economic policy of the euro area, European Commission (26 November, 2015) http://ec.europa.eu/europe2020/pdf/2016/ags2016_euro_area_recommendations.pdf

iv Council Recommendation on the economic policy of the euro area, page 4 (8 January, 2016) <http://data.consilium.europa.eu/doc/document/ST-5134-2016-INIT/en/pdf>

1. THE EUROPEAN SEMESTER

time. Thresholds are usually the lower and/or upper quartiles of the indicators distributions.^v Many of the Scoreboard indicators have country and year-specific nuances, to which the Commission appears to pay attention.^{vi}

It must be emphasised that the MIP Scoreboard indicators are neither policy targets nor policy instruments. Instead, they are a framework to understand areas in Member States that are at risk of imbalances and which require further in-depth analysis. Secondly, the results of the AMR are not simply the product of a mechanical ‘flash counting exercise’ of the scoreboard indicators. They also use additional information from the auxiliary indicators to gain a broader economic context to potential imbalances in a Member State’s economy. It is possible that Commission staff also use wider knowledge of the economy of a Member State in deciding whether an In-Depth Review should be recommended in the AMR.

As well as being tasked with designing the MIP Scoreboard, the Commission has the capacity to change the MIP Scoreboard and auxiliary indicators. Reasons for changing the MIP Scoreboard could include improvements in the availability of data, the underlying analysis and new sources of potentially harmful imbalances in the future. The MIP Scoreboard tracked ten indicators when it was first established in 2011. The following year an indicator focusing on the financial sector was added, while three new indicators relating to the labour market were added in 2015. The addition of these new employment related indicators was partly a response to calls from the European Parliament for indicators of social conditions to have a greater role in the European Semester.

The three labour market indicators are: the change in the activity rate in the economy, the change in the long term unemployment rate and the change in the youth unemployment rate. Like the other scoreboard indicators, these new indicators have imbalance thresholds. However, the Commission emphasises that these indicators do not change the overall focus of the MIP and, by themselves, they will not

imply an aggravation of macro-financial risks. The reason for this appears to be that such factors are closer to symptoms rather than causes of macroeconomic imbalances.

The scoreboard consists of fourteen headline indicators and is supplemented by twenty eight auxiliary indicators. Each headline indicator has at least one threshold, beyond which a potential imbalance is considered to have occurred. These headline indicators can be categorised into three areas: external imbalances and competitiveness, internal imbalances and a new set of employment indicators (introduced in the 2016 Semester).

The data used in the MIP Scoreboard and the auxiliary indicators are always from the previous year since they are in annual form.^{vii} The data for each indicator are ‘locked down’ by the first of November every year. This means that they are not subject to further revisions for the purpose of calculating the figures for the scoreboard in that particular year.

v The following documents published by the European Commission provide more information on how the indicators are constructed: ‘Summary for non-specialists’ (2012): http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp_92_summary_en.pdf and ‘Scoreboard for the surveillance of macroeconomic imbalances’ (2012): http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp92_en.pdf

vi More information on the MIP Scoreboard, the auxiliary indicators and the statistical nuances for Ireland is available from the Central Statistics Office: <http://www.cso.ie/en/releasesandpublications/ep/p-macip/macroeconomicsscoreboard2014/>

vii For example, the 2016 AMR was published in November 2015 and therefore used data from the year 2014.

The MIP Scoreboard

External Imbalances and Competitiveness

Indicator		Threshold
Current account balance as % of GDP	3 year average	6%, -4%
Net international investment position	% of GDP	-35%
Real effective exchange rate	3 year % change	±5%*
Export market share (% of world exports)	5 year % change	-6%
Nominal unit labour cost	3 year % change	9%**

Table: 2

*±5% threshold applies for euro area countries; threshold of ±11% applies for non-euro area countries.

** 9% threshold applies for euro area countries; threshold of 12% applies for non-euro area countries.

Internal Imbalances

Indicator		Threshold
Deflated house prices	1 year % change	6%
Private sector credit flow as % of GDP	1 year % change	14%
Private sector debt	% of GDP	133%
General government sector debt	% of GDP	60%
Unemployment rate	3 year average	10%
Total financial sector liabilities	1 year % change	16.5%

Table: 3

1. THE EUROPEAN SEMESTER

New employment indicators

Indicator		Threshold
Activity rate	3 year % change	-0.2%
Long-term unemployment rate	3 year % change	0.5%
Youth unemployment rate	3 year % change	2%

Table: 4

Case Study: The MIP Scoreboard and Ireland

How well would the core MIP Scoreboard have suggested imbalances in the Irish economy in the lead up to the recession?

While government debt and unemployment remained low during the period, the nine other core MIP Scoreboard indicators indicated imbalances in the Irish economy from 2002 to 2007. Private debt flows and levels (which include business and household debt) were well above the MIP thresholds almost every year throughout. These debt flows and levels tended to be relatively evenly split between households and private sector firms. Strikingly, unit labour costs and house prices experienced above-threshold growth for most of the period. The rise in unit labour costs was due to both falls in productivity and increases in employee compensation. Financial sector liabilities saw growth above threshold in four of the six years concerned, mainly due to lending to fund investment in property.

	Threshold	2002	2003	2004	2005	2006	2007
Current account balance as % of GDP	6, -4	0.00	0.00	0.19	-0.99	-2.68	-4.51
Net international investment position	-35	-20.9546	-23.4867	-22.2621	-38.0602	-19.6383	-25.2263
Real effective exchange rate	±5	4.3	18.2	18.4	12.1	2.7	3.1
Export market share - % of world exports	±6				5.9	-12.5	-11.97
Nominal unit labour cost	9	8.4	10.8	9.9	13.1	11.2	11.6
Deflated house prices	6	-0.8	9.9	9.3	5.855061	12.02234	4.251239
Private sector credit flow as % of GDP	14	16.81476	8.218548	23.58493	33.63788	40.74885	24.87897
Private sector debt	133	137.4515	141.0926	149.4532	170.34	190.5347	197.7913
General government sector debt	60	30.55551	29.8779	28.2092	26.10867	23.62713	23.92644
Unemployment rate	10	4.208333	4.316667	4.508333	4.483333	4.45	4.508333
Total financial sector liabilities	16.5	10.5344	22.45253	20.09139	35.12723	21.5821	9.650265

Table: 5

Sources: CSO and Eurostat

*Official data not readily available due to currency changeover in 1999 and this indicator being measured as a 5 year change.

Country Reports and In-Depth Reviews

Country Reports, described as staff working documents, are drafted by the Commission annually for all countries not in a programme of economic support and are published in February or March. These include country-specific In-Depth Reviews based on the MIP Scoreboard and auxiliary indicators, if it has been considered necessary to do so in the AMR.

As working documents, they do not constitute the official position of the Commission. Country Reports are not mentioned in the MIP documentation. However, they are linked to the MIP. They are always the location of the publication of a country's In-Depth Review and their remaining content complements it. Taken as a whole, they also appear to inform the Country-Specific Recommendations written several months later.

The Reports are composed for each country in the same manner. Each contains an Executive Summary, a 'scene setter', that describes the country's economic outlook and a section on imbalances, risks and adjustments. They also contain a set of tables consisting of an overview table, which reviews the country's progress on the previous year's Country-Specific Recommendations, the MIP Scoreboard and 'Standard Tables', which consist of a long list of economic indicators on areas from the labour market to green growth.^{viii}

Country Reports vary in length, however. Italy had the longest Country Report in 2016 at 103 pages, while Poland had the shortest Country Report with a length of 47 pages. Ireland's Country Report in 2016 was close to the average length at 89 pages.

Case Study: The Country Report for Ireland 2016

The Country Report for Ireland 2016 contains an up to date policy discussion on the Irish economy. Issues discussed include updates on legal reform, healthcare and housing conditions. The Report includes citations of relevant policy papers in each area from a diverse number of sources including the ESRI, Dublin Regional Homeless Executive, SSISI, the OECD, NESI and the Swedish Economic Policy Review.

The Report also includes discussion of the nuances of the Irish data, including the impact of re-domiciled PLCs on the Irish economy, breakdowns of private sector debt levels, the impact of foreign multinationals on non-financial sector debt, household net worth and the effect of the aircraft leasing sector on the current account balance.

The Commission's In-Depth Reviews consist of a thorough analysis of sources of potential imbalances, taking into account the economic conditions specific to that country. In drafting these reviews, the Commission holds discussions with Member States' governments and other stakeholders to establish a deeper understanding of the potential imbalances in a country's economy. Only at this point does the Commission conclude whether imbalances and excessive imbalances exist.

Four possible scenarios stem from the In-Depth Reviews. The first possibility is that that no imbalances are considered to exist and no action is required. The second is that imbalances are considered to exist and country-specific recommendations are issued. The third possibility is that excessive imbalances are identified and countries are subject to specific monitoring. The fourth is that an Excessive Imbalance Procedure is triggered for the country concerned. Fines would only be imposed if countries fail to deliver corrective action as part of the Excessive Imbalance Procedure. These two latter possibilities can be considered the corrective arm of the MIP while the second possibility can be considered the preventative arm.

^{viii} Energy intensity, carbon intensity and resource intensity are among the macroeconomic indicators used to assess a Member State's green growth performance.

Case Study: Alert Mechanism Report and In-Depth Reviews 2016

The Alert Mechanism Report for 2016, published in November 2015, identified 18 countries for In-Depth Reviews. These reviews, published in the last week of February 2016, identified six countries experiencing excessive imbalances (Croatia, Cyprus, France, Portugal, Bulgaria and Italy). Seven countries were deemed to be experiencing 'ordinary' imbalances (Ireland, Slovenia, Spain, Finland, Germany, the Netherlands and Sweden). No country has yet been subjected to the Excessive Imbalance Procedure. The remaining countries subject to In-Depth Reviews (the UK, Austria, Belgium, Estonia, Hungary and Romania) have been considered to be not experiencing imbalances at this time.

The Role of Stability Programmes and National Reform Programmes (NRP)

The introduction of a European Semester was intended not only to increase monitoring by the Commission of economic and fiscal policy, but also to facilitate further collective discussion between Member States about their individual plans and about the aggregate EU economic strategy and fiscal position. As part of this process, Member States' fiscal, economic and structural reform plans are formally submitted to the Commission in April of each year in two related documents.

The medium-term fiscal strategy is set out in a Stability Programme document for euro area countries, or a Convergence Programme for non-euro area countries, which is updated each year. This forms the basis of governments' fiscal policy and is used by the Commission to assess compliance with the fiscal rules. Each Member State sets out its medium-term budgetary objective (MTO) in their Stability / Convergence Programme every three years. If the target has not been achieved, a path to meeting it will be set out. The document also presents multi-annual economic forecasts and assumptions on key variables with supporting analysis.^{ix} The detailed content required in these documents is set out in the so-called Code of Conduct.^x

The National Reform Programme (NRP) is a parallel document providing an overview of each Member State's ongoing and planned structural reforms. These plans should reflect the overall European long-term growth strategy presented in Europe 2020, which sets EU level targets for the areas of employment, education, innovation, poverty and climate change. The NRP can provide an opportunity for Member States to address Country-Specific Recommendations from the previous year's European Semester process.

Ireland's Stability Programme is prepared by the Department of Finance and a draft document has been presented to the Oireachtas Finance, Public Expenditure and Reform Committee in recent years before its final submission to the Commission. The NRP is coordinated by the Department of the Taoiseach with input from relevant Departments and agencies. Prior to a final document being submitted to the Commission, a draft NRP has been presented to the Joint Oireachtas Committee on EU Affairs in recent years.

Both the Stability / Convergence Programmes and the NRP are assessed by the Commission as part of the process to identify Country-Specific Recommendations.

Country-Specific Recommendations (CRSs)

Proposed Country-Specific Recommendations (CRSs) are put forward in May each year. The Commission generates the

^{ix} The "two-pack" requires that the macro-economic forecasts be produced, or endorsed, by an independent body. See section 4 for more details.

^x Stability and Convergence Programmes 'Code of Conduct', European Commission (November 2014) http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

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proposed Country-Specific Recommendations based on the In-Depth Reviews and, in practice, it appears, the broader Country Reports. After discussion and potential revision of the proposed Recommendations, the Council of the European Union finally adopts the Country-Specific Recommendations in June.

CRSs consist of three components. The first is a preface referring to the relevant treaties and laws. The second section contains an acknowledgement of the various EU policy plans currently in train, including the Commission's opinion on the country's draft budgetary plans, the Annual Growth Survey, the Alert Mechanism Report, the Country Report, the country's National Reform Programme, the country's status in the context of the Stability and Growth Pact and a brief review of the country's economic circumstances. The third section puts forward the recommendations that the European Council has chosen to adopt. CRSs are not legally binding.

Case Study: Country-Specific Recommendations for Ireland 2016

The most recent CRSs were discussed and generally endorsed by the European Council at its meeting on 28-29 June 2016. The Commission published its Country-Specific Recommendations for Ireland in May 2016. It was recommended that Ireland should take steps to broaden its tax base to reduce its vulnerabilities to economic shocks, while also using the revenue gains from the country's current economic growth to accelerate debt reduction.

It was recommended that the quality of government expenditure be enhanced, particularly in terms of cost-effectiveness in the healthcare sector, while it was recommended that capital expenditure in R&D and in public infrastructure be prioritised.

The finalisation of 'durable restructuring solutions' for non-performing loans was recommended, as was an acceleration of plans to introduce a central credit registry. In terms of employment, the government was urged to 'expand and accelerate' policies designed to increase the work intensity of households and to tackle child poverty. Measures to incentivise employment and improve access to affordable full-time childcare were also recommended.



2. The Budgetary Framework

Overall Budget Parameters

Under the Maastricht Treaty, Member States' general government budget deficit should not exceed 3% of GDP and their debt level should be no higher than 60% of GDP, or should be sufficiently diminishing towards that level. The SGP was adopted to regulate the implementation of these provisions, which have been added to following the economic crisis.

Under the TSCG, the general government budgetary position must be balanced or in surplus. This is deemed to be respected if the structural balance is at its Medium Term Objective (MTO) with a lower limit of a structural deficit of 0.5% of GDP. A structural deficit of at most 1% of GDP is allowed where debt is significantly below 60% of GDP and the risks for long-term sustainability of public finances are low. Where debt exceeds 60% of GDP, it is to be reduced to that level at an average rate of one twentieth per year.

While the Maastricht Treaty figures are set in absolute terms, the TSCG figures are in structural terms. The structural budget balance is the actual budget balance adjusted for the cyclical component and for one-off and other temporary measures. The structural balance gives a measure of the underlying trend in the budget balance.

Medium-Term Objective (MTO)

The Commission calculates each country's minimum MTO every three years. The MTO provides a safety margin with respect to the 3% of GDP deficit limit, and takes account of the need to allow room for budgetary manoeuvre, in addition to the economic and budgetary impact of ageing populations. It aims to ensure "rapid progress" towards sustainability. Member States present their MTOs in their Stability or Convergence Programme, respecting the minimum MTO calculated by the Commission.

Each Member State must have a country-specific MTO for its budgetary position. The MTO is set in structural terms. For euro area Member States, the MTO is to be within a

range between -1% of GDP and balance or surplus. In 2016 the Commission revised Ireland's minimum MTO from 0% to a structural deficit of 0.5% of GDP. The 2016 Stability Programme confirmed the MTO of -0.5%.

There should be rapid convergence towards the MTO, with the time-frame being proposed by the Commission, taking into consideration country-specific sustainability risks. Progress towards and respect of the MTO is evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures - the Expenditure Benchmark. In effect achieving the appropriate change in the structural balance and adhering to the Expenditure Benchmark are the two key elements which must be addressed in Member States' budgets.

If a Member State has not reached its MTO, it is required to improve its structural budget balance annually. The extent of the improvement that a Member State must make under these circumstances depends on the cyclical condition of its economy (see section 3 on flexibility within the SGP). Annual expenditure growth should be below the medium-term rate of potential GDP growth, unless it is matched by discretionary revenue increases (see separate section below on the Expenditure Benchmark).

A country may temporarily deviate from the MTO, or the path to the MTO, in exceptional circumstances, defined as an unusual event outside the control of the country which has a major impact on the financial position of the general government or a period during which a severe economic downturn has occurred (as set out in the revised SGP). In the event of a significant deviation from the MTO or the adjustment path towards it, a corrective mechanism is to be triggered automatically.

While its nature, size and timeframe is to be based on common principles outlined by the Commission in a communication on 20 June 2012,^{xi} this corrective mechanism is required to fully respect the prerogatives of national parliaments

xi Common principles on national fiscal correction mechanisms, European Commission (20 June, 2012) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0342:FIN:En:PDF>

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in terms of decisions on individual measures. These rules must be implemented by Member States through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary process.

The reverse^{xii} qualified majority rule applies to proposals or recommendations submitted by the Commission. This is a new process under which recommendations submitted to the Council by the Commission are accepted unless a qualified majority rejects them, rather than the normal procedure where a qualified majority is needed to accept them. This makes it easier for proposals to be accepted, with a view to benchmarking best practice and working towards a more closely coordinated economic policy.

Coordination of Major Economic Policy Reforms

While the Commission has encouraged the coordination of major economic policy reforms among Member States, it has yet to present any legislation to formalise this process. Article 11 of the TSCG contains a commitment by Member States to discuss all major economic reforms *ex ante* and to coordinate such reforms among themselves whenever possible.

The Commission presented a communication on *ex ante* coordination of major economic policy reforms (EAC) in March 2013, which contained options on how to organise EU-level discussions on “large-scale” economic reforms in Member States before final decisions were taken at the national level.^{xiii} The aim of this coordination was to ensure that any positive or negative spillovers of major reforms on other euro area Member States were taken into account early on in the decision-making process.

The Commission envisaged the coordination process as forming an “integral part” of the European Semester, and said it was considering a framework under which participating Member States would submit information about their major economic reform plans to the Commission through existing tools such as the National Reform Programmes. The Commission would then make an assessment of the plans received and adopt an opinion on whether the proposed reform would meet its declared purpose and contribute to improving the competitiveness and adjustment capacity of the Member State in question. The Commission’s opinion and the outcomes of discussions in the Council and the Eurogroup would thereafter be taken into account in the policy advice issued to a Member State in the context of the European Semester.

The European Council said in June 2013 that it was necessary for a “more effective framework for the coordination of economic policies” to be put in place. The Council’s Economic Policy Committee (EPC) held pilot exercises in November 2013 and February 2014 with the aim of considering how such a framework could be designed in practice. In June 2014, EPC members outlined the findings of their pilot exercises.^{xiv} They noted that the thematic reviews under the European Semester already provided a framework for discussions on major reform plans - albeit not of an explicitly *ex ante* nature - while they broadly favoured a framework of voluntary participation by Member States and non-binding outcomes. They also highlighted potential practical challenges such as the identification of relevant reforms and timing issues.

Despite the Commission’s plans outlined above, it has yet to submit any formal legislative proposal for an EAC framework.^{xv} A study by the European Parliamentary Research Service notes that while no EAC framework has emerged to date, there have been thematic discussions at Eurogroup meetings regarding structural reforms in the euro area as a whole. These discussions have focused on labour taxation, pension reform, national insolvency frameworks and the concept and application of benchmarking in the euro area.

xii Under reverse qualified majority voting, the Commission makes a recommendation to the Council and the recommendation is adopted unless a qualified majority of Member States vote against it.

xiii Communication from the Commission to the European Parliament and the Council on *ex ante* coordination of plans for major economic policy reforms (March 2013), <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0166&rid=1>

xiv Economic Policy Committee letter reporting on the *ex ante* coordination of major economic reform plans pilot exercise (June 2014), <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011066%202014%20INIT>

xv European Parliamentary Research Service study on the Fiscal Compact Treaty, relevant section on page 26 (June 2016) [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/581403/EPRS_STU\(2016\)581403_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/581403/EPRS_STU(2016)581403_EN.pdf)

2. THE BUDGETARY FRAMEWORK

Implementation by Ireland

Ireland has implemented the budgetary framework through an amendment of the Constitution and through the Fiscal Responsibility Act 2012. The 2012 Act provides for an automatic correction mechanism where needed under which the Government will, within two months of the need arising following a warning from the European Commission, prepare and lay before the Dáil a plan specifying what is required to be done to secure compliance with the budgetary rule. This plan will specify, *inter alia*, the period over which compliance is to be achieved and the size and nature of the revenue and expenditure measures to be taken.

Requirements for budgetary frameworks for Member States

Council Directive 2011/85/EU from the “six-pack” sets out uniform requirements for the rules and procedures forming the budgetary frameworks of the Member States, so as to ensure that they are complete, comprehensive and transparent. This is added to by Regulation 473/2013^{xvi} in the “two-pack” on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of Member States in the euro area. This includes a common budgetary timeline and common budgetary rules, such as the use of independently produced or endorsed macroeconomic forecasts and independent fiscal councils monitoring the implementation of national rules.

Member States are to make public annually their medium-term fiscal plans based on independently produced or endorsed macroeconomic forecasts, together with their Stability Programmes, preferably by 15 April but no later than 30 April each year. These will establish a credible, effective medium-term budgetary framework with a fiscal planning horizon of at least three years.

For euro area Member States, draft budgets for the general government are to be published and submitted to the Commission and the Eurogroup no later than 15 October, together with the independently produced or endorsed macroeconomic forecasts on which they are based. The draft budget contains:

- the targeted budget balance;
- projections at unchanged policies on expenditure and revenue;
- the targeted expenditure and revenue for general government and their main components;
- relevant information on the general government expenditure by function, including on education, healthcare and employment, and, where possible, indications on the expected distributional impact of the main expenditure and revenue measures;
- a description and quantification of the expenditure and revenue measures to be included in the budget, particularly major fiscal policy reform plans with potential spill-over effects for other Member States; the description may be less detailed for measures with a budgetary impact of less than 0.1% of GDP;
- the main assumptions of the independently produced or endorsed macroeconomic forecasts and important economic developments relevant to the achievement of the budgetary targets; and
- indications on how the reforms and measures in the draft budget address the current recommendations under Council economic policy guidelines.

xvi Regulation 473/2012 (21 May, 2013) <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32013R0473>

2. THE BUDGETARY FRAMEWORK

The specifications of the content of the draft budgetary plan are set out in a harmonised framework established by the Commission in cooperation with the Member States.

The Commission is to adopt an opinion on the draft budget as soon as possible and no later than the end of November. Their key focus is on whether the budget is consistent with the economic policy guidance issued in the context of the European Semester and the commitments under the SGP and other EU processes.

The Commission cannot change a Member States' draft budgetary plans, but it can, in the case of serious non-compliance, request that a Member State submit a revised budget plan. The timetable that follows such a request is outlined in the following table.

Deadline	Actor	Action
15 October	Member States	Submission of draft budget plan to the Commission and the Eurogroup
End of November	Commission	Adopts an Opinion on Member States' draft budget plans
Timeline if the Commission detects serious non-compliance in a draft budget plan		
Within 1 week of submission	Commission	Consults the Member State concerned
Within 2 weeks of submission	Commission	Adopts an Opinion requesting a revised draft budget plan within 3 weeks
Within 3 weeks of the above action by the Commission	Member State concerned	Submits a revised draft budget plan
Within 3 weeks of the above action by the Member State concerned	Commission	Adopts a new Opinion on the revised draft budget plan

Table: 6

Timetable for the submission of Member States' draft budget plans

According to the Commission, the new process leaves national parliaments better informed in terms of the appropriateness of the draft budget plans without affecting their role in the budgetary procedure. The Commission's opinion on the draft budgetary plans is made public and submitted to the Eurogroup. The budget is to be adopted by the Member State no later than 31 December.

Similar to the requirements under the TSCG, each Member State is to have in place numerical fiscal rules on the budget balance which are specific to it and which effectively promote compliance with its budgetary obligations over a multi-annual horizon. They must also have an independent fiscal council to monitor implementation of these fiscal rules. In Ireland, the Irish Fiscal Advisory Council (IFAC) has been given this task under the Fiscal Responsibility Act 2012. The national systems of public accounting must also be subject to internal control and independent audit.

2. THE BUDGETARY FRAMEWORK

Commission Opinions on Draft Budgets

After examining the draft budgets submitted, the Commission publishes its opinion. It has so far classified budgets into four categories:

- compliant;
- broadly compliant, with a danger of some deviation from the adjustment path;
- risk of non-compliance, with a danger of significant deviation from the adjustment path; and
- non-compliant with a request for a revised budget plan.

To date, it has not formally identified a case of non-compliance with the budgetary policy obligations laid down in the SGP warranting a request for a revised draft budget. However, the draft budget submitted late by the new Portuguese government on 22 January 2016 was followed by the announcement of additional consolidation measures on 5 February 2016.

The Commission has drawn attention to cases where it sees a danger of the targets not being met and advised that action be taken to ensure that this does not happen. However, it has allowed a delay in the timetable for meeting these targets in the case of France, Spain, Portugal and Italy when these targets were not being met.

The Commission adopted a recommendation on 7 July 2016 establishing the “absence of effective action” by Spain and Portugal in correcting their excessive deficits. On 12 July 2016, the Council accepted the Commission’s finding. These decisions could have led to financial sanctions being imposed on Spain and Portugal, but on 8 August 2016, following a recommendation from the Commission, the Council agreed not to impose any sanctions^{xvii}.

Calculating the Structural Balance

Focusing on the structural balance rather than the nominal balance is desirable so as to eliminate the effects of the economic cycle and once-off measures. This involves measuring potential output and the output gap. However in practice calculating the structural position has proved difficult, particularly for a small, open economy such as Ireland.

The Commission, in conjunction with the Member States, has prepared a Commonly Agreed Methodology (CAM) for use for all countries so as to have a standardised approach. This uses a production function approach to estimating potential GDP and the output gap. It gives results for Ireland which are generally seen as unreliable and quite pro-cyclical. Unfortunately, no other widely accepted methodology currently available gives consistently better or more reliable results.

The Department of Finance is testing other methodologies with a view to using them as a complement to the CAM. IFAC has been stressing the need for this for some time. While the CAM is used for EU surveillance purposes, many other EU countries already use other measures alongside it in viewing the structural position.

The data published by the CSO in the 2015 National Accounts showing Irish GDP growth of 26% create particular challenges for the estimation of the structural balance and the operation of the fiscal rules. A mechanical application of the CAM could seriously distort the measures used to assess compliance with the fiscal rules, thereby potentially also distorting budgetary policy over the medium term. Some technical adjustments to the CAM as it applies to Ireland are being applied by the Department of Finance following engagement with the European Commission to avoid these distortions as far as possible.

xvii “Excessive deficit procedure: Council agrees to zero fines and new deadlines for Portugal and Spain”, European Council (8 August 2016) <http://www.consilium.europa.eu/en/press/press-releases/2016/08/08-excessive-deficit-portugal-spain/> .

2. THE BUDGETARY FRAMEWORK

Medium-Term Budgetary Frameworks (MTBFs)

There has been an increased emphasis on the need for medium-term budgetary frameworks (MTBFs) in the new economic surveillance arrangements in the EU.

Since 1998, there has been a requirement under the Preventive Arm of the SGP for Member States to submit their medium-term budgetary plans to the Commission on an annual basis. This was reinforced in Council Directive 2011/85/EU, known as the Budgetary Frameworks Directive, which requires under Article 9(1) that:

“Member States shall establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least three years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.”

The MTBF should include multiannual budgetary objectives and projections of each major expenditure and revenue item, a description of medium-term policies envisaged and an assessment of how the policies are likely to affect the long-term sustainability of the public finances.

The macroeconomic forecasts used must be independently produced or endorsed by an independent body. The medium-term plans must be published, preferably by 15 April but no later than 30 April.

The Directive only sets the general requirements for the medium-term frameworks, so the detailed arrangements vary from country to country.

Irish Medium-Term Budgetary Framework

Both in the Budget in October and in the Stability Programme Update in April, the Irish Government provide macroeconomic and fiscal forecasts for a 5-year period. The macroeconomic forecasts are prepared by the Department of Finance and are endorsed, as appropriate, by IFAC.

The fiscal forecasts have been based largely on technical assumptions of no policy change apart from known expenditure commitments already decided by Government and a provision for the cost of demographic changes. However the forecasts have now been extended to include provision for the planned use of the available fiscal space with an indicative breakdown between tax and expenditure measures.

The most interesting changes in Ireland have taken place on the current expenditure side of the budget. The Comprehensive Expenditure Report 2012-2014, published on 5 December 2011, introduced a new model of multi-annual budgeting called a Medium-Term Expenditure Framework (MTEF). This was given a statutory basis in the Ministers and Secretaries (Amendment) Act 2013.^{xviii} The MTEF involves setting three year parameters for current expenditure for Government Departments and Offices, with fixed spending ceilings for the Government as a whole and for each Ministerial Vote Group for a rolling three year period. These expenditure ceilings operate as upper limits on expenditure for each year within the three year period. The Department of Public Expenditure and Reform Circular 15/13^{xix} sets out the rules and procedures for these ceilings.

The Government may decide to vary the Government Expenditure Ceiling in limited circumstances and subject to compliance with the overall fiscal rules. For example:

- in specific exceptional circumstances (e.g. severe macroeconomic shocks); or
- if compensatory discretionary measures are introduced e.g. through changes to tax policy.

^{xviii} Ministers and Secretaries (Amendment) Act 2013 (July 23 2013)

^{xix} Circular 15/13 on the Medium-Term Expenditure Framework: Application to Current Expenditure, Department of Public Expenditure and Reform (30 September 2013) <http://circul ars.gov.ie/pdf/circular/per/2013/15.pdf>

2. THE BUDGETARY FRAMEWORK

Special arrangements are made for cyclical expenditure and EU co-funded payments.

The Government may decide to vary the Ministerial Expenditure Ceilings in limited circumstances:

- following a decision to vary the Government Expenditure Ceiling;
- following a Comprehensive Review of Expenditure;
- if the Government considers that there are good and pressing reasons of public policy for allowing reallocation of resources among Ministerial Expenditure Ceilings; or
- arising from a failure of one or more Departments/Offices to comply with their ceilings for the current year.

As a general principle, Departments are allowed to carry over savings from one year to the next, subject to the overall fiscal rules. This can involve:

- 100% of savings up to 2% of the gross current allocation;
- two-thirds of the savings between 2% and 6%; or
- savings above this level to be examined on a case by case basis.

The amounts carried over can be spent on any one-off projects or structural measures but may not be used to create an ongoing liability for the Exchequer. On capital expenditure, multi-annual envelopes are set on a five-year rolling basis.

A Comprehensive Review of Expenditure exercise is to be carried out approximately every three years to allow the multi-year Ministerial Expenditure Ceilings to be re-considered and re-set to reflect developing Government priorities.

Overview of the MTBFs

Given that the Member States have a lot of discretion in implementing the MTBFs, the Commission conducted a survey published in a Working Paper in December 2015^{xx}, looking at how they have been implemented under various headings such as political commitment, planning horizon and binding nature.

The Working Paper contains a table outlining the level of strictness in each Member State in terms of respecting the plans set out in the medium-term planning documents. Member States are ranked between level 1, where ceiling and targets are not expected to change whatever the circumstances, to level 6, where ceilings and targets can be changed at the discretion of the government without any public explanation. Ireland ranks at level 3, where ceilings and targets can be adjusted in response to changes in a number of specific parameters defined by legislation or other public procedural documents and where such changes need to be explained publicly.

This ranking seems justified by the provisions which the Irish Government have brought in. In practice, however, the medium-term expenditure ceilings have been regularly increased on an annual basis, regardless of whether the strict conditions set out in the MTEF are met. So in practice the medium-term expenditure projections have not yet become in any way binding on Government Departments.

^{xx} Medium-Term Budgetary Frameworks in the EU Member States', Monika Sherwood, EU Commission Discussion Paper 021 (December 2015), http://ec.europa.eu/economy_finance/publications/eedp/pdf/dp021_en.pdf



3. The Stability and Growth Pact (SGP)

The Stability and Growth Pact (SGP) is the overall framework to co-ordinate sustainable fiscal policies across the EU and it has grown significantly since it was first adopted after the Maastricht Treaty.

The SGP was adopted into law in July 1997 and was designed to implement the budgetary commitments in the Maastricht Treaty, particularly the 3% deficit ceiling. Following some flouting of the rules in previous years, the SGP was amended in 2005. More far-reaching changes came in 2011 in what became known as the “six-pack”.

The SGP has two main strands, the Corrective Arm which applies to countries in an excessive deficit position and the Preventive Arm designed to prevent countries from moving into an excessive deficit position. These two strands, as they stand today, are outlined below.

Corrective Arm

The Corrective Arm applies when a Member State is in an excessive deficit position having exceeded the 3% deficit limit or the debt requirement. The core principle of the Corrective Arm of the SGP is to reduce excessive deficits or excessive debt. In effect, this means that a Member State in breach must:

1. Reduce its General Government deficit to less than 3% of GDP.
2. Lower its Government debt to 60% of GDP or set out the path to shrink it towards that level.

The Corrective Arm’s primary legal basis is Article 126 of the Treaty on the Functioning of the European Union (TFEU). If the deficit exceeds 3% on the basis of outturns, plans or forecasts, the Commission prepares a report for the Economic and Financial Committee (EFC). If the Commission considers that an excessive deficit exists or may occur, it issues an opinion to the Member State and a proposal for a Council decision. If a Council decision finds that there is a breach, the Commission recommends a time limit for the excessive deficit to be corrected and the path to be followed annually to achieve this. In the event of non-compliance with the recommendations, sanctions can be applied by the Council.

To exit the Excessive Deficit Procedure (EDP), a Member State must correct its deficit in a durable manner and this must be confirmed by Eurostat data. Compliance is also required with the debt rule on a forward-looking basis. The debt rule, calculated over three years, requires the debt-to-GDP ratio to fall by an average of one-twentieth of the excess between the actual debt ratio and 60 per cent of GDP. The Council must decide, by a qualified majority, that the Member State is compliant, based on a Commission recommendation.

There are transitional arrangements for Member States that were in the EDP as of November 2011 – at the time the “six-pack” was adopted. Once these Member States have corrected their excessive deficits, they must still comply with the transitional arrangements under the debt benchmark for three years after leaving the EDP even though they enter the Preventive Arm of the SGP. In most cases, if a Member State meets its required structural deficit improvement to attain its MTO, the debt benchmark MTO, the debt benchmark will also be satisfied.

Preventive Arm

By definition, if a Member State is not in the EDP, it is in the Preventive Arm of the SGP. Article 121 TFEU is its primary legal basis. The Preventive Arm is anchored by the concept of the MTO (see section 2, page 10) towards which Member States must aim to bring their budget situation. The goal of the Member State is to stay at its MTO, once it has been attained.

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There are two pillars of the Preventive Arm:

1. **The annual structural balance improvement.** This means that Member States should improve their cyclically adjusted deficit (excluding one-offs) by a certain percentage based on where they are in the economic cycle and the distance to their MTO. Some other flexibility has recently been introduced (see section 3, page 17).
2. **Compliance with the annual expenditure benchmark.** For those countries at their MTO, this means growing adjusted General Government expenditure no faster than potential real GDP growth in the economy – unless it is matched with new revenue measures. For Member States not yet at their MTO, Government spending can grow no faster than potential growth minus a convergence margin. This is explained further below.

Member States must comply each year with both the structural balance improvement requirement and the expenditure benchmark. Consideration is being given at Council level to focusing primarily on the expenditure benchmark since it is easier to calculate and more under the control of the government.

The Expenditure Benchmark

The expenditure benchmark is designed to limit the growth in expenditure and discretionary revenue measures to a level that is consistent with either remaining at the MTO or being on an appropriate adjustment path towards it. It aims to link the change in net expenditure growth with the growth of the economy. It is defined as an average over time and in terms of potential rather than actual growth to avoid pro-cyclicality.

- For Member States at their MTO, annual expenditure growth should not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures.
- For those that have not attained their MTO, the permitted annual growth is reduced below the medium-term rate of potential GDP growth by a convergence margin so as to ensure the appropriate adjustment towards the MTO.
- The expenditure benchmark does not apply to countries that have exceeded their MTO, as long as the MTO is maintained.

The expenditure benchmark applies to an **expenditure aggregate** that excludes interest spending, expenditure on EU programmes fully matched by EU funds and cyclical elements of unemployment benefit expenditure. Investment expenditure is averaged over a four year period to smooth the impact of any large investments. The expenditure aggregate also takes discretionary revenue changes into account. Any discretionary reductions in Government revenue must be matched by either expenditure reductions or by discretionary increases in other revenue items, or both.

The **medium-term rate of potential growth of GDP** is calculated as a 10-year average of potential GDP, covering five years of outturn data, the current year and forecasts for the next four years. The EU commonly agreed methodology is used for calculating potential GDP. It is set for year t on the basis of the Spring forecasts in $t-1$.

The **convergence margin** is deducted from the medium-term rate of potential GDP growth to obtain the reference rate for countries not at their MTO. It is set so that the lower increase in expenditure growth is consistent with the desired path to the MTO. The convergence margin increases in line with the necessary tightening of the budget balance (e.g. 0.5% or higher) and takes account of the share of Government expenditure in GDP. The decrease in expenditure by applying the convergence margin should lead to the desired improvement in the structural balance. The convergence margin is set for year t on the basis of the Spring forecasts in $t-1$.

To **convert the expenditure benchmark from real to nominal terms**, the GDP deflator is used. For year t , the average GDP deflator from the Commission's Spring and Autumn forecasts in $t-1$ is used.

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Issues arising from the Expenditure Benchmark

- Though investment expenditure is averaged over four years to avoid lumpy investments distorting expenditure growth in any particular year, it still implies that capital investment should be funded from current revenue when the MTO is reached.
- The 10-year average used in calculating the medium-term rate of potential growth can give peculiar results and create anomalies when moving from a deep recession or a period of very strong growth, since the common methodology used for measuring potential growth is strongly pro-cyclical, in Ireland's case at least. IFAC highlighted the effects of the period of negative growth in the Irish economy on the calculation of the expenditure benchmark for Ireland for 2016.^{xxi}
- The GDP deflator is used because it is less volatile for countries generally but it can be more volatile in Ireland because of the large multinational component. For example, the GDP deflator for Ireland in 2015 is estimated at 4.9%, well above the other deflators commonly used.^{xxii}
- The Expenditure Benchmark does not apply when the MTO has been exceeded. This could result in expenditure increasing at an unsustainable rate based on transitory tax receipts.

Flexibility within the Stability and Growth Pact

Provision is made within the SGP for flexibility for cyclical conditions, structural reforms and investment.

Cyclical Conditions

The annual fiscal adjustment towards the MTO under the preventive arm of the SGP differentiates between larger fiscal effort to be undertaken during better times and a smaller fiscal effort to be undertaken during difficult economic conditions, as set out in the matrix on the page that follows.

xxi IFAC Analytical Note No. 7: The EU Expenditure Benchmark: Operational Issues for Ireland in 2016 (April 2015), http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/ExpenditureBenchmarkNote_310315_Final_1.6.pdf

xxii National Income and Expenditure Annual Results 2015, Central Statistics Office (12 July 2016) <http://www.cso.ie/en/releasesandpublications/er/nie/nationalincomeandexpenditureannualresults2015/>

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Matrix for Specifying the Annual Fiscal Adjustment Towards the Medium-Term Objective (MTO) Under the Preventive Arm of the SGP

	Member States	Required annual fiscal adjustment*	
		Debt below 60 and no sustainability risk	Debt above 60 or sustainability risk
Exceptionally bad times	Real growth <0 or output gap <-4	No adjustment needed	
Very bad times	$-4 \leq \text{output gap} < -3$	0	0.25
Bad times	$-3 \leq \text{output gap} < -1.5$	0 if growth below potential, 0.25 if growth above potential	0.25 if growth below potential, 0.5 if growth above potential
Normal times	$-1.5 \leq \text{output gap} < 1.5$	0.5	> 0.5
Good times	Output gap ≥ 1.5	> 0.5 if growth below potential, ≥ 0.75 if growth above potential	≥ 0.75 if growth below potential, ≥ 1 if growth above potential

*All figures are in percentage points of GDP

Source: Vade Mecum on the SGP, page 231 (European Commission)

Table: 7

Given the volatility of the output gap estimates and of the structural balance level, the requirements for the annual fiscal adjustment for year t will be frozen on the basis of the data available at Spring $t-1$. However in the event of worsened economic conditions bringing the economy into either exceptionally bad or very bad times, the requirements based on the most recent data will be used. If the most recent data shows that a country has already achieved its MTO in year t , the assessment of the country being at or above its MTO will be used.

Similarly the estimate of the expenditure benchmark as calculated in the Spring of year $t-1$ will be used for year t .

The flexibility in the annual fiscal adjustment to take account of cyclical conditions is very desirable so that greater efforts are undertaken in normal or good times. It is useful to freeze the adjustment on the basis of the Spring forecasts so that Governments have certainty during the budget preparations that the necessary level of adjustment will not be increased, though it is interesting that the required adjustment can be relaxed if the cyclical conditions deteriorate or if the latest data show the country as being at or above its MTO.

Structural Reforms

Structural reforms will be taken into account when defining the adjustment path to the MTO. To be eligible, the following criteria must be met:

- the reforms must be major;

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- the reforms must have direct long-term positive budgetary effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances; and
- the reforms must be fully implemented. They must be adopted by the national authorities through provisions of binding force, whether legislative or not, in accordance with the applicable domestic laws and procedures.

To activate this, a Member State will be expected to provide in-depth and transparent documentation, providing quantitative analysis of the short-term costs and of both their medium-term budgetary and potential growth impact. An independent evaluation or independent information to support the estimated impact must also be submitted.

If the criteria are met, a temporary deviation from the adjustment path to the MTO or a temporary deviation from the MTO may be granted, not exceeding 0.5% of GDP. The structural reform clause may be used only once per period of adjustment to the MTO. The MTO must be reached within four years of activating the clause.

The provision for flexibility for structural reforms is tightly drawn to ensure that only significant reforms with substantial effects on the public finances are taken into account and these must be actually implemented, not just promised.

Government investments aiming at, ancillary to, and economically equivalent to the implementation of major structural reforms

Under the preventative arm of the SGP, some investments aiming at, ancillary to and economically equivalent to the implementation of major structural reforms may, under certain conditions, justify a temporary deviation from the MTO or the adjustment path towards it.

Government investments that can be eligible for a temporary deviation must be national expenditures on projects that are to a large extent co-funded by the EU under the European Structural and Investment Funds, Trans-European Networks and the Connecting Europe Facility, as well as national co-financing of projects also financed by the European Fund for Structural Investments.

An investment can be considered economically equivalent to a major structural reform only if it can be shown that the investment has a major net positive impact on potential growth and on the sustainability of public finances.

To avail of this facility, GDP growth must be negative or well below its potential (resulting in a negative output gap greater than 1.5% of GDP). It is subject to a maximum temporary deviation of 0.5% of GDP and the cumulative temporary deviation under the structural reform clause and the investment clause may not exceed 0.75% of GDP. It can only be granted once per period of adjustment to the MTO.

Member States must provide an independent evaluation of the information provided to support their application, including on the estimated long-term impact on the budgetary position, or provide comprehensive independent information to support the estimated impact.

The flexibility for investment is even more tightly drawn than for structural reforms and is unlikely to give much leeway in practice, including the requirement that growth must be negative or well below its potential.

It is noteworthy that Italy managed to avail of this flexibility both for structural reforms and for investment in 2016.^{xxiii}

xxiii Report from the European Commission on Italy (May 2016), http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-03_commission/2016-05-18_it_126-3_en.pdf



4. The Role of National Parliaments in EU Economic Governance

The European Semester process provides the Parliaments of Member States with a structure that facilitates parliamentary participation in economic policy discussions and in the construction of national budgets. Some Parliaments (for example, those in Austria, Germany and Sweden) already have more or less developed systems in place. Oireachtas Éireann has not heretofore had such a system but is now in the process of developing one, with preparatory work being carried out by the Select Committee on Arrangements for Budgetary Scrutiny.

OECD recommendations on budget oversight by Parliament in Ireland

The OECD made a series of recommendations as to how Ireland can improve parliamentary involvement in the budgetary process in a report published on 11 November 2015.^{xxiv} The report assessed that, when it comes to budgetary matters in Ireland, the Government “has primacy, to the point of dominance”. The recommendations made in the report sought to encourage “ongoing engagement by the Houses of the Oireachtas and its committee throughout the course of the budget cycle”.

There is a summary of the OECD recommendations below, while a full breakdown of the short and long term recommendations made by the OECD can be found at the end of this paper. The recommendations are divided into two overarching themes:

Overarching Theme 1: Renewed political commitment to engagement with Parliament as a partner throughout the budget process

Recommendations regarding procedural changes to promote parliamentary engagement

- a) *Ex ante* parliamentary input to medium-term fiscal planning
- b) *Ex ante* parliamentary input on budget priorities
- c) Early publication of full budgetary information and legislative proposals
- d) Timely consideration of the Estimates of Expenditure
- e) Performance Dialogue with joint Committees early in the year

Recommendations to enhance information to support parliamentary engagement

- f) Re-introduce “Pre-Budget Estimates” showing “no policy change” expenditure baselines

Recommendations regarding institutional supports for effective parliamentary engagement

- g) Establish an Irish Parliamentary Budget Office to support parliamentary engagement and budget scrutiny
- h) Continuing Professional Development of parliamentarians and officials

^{xxiv} Review of budget oversight by parliament: Ireland”, Public Governance and Territorial Development Directorate, OECD (11 November 2015) <https://www.oecd.org/gov/budgeting/Ireland-Parliamentary-Budget-Review-Preliminary.pdf>

4. THE ROLE OF PARLIAMENTS IN EU ECONOMIC GOVERNANCE

Overarching Theme 2: New opportunities are created within the budget cycle for a “performance dialogue” between committees and public bodies

Recommendations regarding procedural changes to promote parliamentary engagement

- a) “Performance hearings” with joint Committees in early part of the year
- b) Power for joint Committees to recommend changes to performance information

Recommendations to enhance information to support parliamentary engagement

- c) Systematic review of existing performance metrics
- d) Estimates Performance Reports
- e) Promotion of Ireland Stat as an authoritative portal for public performance
- f) Linkages to higher level strategies and articulation of a “National Performance Framework”

Recommendations regarding institutional supports for effective parliamentary engagement

- g) Establishment of a “National Performance Quality Panel”
- h) Role for Irish Parliamentary Budget Office in supporting performance scrutiny
- i) Selective Audit of Performance Information by the Office of the Comptroller and Auditor
General in reports to the Public Accounts Committee and other Committees

Table: 8

Irish Government budgetary process proposals

An improvement in parliamentary involvement has already started in Ireland through the submission of the draft Stability Programme Update to the Committee on Finance and Public Expenditure and Reform and the draft National Reform Programme to the Joint Oireachtas Committee on EU Affairs, before finalising them and submitting them to the Commission. It is now proposed to build on this significantly in order to enhance the role of parliament.

Early in June 2016, the Irish Government made a submission to the Select Committee on Arrangements for Budgetary Scrutiny. This submission is now being considered together with the proposed institution of a Budget Committee and a Parliamentary Budget Office.

The following is an outline of the process proposed by the Government, which has been implemented in the run-up to Budget 2017.

By mid-April

The draft Stability Programme Update is published, together with macroeconomic data for the fourth quarter of the previous year and Exchequer Returns for March.

Feedback from the Houses of the Oireachtas and comments from IFAC is incorporated into the final Stability Programme Update submitted to the Commission by 30 April deadline.

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May

The Commission produces its Spring Economic Forecast and draft Country-Specific Recommendations.

By mid-June

The Government produces its Spring/Summer Economic Statement both as a written document and through statements in the Dáil by the Minister for Finance and the Minister for Public Expenditure and Reform. The statement provides an updated forecast on the fiscal space to enable Oireachtas Committees (including sectoral committees) to conduct fully informed discussions on budgetary priorities. The Budget Committee then provides its views to Government, perhaps informed by views of key stakeholders on the Spring/Summer Economic Statement.

End-June

The Government holds the National Economic Dialogue (NED), involving the Oireachtas together with other stakeholders.

Mid-Year Expenditure Report following NED

The Government publishes a Mid-Year Expenditure Report containing “no policy change” pre-budget information which would:

- report on expenditure trends to mid-June across spending programmes and revised end-year outturn forecasts in each case;
- set out expenditure ceilings for the current year at Vote level: set out aggregate level ceilings for the following two years at Vote level taking account of forecast current year outturns and an analysis of the key non-discretionary drivers of expenditure, for example, demographics and pay; and
- set out the basis for any changes since Budget Day of the previous October and provide an update of the projections for current year expenditure prepared the previous October to take account of carryover of previous year changes.

The intention of the Mid-Year Expenditure Report is to enable Oireachtas sectoral committees to review priorities and challenges for each Vote Group so that they could provide their recommendations to the Government on expenditure priorities for the following year, having regard to the available fiscal space as identified in the Spring/Summer Statement. These recommendations would feed into the Government’s consideration and development of budgetary measures to be announced in the following October.

Early to mid-July

Tax Strategy Group (TSG) papers are circulated to sectoral Oireachtas committees. The TSG discusses papers setting out measures across all the tax heads, PRSI and social protection issues. The papers put forward relevant issues for discussion and costed options for changes, taking into account any relevant Programme for Government commitments.

The Government’s stated intention is that these papers would provide the sector committees with accurate and costed options for change which would assist them in developing recommendations for submission to Government in advance of draft budget decisions.

White Paper on Receipts and Expenditure

A White Paper on Receipts and Expenditure is published on the Friday before Budget Day, setting out forecast Exchequer returns for the current year and projections for the following year on a “no policy change” basis.

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Distributional impact of budgetary policy

The Government submission commits to making incremental improvements to the information in the budget book, including the distributional impact of budget measures, where possible. The Departments of Finance and Social Protection will continue to produce a distributive analysis of the main welfare and tax budgetary measures using the ESRI SWITCH model,^{xxv} with the intention of completing these assessments in advance of the passage of the Social Welfare and Finance Bills. The Department of Public Expenditure and Reform is developing a Social Impact Assessment Framework to complement the existing process, having regard to the commitment in the Programme for Government to develop a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights.

Finance Bill and Social Welfare Bill

The government has undertaken to accelerate the publication of the Finance Bill and Social Welfare Bill, with the Finance Bill being published no more than two weeks after Budget Day,

Estimates

The Government is considering the possibility of seeking approval of the Estimates for 2017 by end-2016 or very early in 2017. It is to be presumed that this pattern would be repeated in subsequent years.

Ex Post Scrutiny

The Government has announced its intention of continuing to improve the quality of performance information available to the Oireachtas through the Revised Estimates Volume.

In addition, it now proposes that by the end of first quarter each year, a Performance Report will be submitted by the Minister for Public Expenditure and Reform to provide information on the performance of each Vote and the linkages between results and resources. The Report will present relevant performance indicators.

Proposals of the Select Committee on Arrangements for Budgetary Scrutiny

The Select Committee on Arrangements for Budgetary Scrutiny completed its Report on 30 June 2016. In the course of its work, the Committee had regard to the OECD recommendations, the Government proposals outlined above and to submissions from the Irish Human Rights and Equality Commission (IHREC), IFAC and the Irish Tax Institute. The Report is detailed and wide-ranging, dealing with institutional issues and issues of process.

The institutional innovations proposed are:

- the institution of a Committee responsible for Budget Oversight, with the status of a Standing Committee; and
- the establishment of an Independent Parliamentary Budget Office.

Proposals on **process** cover the following areas:

- The role of sectoral committees in providing sectoral analysis and recommendations as inputs to the budgetary process (to the Budget Oversight Committee) and in analysing the performance of the public service by reference to agreed objectives and standards.

^{xxv} The ERSI SWITCH model simulates the impact of changes in welfare and income tax for a representative sample of 5,000 households.

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- The assignment to a sectoral committee or committees of responsibility for oversight of performance and associated expenditure in relation to the Departments of the Taoiseach, the Department of Finance and the Department of Public Expenditure and Reform.
- The engagement of the Oireachtas in the preparation of the Stability Programme Update, beginning no later than the publication of the European Commission's Country Report, usually in February (i.e. earlier than has been the case theretofore).
- *Ex ante* scrutiny in relation to Estimates for Public Services and in-Year initiatives. The Report sets out a series of recommendations as to how the interaction between sectoral committees, the Committee on Budget Oversight and the Government should be regulated in relation to spending proposals emerging in the months leading up to the publication of the following year's Estimates.
- The framework and conditions in which recommendations would be put forward by sectoral committees and assessed by the Budget Oversight Committee with a view to possible inclusion in its overall budget recommendations.
- The drawing up of a Memorandum of Understanding giving the Budget Oversight Committee the right to make proposals in relation to taxation and to engage with Government in *ex ante* debate on taxation issues for consideration in the budgetary context, "subject to restrictions that are reasonable and necessary".
- A re-casting of the Finance Bill to deal expeditiously and "...primarily with matters arising from the Budget", with matters "...of an administrative or technical nature normally found in Finance Bills..." being included in separate legislation.
- A new but undefined procedure proposed by the Government for dealing with the Social Welfare Bill.
- Debate of the Estimates in the period immediately following the Budget, the Finance Bill and the Social Welfare Bill, rather than later in the relevant year, as heretofore.
- In-year monitoring of the fiscal position (departmental and aggregate expenditure). The Select Committee on Arrangements for Budgetary Scrutiny takes the view that this process should be led by the Budget Oversight Committee, which, together with the sectoral committees, would be informed by the Independent Parliamentary Budget Office of any significant deviations from agreed expenditure profiles.
- The development of a new system for costing policy proposals and related matters. The Independent Parliamentary Budget Office would scrutinise costings furnished by Government rather than itself carrying out the costings (which the Committee believes may not be possible). It envisages an active role for the Independent Parliamentary Budget Office in understanding the needs and risks of the costings process and producing suitable proposals in relation to costings standards and procedures.
- Ensuring rapid access to budget-related information for parliamentarians.
- Processes for equality, gender and poverty proofing and impact analysis of budgetary policies, with inputs from IHREC and ESRI.
- A new procedure for the review of departmental performance.

There is a substantial degree of convergence in aims between the Government's proposals and those put forward by the Select Committee on Arrangements for Budgetary Scrutiny, although the Committee's proposals are more ambitious and more elaborate than those of the Government. Whatever the final outcome, it seems clear that it will constitute a very significant

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advance in the degree of Parliamentary scrutiny of budget preparation and implementation compared to the pre-European Semester practice and compared to the practice which has evolved so far since the introduction of the European Semester.

The process would impose a heavy extra, but necessary, burden of work on the Oireachtas, on its sectoral committees and on the Budget Committee in particular. It seems inevitable that a substantial strengthening of the secretarial resources of Committees will be required. The Committee deals at some length with the resource requirements inherent in the proposal for an Independent Parliamentary Budget Office and acknowledges that it will take some time to develop such a body to the point where it can meet all of the functions envisaged for it.

The outcome of this process will, in addition, require a paradigm shift in the interaction between the Oireachtas and senior civil servants, with a considerable extra burden on the latter. Resource issues will have to be seriously addressed if the process is to realise its full potential.

The intensification of parliamentary scrutiny will also make substantial new demands on members of the Oireachtas. All of the innovations proposed by both the Government and the Committee will add to the workload of Oireachtas members and will require most of them to widen their skills to a very marked extent.

The Committee's report refers to questions which might arise in the context of Article 17.2 of the Constitution and concludes that "...the question of the desirability of amending Article 17.2 and related articles that restrict the financial initiative of ordinary members of the Dáil should be revisited in a substantial way".



5. Independent Fiscal Councils and the European Fiscal Board

The 2011 reforms to the SGP reinforced economic and fiscal governance in Europe by strengthening fiscal rules and surveillance. The “two pack” complemented these European level changes by strengthening domestic institutional fiscal oversight. Under the “two pack” euro area countries were required to create fiscal councils with a mandate to, at a minimum, publicly assess compliance with national fiscal rules and to produce, or endorse, the Government’s macroeconomic forecasts.

In establishing fiscal councils certain countries decided on a wider role, including additional fiscal and economic surveillance and advisory functions. Irish Fiscal Advisory Council (IFAC) also assesses the fiscal stance and the budgetary and macroeconomic forecasts.^{xxvi} Where certain euro area countries already had institutions performing these, or closely related, functions, these bodies typically took on functions specified in the “two pack”, for example the Netherlands’ Central Planbureau (CPB).

Consequently, while euro area fiscal councils share common functions, there may be significant differences in their overall mandates. The role of fiscal councils in publicly assessing the fiscal rules supports the principle of increased transparency around fiscal policy and can also advance “national ownership of the governance framework and increase the reputational cost to governments when they violate the fiscal rules.”^{xxvii}

Criteria for independent Fiscal Councils

To successfully carry out their mandate, fiscal councils must be clearly independent from government. The relevant EU Regulation identifies independent bodies as those that are structurally independent or bodies endowed with functional autonomy vis-à-vis government and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability.^{xxviii} In addition to having their role and functions established in national law, this means the councils should;

- i. not take instructions from national budgetary authorities or from any other private or public institution;
- ii. be able to freely communicate publicly in a timely manner;
- iii. have procedures for nominating members based on experience and competence; and
- iv. have adequate resources and access to relevant information.

The European Fiscal Board (EFB)

The Five Presidents’ Report proposed further strengthening of the institutional framework through the establishment of an advisory European Fiscal Board (EFB). It proposed that this body would coordinate national fiscal councils and provide a public, independent assessment at European level of budget performance against the EU fiscal governance framework. The IIEA Economic Government Group welcomed the establishment of a supranational body focussing on the overall stance of fiscal policy at a European level. However, it expressed concern in relation to the potential wider remit of this board, particularly its role in national fiscal policy.^{xxix}

xxvi The Fiscal Responsibility Act 2012, <http://www.fiscalcouncil.ie/wp-content/uploads/2013/02/FRA.pdf>, Ministers and Secretaries Amendment Act 2013 http://www.fiscalcouncil.ie/wp-content/uploads/2011/07/en.act_2013.0029.pdf

xxvii The importance of independent fiscal councils”, Benoît Cœuré (27 January, 2016) <https://www.ecb.europa.eu/press/key/date/2016/html/sp160127.en.html>

xxviii EU Regulation 473/2013; <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32013R0473>; summarised on page 119 of the Vade Mecum on the Stability and Growth Pact (2016 edition)

xxix [Comments on the Five Presidents’ Report, Completing Europe’s Economic and Monetary Union, IIEA Economic Governance Group, 2015.](#)

5. INDEPENDENT FISCAL COUNCILS AND THE EUROPEAN FISCAL BOARD

In October 2015, the Commission announced its intention to introduce a European Fiscal Board. The Commission said in a statement that the EFB board would consist of “five renowned international experts with credible competence and experience in macroeconomics and practical budgetary policy-making”. The role of the EFB is largely threefold:

- i. To evaluate the implementation of the European fiscal framework, with a particular emphasis on ensuring that the European Commission is consistent in implementing cross-country surveillance and issuing decisions. It will also advise on whether the actual fiscal stance of the euro area as a whole, and the constituent countries, is appropriate by reference to the framework. The EFB may also suggest improvements to the overall fiscal framework as part of this evaluation.
- ii. The EFB will advise on the fiscal stance of the euro area as a whole based on economic judgement, which may involve advising on appropriate national fiscal stances. Where the EFB identifies risks jeopardising the proper function of the EMU, the EFB will also consider appropriate policy options to address risk within the scope of the SGP.
- iii. It will cooperate with national fiscal councils, with the particular aim of sharing best practice and ensuring a common understanding of the working of the European framework. This arrangement is anticipated to benefit both the EFB and the national fiscal councils.

In addition to concerns that the EFB may impinge on the role of national fiscal councils, other criticisms of the EFB structure have emerged since the publication of this decision. A particular concern relates to the independence of the EFB, as the Commission has indicated that the Board will be “necessarily linked to the Commission for practical administrative purposes”.^{xxx} The independent European think-tank Bruegel further highlight that, “the nomination of members depends almost entirely on the Commission, members are not accountable and the transparency regulation requires only one public annual report by the EFB.”

In April 2016, the Commission called publically for expressions of interest for the selection of EFB members. The Board is to have its own secretariat, with a head of secretariat to be appointed by the Commission having consulted with the Chair of the EFB. The independence of both the Chair and ordinary members of the EFB was emphasised in the call for expressions of interest.

“In the performance of their tasks, the members of the Board shall act independently and shall neither seek nor take instructions from the Union’s institutions or bodies, from any government of a Member State or from any other public or private body. The members of the secretariat shall take instructions only from the Board.”^{xxxi}

In October 2016, the College of Commissioners formally appointed the Chair and Members of the EFB board. Niels Thygesen, Professor Emeritus of International Economics at the University of Copenhagen was appointed as Chair. Joining Professor Thygesen on the board are Roel Beetsma, Professor at the University of Amsterdam; Massimo Bordignon, Professor of Public Economics at the Catholic University of Milan; Sandrine Duchene, General Secretary of AXA in France, and Mateusz Szczurek, the former Polish Minister of Finance.

Overall the EFB has the potential to enhance the credibility of Europe’s fiscal framework by introducing an independent voice on fiscal policy at European level. However, to do so it must be seen as independent and should support rather than supplant the role of national fiscal councils.

xxx An Advisory European Fiscal Board”, European Commission (October 16, 2015) http://ec.europa.eu/priorities/publications/advisory-european-fiscal-board_en

xxxi Call for expressions of interest for the selection of the members of the European Fiscal Board, Official Journal of the European Union (21 April 2016) <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3AC2016%2F140%2F04>



6. National Productivity Boards

Following on from the Five Presidents' Report, the European Commission published a communication On steps towards Completing Economic and Monetary Union on October 25 2016.^{xxxii} The package of measures in this Communication take forward key elements of Stage 1 of the Presidents' Report such as a revised approach to the European Semester and an improved toolbox of economic governance, including the introduction of National Competitiveness Boards.^{xxxiii}

The Commission presented a Recommendation for a Council Recommendation on the establishment of euro area National Competitiveness Boards on 21 October 2015. The Commission's Recommendation was revised by the ECOFIN Council of 17 June 2016 and was endorsed by the European Council of 28 June 2016. The revision included a change of title to National Productivity Boards. On 20 September 2016, the Council issued a Recommendation calling on euro area Member States to establish National Productivity Boards.^{xxxiv}

Rationale for National Productivity Boards

The rationale for National Productivity Boards is outlined in the Recommendation endorsed by the Council on 20 September 2016. The downward trend in potential economic growth in the euro area and the wider EU since 2000, and the contribution of a "steady decline" in total factor productivity to this trend, is highlighted in the opening sentences of the Council Recommendation. The Productivity Boards will seek to improve the productivity and competitiveness performance of euro area Member States through independent, high-quality economic analysis of policy challenges.

The Recommendation states that research and analysis of policies that can affect productivity and competitiveness dynamics should provide a basis for developments compatible with the objective of a "smooth functioning" Economic and Monetary Union. In addition, analysis provided by National Productivity Boards should contribute to enhanced ownership and increased transparency at the national level of policies and reforms necessary to improve productivity.

Establishing National Productivity Boards

The Recommendation provides guidance for Member States on setting up National Productivity Boards, detailing what the objectives, scope, tasks and characteristics of the new bodies should be. It also describes how National Productivity Boards should be integrated within the European Semester.

Objectives and scope

- The objective is to set up National Productivity Boards to analyse developments and policies in the field of productivity and competitiveness, thereby contributing to foster ownership and implementation of the necessary reforms at national level and hence help to achieve sustained economic growth and convergence.
- The Recommendation is addressed to euro area Member States, although other Member States have also been encouraged to establish National Productivity Boards.

^{xxxii} "On steps towards Completing Economic and Monetary Union", COM (2015) 600 final, European Commission (21 October, 2015) <https://ec.europa.eu/transparency/regdoc/rep/1/2015/EN/1-2015-600-EN-F1-1.PDF>

^{xxxiii} "On the establishment of National Competitiveness Boards within the Euro Area", COM (2015) 601 final, European Commission (21 October, 2015) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0601&from=EN>

^{xxxiv} "Recommendation for a Council Recommendation on the establishment of National Productivity Boards", COM (2015) 601 final, Council of the European Union <http://data.consilium.europa.eu/doc/document/ST-10083-2016-INIT/en/pdf>

6. NATIONAL PRODUCTIVITY BOARDS

- The application of the Recommendation “should fully observe” Article 152 of the TFEU and “shall respect national practices and institutions in wage formation”. It shall also take account of Article 28 of the Charter of Fundamental Rights of the European Union with regard to the right to negotiate, conclude or enforce collective agreements or take collective action in accordance with national law and practice.

Tasks

- The Recommendation states that each Member State should have in place a National Productivity Board tasked with the diagnosis and analysis of productivity and competitiveness developments. This analysis should address the long-term drivers and enablers of productivity and competitiveness, including innovation and the capacity to attract investment, business and human capital. It should also address cost and non-cost factors that can affect prices and quality content of goods and services including relative to global competitors in the short term.
- Where there is national mandate, National Productivity Boards should provide an assessment of policy options in the fields of productivity and competitiveness, “making trade offs of policy explicit”.
- Member States should identify one National Productivity Board, which could rely on different bodies already in existence.
- National Productivity Boards should, the Recommendation states, carry out their activities on a continuous basis. They should make their analyses publicly available and publish an annual report, in addition to liaising with their equivalents in other Member States to exchange views and, where appropriate, produce joint analysis.

Characteristics

- The Recommendation says that National Productivity Boards should be endowed with functional autonomy vis-a-vis any public authority in charge of the design and implementation of policies in the field of productivity and competitiveness in the Member State or at EU level.
- To fulfill tasks, National Productivity Boards must be underpinned by national provisions to ensure a high degree of functional autonomy and accountability: to communicate publicly in a timely manner; have procedures for nominating members on the basis of their experience and competence; and have appropriate access to information.
- National Productivity Boards should be objective, neutral and fully independent regarding analysis and content. They may consult relevant stakeholders, but should not convey only or mainly the opinions and interest of a particular group of stakeholders.
- National Productivity Boards should have the ability to carry out economic and statistical analyses with a high degree of quality, including as recognised by the academic community. Existing and separate bodies could produce the analysis, provided that it is of the same high quality.

Articulation with the European Semester

- The Commission should facilitate coordination between National Productivity Boards to ensure consideration of euro-area and EU objectives.
- Member States and the Commission, in the context of the European Semester and the Macroeconomic Imbalance Procedure, could avail of the independent expertise provided by the National Productivity Boards. However, the Recommendation states that this does not alter the assigned responsibilities of the European Semester, including Country-Specific Recommendations or the application of the MIP.

6. NATIONAL PRODUCTIVITY BOARDS

Euro area Member States have been directed to implement the Recommendation on National Productivity Boards within 18 months of its adoption by the European Council on 20 September 2016. The Commission will prepare a report examining the progress of implementation across Member States and the suitability of the Council Recommendation within 30 months of the adoption date. It will, “if warranted”, make proposals to adapt the Recommendation.

Annex 1

Treaties

Treaty on the Functioning of the European Union

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

<http://www.consilium.europa.eu/european-council/pdf/Treaty-on-Stability-Coordination-andGovernance-TSCG/>

Regulation on the preventative arm of the SGP

Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1997:209:0001:0005:EN:PDF>

Consolidated following Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1997R1466:20111213:EN:PDF>

Regulation on the corrective arm of the SGP

Council Regulation No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1997:209:0001:0005:EN:PDF>

Consolidated following Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1997R1467:20111213:EN:PDF>

Texts linked to the SGP and its application

Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997

[http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0802\(01\):EN:HTML](http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0802(01):EN:HTML)

European Council Presidency conclusions of 22-23 March 2005, endorsing and including the ECOFIN Council report of 20 March 2005 on “Improving the implementation of the Stability and Growth Pact”

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2005-03-23_council_presidency_conclusions_en.pdf

Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:145:0001:0009:EN:PDF>

Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0001:0007:EN:PDF>

Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>

Code of Conduct: “Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes”, of 3 September 2012

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

Communication from the Commission on “Making the best use of the flexibility within the existing rules of the stability and growth pact”, of 13 January 2015

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

Commonly agreed position on Flexibility in the Stability and Growth Pact

<http://data.consilium.europa.eu/doc/document/ST-14345-2015-INIT/en/pdf>

The macroeconomic imbalances procedure

Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0025:0032:EN:PDF>

Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0008:0011:EN:PDF>

Legislation and other documents related to the “two-pack”

Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:140:0001:0010:EN:PDF>

Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 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

<http://eurlex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32013R0473&from=EN>

Commission delegated regulation No 877/2013, supplementing Regulation (EU) No 473/2013, on reporting obligations of euro area Member states subject to the excessive deficit procedure

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:244:0023:0031:EN:PDF>

Code of Conduct: “Specifications on the implementation of the Two Pack and guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports”, of 7 November 2014.

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf

Irish legislative texts

Ministers and Secretaries (Amendment) Act 2013

<http://www.irishstatutebook.ie/eli/2013/act/29/enacted/en/pdf>

The Fiscal Responsibility Act 2012

<http://www.irishstatutebook.ie/eli/2012/act/39/enacted/en/pdf>

Annex 2

OECD recommendations for Ireland

Overarching theme: Renewed political commitment to engagement with parliament as a partner throughout the budget process

Theme 1: Procedural changes to promote parliamentary engagement

Budget oversight recommendations	Short-Term	Long-Term
A: <i>Ex ante</i> parliamentary input to medium-term fiscal planning	The government presents an enhanced draft Stability Programme Update to parliament in sufficient time so as to allow it to provide a view.	1. The medium-term fiscal plan is submitted to the Dail for its formal approval before it is submitted to the European Commission.
B: <i>Ex ante</i> parliamentary input on budget priorities	1. The Houses of the Oireachtas and its committees are made a key partner in the National Economic Dialogue.	1. The Houses of the Oireachtas lead pre-budget hearings, setting aside one week in early- to mid July each year as 'Pre Budget Week' with joint committees holding a series of open hearings, drawing views from a wide range of experts and stakeholders. 2. The Houses of the Oireachtas constitute a new 'Budget Committee' or 'Estimates Committee', made up of the Joint Committee on Finance, Public Expenditure and Reform alongside the chairpersons of the other joint committees as well as the PAC, to act as a forum for these Pre-Budget hearings.
C: Early publication of full budgetary information and legislative proposals	1. The government bring forward the publication of the Finance Bill and the Social Welfare Bill to Budget Day. 2. The government brings forward publication of the full detailed Estimates of Expenditure to Budget Day.	

Budget oversight recommendations	Short-Term	Long-Term
D: Timely consideration of the Estimates of Expenditure	<p>1. Dail select committees bring forward consideration of Estimates to the October-December period, and the Dail vote on the Estimates is brought forward to before the start of the budget year.</p> <p>2. The multiple Estimates hearings across various select committees are augmented with one single hearing of the ‘Estimates Committee’ recommended in (b). The purpose would be to obtain an explanation from ministers on the extent to which the recommendations from the <i>ex ante</i> stage (b) have been carried through to the Budget itself.</p>	<p>1. The publication and vote on the Appropriation Bill is brought forward from the end of the budget year (i.e after the money has been spent) to the end of the current year (i.e before the money is spent), for consideration within the same broad time frame as the Finance Bill and the Social Welfare Bill.</p>
E: Performance Dialogue with joint committees in early year	<p>1. Committees complete scrutiny of the Estimates before the end of the previous year (as per (d) above) and instead use the early part of the budget year to engage with the Departments and Agencies on a focused dialogue upon issues of performance and impact.</p>	
F: Re-introduce ‘Pre-Budget Estimates’ showing ‘no policy change’ expenditure baselines	<p>1. The government re-introduces Pre-Budget Estimates and publishes an accompanying White Paper in July as core reference documents to inform <i>ex ante</i> budget scrutiny.</p>	

Theme 3: Institutional supports for effective parliamentary engagement

Budget oversight recommendations	Short-Term	Long-Term
G: Establish an Irish Parliamentary Budget Office (IPBO) to support parliamentary engagement and budget scrutiny	1. In the short-term the IPBO could first emerge from the Clerking Financial Scrutiny team and be resourced by a small number of persons with appropriate skills seconded from other areas of the Oireachtas, other oversight bodies and the government.	1. In the longer-term, it is envisaged that resources would be released and the IPBO would be set up as a specialised stand-alone unit in the Houses of the Oireachtas, staffed by at least five to seven budget specialists.
H: Continuing Professional Development of parliamentarians and officials	1. The Houses of the Oireachtas ensure that professional development for effective budget scrutiny is incorporated into the induction programme for new members at the start of the next parliamentary session.	1. The Houses of the Oireachtas implement a strengthened programme of Continuing Professional Development for members and committee chairs to enable more effective budget scrutiny.

Overarching Theme: New opportunities are created within the budget cycle for a “performance dialogue” between committees and public bodies

Theme 1: Procedural changes to promote parliamentary engagement

Budget oversight recommendations	Short-Term	Long-Term
A: ‘Performance hearings’ with joint committees in early part of the year (February-March)	1. The space in the early part of the year, currently allotted to Estimates hearings before select committees, is instead allotted to dedicated joint committee session focusing on the scrutiny of Estimates Performances Reports (see recommendation (d)).	
B: Power for joint committees to recommend changes to performance information	1. Joint committees have powers to make recommendations to government and the National Performance Quality Panel (see recommendation (g)) regarding the quality and clarity of performance information included in or published with the Estimates document, arising from their consideration, by way of amendment to Standing Orders and Orders of Reference.	

Theme 2: Enhanced information to support parliamentary engagement

Budget oversight recommendations	Short-Term	Long-Term
C: Systemic review of existing performance metrics	1. Key stakeholders undertake a systematic review of existing performance metrics based on standards to be agreed between the Houses of the Oireachtas and the D/PER.	
D: Estimates Performance Reports	1. Each Department/public body prepares Estimates Performance Reports to facilitate structured discussion in the performance hearings proposed above (a).	
E: Promotion of Ireland Stat as an authoritative portal for public performance	1. Outturn performance data and government evaluations are routinely published on Ireland Stat.	1. Ireland Stat becomes the authoritative portal for national public performance.
F: Linkages to higher level strategies and articulation of a 'National Performance Framework'	1. The government develops a National Performance Framework to make it clear how departmental performance measures link to higher strategic goals and enhance the status of the performance indicators shown in the Estimates.	

Theme 3: Institutional supports for effective parliamentary engagement

G: Establishment of a 'National Performance Quality Panel'		1. A National Performance Quality Panel is established to bring together the government, the Irish Parliamentary Budget Office civic society and recognised experts to make common cause in identifying realistic, challenging objectives which are aligned with the national outcome goals, and which can form the basis for reporting and accountability.
H: Role for Irish Parliamentary Budget Office in supporting performance scrutiny	1. The proposed Irish Parliamentary Budget Office serves as a resource to support the Houses of the Oireachtas in its scrutiny of performance information.	

Budget oversight recommendations	Short-Term	Long-Term
<p>I: Selective Audit of Performance Information by the Office of the Comptroller & Auditor General in reports to the Public Accounts Committee and other committees.</p>		<p>1. The Public Audit Committee and joint committees recommend selected areas of performance information for the Comptroller & Auditor General to consider for inclusion as part of its ongoing audit programme, where resources allow.</p>

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