



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: The General Secretariat of the Council
to: COREPER/COUNCIL

Subject: Draft Council Conclusions on Domestic Fiscal Frameworks

Delegations will find attached draft Council Conclusions on domestic fiscal frameworks, as prepared by the Economic Policy Committee and the Economic and Financial Committee.

Encl.:

Draft Council Conclusions on Domestic Fiscal Frameworks

1. The Council ACKNOWLEDGES that resilient and effective domestic fiscal frameworks play a crucial role in strengthening fiscal consolidation and sustainable public finances. In the current circumstances, the Council REITERATES the importance of their contribution to the fiscal exit strategies, the implementation of the Stability and Growth Pact and to the credibility of the corresponding fiscal commitments. The Council also EMPHASISES the contribution of fiscal frameworks to the sustainability of public finances and to the three pronged strategy to cope with fiscal challenges related to ageing populations.
2. The Council WELCOMES the report of the Commission on “Domestic Fiscal Frameworks: How National Fiscal Governance Can Contribute to Budgetary Consolidation over the Medium Term” and the issues note prepared by the EPC on “Strengthening Domestic Fiscal Frameworks”.
3. While the strengthening of national fiscal governance must take into account the political, institutional and cultural background of each country, the Council CONSIDERS that certain desirable features of resilient and effective domestic fiscal frameworks can be identified.
4. The Council HIGHLIGHTS the value of comprehensive fiscal frameworks, encompassing numerical fiscal rules, medium-term budgetary frameworks, transparent credible control and enforcement instruments, budgetary procedures and credible fiscal institutions, and ENCOURAGES Members States to enhance the arrangements to strengthen their fiscal governance. These elements interact and can complement each other and should therefore be considered together when undertaking reforms. An appropriate sequencing of reforms is also important. Specifically, prior to introducing more sophisticated reforms, statistical, accounting and monitoring functions should meet international standards.

5. The Council AGREES that a strong national ownership and clear political support are instrumental for ensuring the effectiveness and credibility of fiscal frameworks. This commitment should involve all levels of government, in particular in highly decentralized countries. With due respect to national specificities, the Council INVITES Member States to strengthen coordination across their administration levels and promote effective enforcement mechanisms by all government layers. This is particularly relevant for fiscal numerical rules and also applies to medium-term fiscal frameworks and budgetary procedures. The design of domestic fiscal frameworks is equally important for effectiveness and credibility. In this context enforcement mechanisms – allowing for an adequate degree of flexibility to deal with unforeseen events – are crucial as they strengthen fiscal discipline and can also anchor market confidence in the sustainability of public finances.
6. The Council ENCOURAGES Member States to improve budgetary procedures, in particular by strengthening those dimensions that are most conducive to fiscal discipline, such as the centralization of budget planning and top down budgeting.
7. The Council also UNDERLINES the importance that fiscal rules are designed to avoid pro-cyclical budgetary policies and effects, as well as to support the effectiveness and efficiency of public spending. Judging from successful country experiences, numerical fiscal rules embedded into a medium-term budgetary framework for fiscal planning appear to be conducive to this end.

8. While there is no one-size-fits-all solution, the Council ACKNOWLEDGES several successful country experiences combining different types of numerical fiscal rules with other fiscal arrangements. These policy examples seem to have facilitated fiscal discipline and macroeconomic stabilization objectives over the economic cycle, including in good times. In these countries, budget balance rules combined with multi-annual spending rules and in some cases supplemented by a revenue rule have strengthened the countercyclical behavior of fiscal policy while ensuring budgetary discipline. Some examples show that independent fiscal institutions are conducive to enhancing credibility of fiscal policies. Independent bodies entrusted with some technical tasks of the budgetary process have also proved effective in promoting sound fiscal policies. However, the context and conditions associated with independent institutions are different from country to country, implying that national specificities need to be carefully considered.
9. In light of their contribution to an efficient implementation of the Stability and Growth Pact, the Council CALLS FOR a regular assessment and peer review of Member States' fiscal frameworks drawing on:
- A check list of desirable features of domestic fiscal frameworks, building on best practices and acknowledging differences in political, institutional and cultural contexts;
 - Member States' policy experiences in reforming fiscal governance, particularly of those countries having fiscal frameworks that have proved effective in budgetary discipline and macroeconomic stabilization; and
 - Analysis of the impact of the crisis on existing frameworks and ongoing reforms.
10. The Council INVITES the Commission and the EPC to promote the exchange of best practices, in particular in view of elements that have proven to be most successful in underpinning fiscal consolidation efforts and in contributing to build up sustainable public finances, and to continue monitoring the development of fiscal frameworks. The Council ENCOURAGES the Commission and the EPC to report on the main features of successful examples of fiscal framework reforms in specific Member States.
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