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COM(2014) 675 final

COMMUNICATION FROM THE COMMISSION

replacing the Communication from the Commission on

**Harmonized framework for draft budgetary plans and debt issuance reports within the
euro area (COM(2013) 490 final)**

1. INTRODUCTION

Regulation (EU) No 473/2013 of the European Parliament and of the Council 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 (OJ L140, 27.5.2013) entered into force on 30 May 2013. It builds on and complements within the euro area (EA) the Stability and Growth Pact (SGP), the European framework for fiscal surveillance. This Regulation takes a concrete and decisive step towards strengthening the surveillance mechanisms applicable to all EA Member States.

The new fiscal surveillance features for EA Member States stemming from Regulation (EU) No 473/2013 mean increased transparency on their budgetary decisions and stronger budgetary coordination between them since the 2014 budgetary cycle. The harmonised frameworks for the draft budgetary plans and for the debt issuance reports, as adopted by the Commission in Communication COM(2013) 490 final and contained in a Code of Conduct¹, set out all commonly agreed guidelines. The experience built since the implementation of Regulation (EU) No 473/2013 in May 2013 has proven that some elements of the reporting process deserve additional clarity and require modification, as laid down in this Communication.

Namely, the following amendment to the Communication from the Commission on Harmonized framework for draft budgetary plans and debt issuance reports within the euro area (COM(2013) 490 final) will apply:

On p. 4 the second enumeration shall be replaced by:

- On the expenditure side, it should be stated whether it is a measure targeting:
 - Compensation of employees (ESA code: D.1)
 - Intermediate consumption (ESA code: P.2)
 - Social payments (social benefits other than social transfers in kind and social transfers in kind via market producers ESA codes: D.62, D.632), of which, where applicable, unemployment benefits including cash benefits and in kind social transfers should be also specified.
 - Interest expenditure (ESA code: D.41)
 - Subsidies (ESA code: D.3)
 - Gross fixed capital formation (ESA code: P.51g)
 - Capital transfers (ESA code: D.9)
 - Other (ESA code: D.29+D.4 {other than D.41} +D.5+D.7+P.52+P.53+NP+D.8)

¹ *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*, July 2013.

Further, Tables 1a, 1b, 2a, 2b, 3, 4a in the "Annex. Model Structure and Tables to be contained in Draft Budgetary Plans" section "B: TABLES TO BE CONTAINED IN DRAFT BUDGETARY PLANS"² are replaced by updated tables.

Finally, Section 3 (including Tables III and IV) on p. 7 and 8 is replaced by amended text (and Tables).

This Communication replaces COM(2013) 490 final.

2. SPECIFICATIONS ON THE FORM AND CONTENT OF DRAFT BUDGETARY PLANS.

The guidelines set out below should be considered as a code of good practice and checklist to be used by Member States in preparing draft budgetary plans (DBPs). Member States are expected to follow the guidelines, and to justify any departure from them.

The DBP essentially should present an update of some of the standardized set of tables from the Stability Programmes, complemented by detailed information on the measures presented in the DBP.

In line with existing guidelines provided for Stability and Convergence Programmes, the concepts used should be consistent with the standards established at European level, notably in the context of the European system of accounts (ESA).

The DBP should allow the identification of sources of possible discrepancies from the budgetary strategy in the most recent Stability Programme. For this reason, besides the required data for the forthcoming year, i.e. the year for which the budget is being drafted (year $t+1$ in the standardized tables in the Annex), the corresponding estimates for the current year (t in the standardized tables in the Annex) should also be included, together with the outcomes of the previous year ($t-1$ in the standardized tables in the Annex), consistent with data reported under the excessive deficit procedure.

A. Independent macroeconomic forecasts and assumptions. Estimated impact of aggregated budgetary measures on economic growth

DBPs should be based on independent macroeconomic forecasts, as set out in Article 6(3) of Regulation (EU) No 473/2013. Accordingly, Tables 1a, 1b, 1c, 1d of the DBP, included in the Annex, present the main expected economic developments and important economic variables used in the preparation of the DBP.

In particular, Table 1a contains data on real GDP rate of change observed in year $t-1$, and real GDP rate of change forecasted for years t and $t+1$. The estimated impact on economic growth of the aggregated budgetary measures envisaged in the DBP should be included in these forecasted growth rates for years t and $t+1$. Therefore, following Article 6(3)(g) of Regulation No 473/2013, this estimated impact on economic growth is recommended to be specified in Table 1a or otherwise detailed in the methodological annex.

The basic assumptions upon which macroeconomic forecasts are based should be presented in table 0.i) of the Annex. Further main assumptions typically relevant for the production of macroeconomic forecasts are presented in table 0.ii). Member States may find useful to check

² Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable. Provision of data for year $t+2$ to year $t+4$ is optional but highly desirable for those Member States concerned by the debt rule of the Stability and Growth Pact.

the latter when trying to summarise the assumptions upon which the independent macroeconomic forecasts are based.

Member States should also make explicit whether the independent macroeconomic and budgetary forecasts have been produced or endorsed by the independent body.

B. Budgetary targets

The budgetary targets for the general government balance, broken-down by sub-sector of the general government (central government, state or regional government for Member States with federal or largely decentralized institutional arrangements, local government and social security) should be presented in the corresponding tables also included in the Annex. As stated in Article 7(2) of Regulation (EU) No 473/2013, the Commission should assess whether the DBP complies with the budgetary policy obligations laid down in the SGP. In order to make this assessment possible, structural budgetary targets and one-off and other temporary measures are also among the required information in this section. Compliance with the debt benchmark is assessed against debt developments data, which should be consistent with the previously detailed budgetary targets and macroeconomic forecasts. This information, which is required in the tables 2.a, 2.b and 2.c of the Annex, could be complemented with data on contingent liabilities that could affect the medium-term government debt position.

To allow for a comprehensive understanding of the government balance and of the budgetary strategy in general, information should be provided on expenditure and revenue targets and on their main components. This information is contained in table 4a of the Annex. Bearing in mind the conditions and criteria to establish the expenditure growth to be assessed in accordance with Article 5(1) of Regulation (EC) No 1466/97, which defines an expenditure benchmark, the DBP also presents the planned growth of government expenditure which receives a special treatment in the computation of the expenditure benchmark.

A breakdown of the general government expenditure by function is contained in the corresponding tables in the Annex. Where possible, Member States are encouraged to provide this information broken down into the categories detailed in the Classification of the Functions of Government (COFOG). In any case, according to Article 6(3)(d) of Regulation (EU) No 473/2013, relevant information on the general government expenditure on education, healthcare and employment should be provided, either in the proposed table or otherwise detailed in the DBP.

C. Public expenditure and revenue under the no-policy-change scenario and discretionary budgetary measures

Each Member State should appropriately define a scenario for expenditure and revenue at unchanged policies for the forthcoming year (i.e. pre-budget, excluding the new measures that have been proposed in the context of the budgetary process) and make public the underlying assumptions, methodologies and relevant parameters. The 'no-policy change' assumption involves the extrapolation of revenue and expenditure trends before adding the impact of discretionary budgetary measures decided in the context of the budgetary process for the forthcoming year. The results of projections for the expenditure and the revenue sides on the basis of the unchanged policy assumption are presented in table 3 of the Annex, while the set of tables 5.a, 5.b and 5.c describe and summarize the discretionary measures in the process of being adopted by the different sub-sectors to reach the budgetary targets.

These three tables should contain an exhaustive technical description of the measures being taken by the different sub-sectors, together with information concerning the motivation, the

design and the implementation of the measure. The target of the budgetary measure should also be detailed, in ESA terms, specifying whether it is a discretionary expenditure or revenue measure. Furthermore, the precise component of the expenditure or revenue side targeted by the discretionary measure should also be specified. This will make the comparison between the targets and the no-policy-change outcomes feasible. In other words:

- On the revenue side, it should be stated whether it is a measure targeting:
 - Taxes on production and imports (ESA code: D.2)
 - Current taxes on income, wealth, etc. (ESA code: D.5)
 - Capital taxes (ESA code: D.91)
 - Social contributions (ESA code: D.61)
 - Property income (ESA code: D.4)
 - Other (ESA code: P.11+P.12+P.131+D.39+D.7+D.9 {other than D.91})
- On the expenditure side, it should be stated whether it is a measure targeting:
 - Compensation of employees (ESA code: D.1)
 - Intermediate consumption (ESA code: P.2)
 - Social payments (social benefits other than social transfers in kind and social transfers in kind via market producers ESA codes: D.62, D.632), of which, where applicable, unemployment benefits including cash benefits and in kind social transfers should be also specified.
 - Interest expenditure (ESA code: D.41)
 - Subsidies (ESA code: D.3)
 - Gross fixed capital formation (ESA code: P.51g)
 - Capital transfers (ESA code: D.9)
 - Other (ESA code: D.29+D.4 {other than D.41} +D.5+D.7+P.52+P.53+NP+D.8)

The time profile of the measures should be specified in order to distinguish measures with a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position (i.e. in the permanent level of revenues or expenditure) from those having a permanent budgetary effect that leads to a sustained change in the intertemporal budgetary position (i.e. in the permanent level of revenues or expenditure). According to Regulation (EU) No 473/2013 measures with an estimated budgetary impact above 0.1% of GDP should be described in detail, whereas those with a budgetary impact below this threshold need to be identified and their aggregated budgetary impact indicated. To the extent possible, smaller measures affecting the same revenue / expenditure category could be meaningfully grouped together. However, in the context of the Economic and Financial Committee Member States have agreed to further improve the quality of discretionary tax measures (DTM) reporting, committing themselves to describe in detail all DTM with a minimum budgetary impact of 0.05% of GDP. Thus, in the context of the DBPs and to improve consistency across reporting requirements, Member States are also encouraged to provide detailed information on all discretionary budgetary measures with an estimated budgetary impact above 0.05% of GDP.

DBPs should also contain information on the estimated budgetary impact of discretionary measures at the level of each sub-sector, included in tables 5.a, 5.b and 5.c of the Annex. The budgetary impact of all measures is to be recorded in terms of the incremental impact –as opposed to recording the budgetary impact in terms of levels- compared to the previous year baseline projection. This implies that simple permanent measures should be recorded as having an effect of $\pm X$ in the year(s) they are introduced and zero otherwise, i.e. the overall impact on the level of revenues or expenditures must not cancel out. If the impact of a measure varies over time, only the incremental impact should be recorded in the table³. By their nature, one-off measures should be always recorded as having an effect of $\pm X$ in the year of the first budgetary impact and $\mp X$ in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years must be zero⁴.

Depending on each specific measure, Member States should adapt the dimension of these three tables accordingly, so they contain as many columns as needed to reflect the complete budgetary impact over time. Underlying assumptions used to estimate the budgetary impact of each measure (e.g. elasticities or evolution of the tax base) should also be described in the DBP. Finally, DBPs should also specify the accounting principle on which the data are being reported: by default, they should be reported on accrual basis, but, if impossible, it should be indicated explicitly that the value reported is based on cash reporting.

D. Union's Strategy for growth and jobs targets and Country Specific Recommendations

Details on how the measures adopted address the CSRs or the national targets in accordance with the Union's strategy for growth and jobs are included in tables 6.a and 6.b of the Annex.

E. Indications on the expected distributional impact of the main expenditure and revenue measures

Information on the expected distributional impact of the main expenditure and revenue measures should also be specified in DBPs, according to Article 6(3)(d) of Regulation (EU) No 473/2013.

Whereas the majority of Member States already include in their budgets qualitative considerations on the distributional impact of fiscal measures, quantitative estimations are much less common. Certainly, quantifying the distributional impact of budgetary measures is a challenging task. For this reason no standardized table on this aspect of DBPs is included in the Annex; on the contrary, Member States should provide, to the extent possible, qualitative information and quantitative estimations on the distributional effects of budgetary measures, presented as best fits each Member State's specific measures and available analytical frameworks.

F. Comparison between DBP and the most recent Stability Programme

Table 7 of the Annex compares the budgetary targets and projections at unchanged policies in the DBP with those of the latest SP. Possible differences in past and planned data with respect to those in the SP should be duly explained.

³ For instance: a measure which takes effect in July of year t may have a total impact of 100 in the first year and 200 in the years after. In the reporting tables, this should be recorded as +100 in year t and again +100 (the increment) in year $t+1$. The total impact of a measure in a given year can be derived as the cumulative impact of the increments since its introduction.

⁴ One-off measures covering more than one year (e.g. a tax amnesty generating income in two consecutive years) should be recorded as two separate measures, one as a measure having its first impact in t and one having its first impact in $t+1$.

G. Methodological Annex

Finally, Table 8 in the Annex contains the methodological aspects that should be included in the DBP. These should include details on the different estimation techniques applied along the budgetary process, together with its relevant features and the assumptions used. In case the estimated impact of aggregated budgetary measures on economic growth has not been reported in Table 1.a, it should be specified in this Annex.

3. GUIDELINES ON THE FORM AND CONTENT OF DEBT ISSUANCE REPORTS.

Following Article 8(2) of Regulation (EU) No 473/2013, this section provides a harmonised form and content for euro area Member States to report on their national debt issuance plans.

In order to place the national debt issuance plans in a fiscal surveillance framework they should be accompanied by general information on the overall financing needs of the central budget. Therefore, two reports are to be submitted: an annual and a quarterly report.

Given the need for flexibility in changing market conditions, the forward-looking information in these reports is understood to be indicative and subject to market conditions. The reports should in principle not be disseminated to the public, given the potential sensitivity of this information.

1. The annual report should contain:
 - general information on the overall financing needs of the central budget, such as (i) redemptions of securities with an original maturity of one year or more; (ii) stock of securities with an original maturity of less than one year; (iii) net cash financing; and (iv) cash deficit/surplus,
 - the issuance plans for the next year including the break-down into short-term and medium- to long-term securities,
 - and the central government ESA based deficit/surplus for the year to come following the template provided below.

Table III – Template to be contained in annual debt issuance reports⁵

Total funding requirement (EUR million)							Financing plan (EUR million)				
Redemptions of securities with an original maturity of one year or more	Stock of T-bills and CPs at the end of the previous year	Net cash financing	Total re-financing needs	Cash deficit / surplus	Other	Total	Change in the stock of short-term debt (T-bills and CPs)	Medium to long-term	Other	Total	ESA deficit / surplus (S.1311) (EUR million)
(1)	(2)	(3)	(4 = 1+2+3)	(5)	(6)	(7 = 4+5+6)	(8)	(9)	(10)	(11 = 2+8+9+10)	(12)

⁵ Provision of data on variables in bold characters is a requirement. Provision of data on other variables is optional but highly desirable.

All the amounts should be expressed in million euros. The report should be submitted to the Commission at least one week before the end of the calendar year.

2. The quarterly report should present the issuance plans, per quarter (non-cumulative) including the breakdown into short-term and medium- to long-term securities. It should cover gross issuance as well as net issuance. Issuance plans for the quarter(s) to come (q+1) should be accompanied by data on actual issuance in the preceding quarter (q-1) as well as the estimate of issuance for the current quarter (q) following the template provided below. While, in principle and under more normal market conditions, foreseen issuance plans should be reported for several quarters ahead, under the current market conditions such issuance forecasts might be difficult to make or be of limited informational value. Therefore, it is suggested that only the immediate quarter ahead would be subject to such reporting.

Table IV – Template to be contained in quarterly debt issuance reports^{6,7}

	Financing plan (EUR million)										
	Gross issuance				Redemptions				Net issuance		
	Short-term (T-bills & CP)*	Medium-to long-term	Other	Total	Short-term (T-bills & CP)	Medium-to long-term	Other	Total	Short-term (T-bills & CP)	Medium-to long-term	Other
	(1)	(2)	(3)	(4= 1+2+3)	(5)	(6)	(7)	(8= 5+6+7)	(9=1-5)	(10=2-6)	(11=3-7)
q-1 (preceding quarter)	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>	<i>actual data</i>
q (current quarter)	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
q+1 (next quarter)	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>	<i>plan</i>

* Please report here the actual issuance, i.e. including multiple counting of 1-month bill rollover

All the amounts should be expressed in million euros. The report should be submitted to the Commission at least one week before the beginning of the next quarter.

The quarterly periodicity of issuance plans reporting is considered to strike the right balance between, on the one hand, increasing the transparency and predictability of funding plans, and, on the other hand, leaving enough flexibility for issuance policies and procedures.

Where data are available, Member States are encouraged to provide comparable templates with similar information concerning national agencies and regional or local governments.

⁶ Provision of data on variables in bold characters is a requirement.

Provision of data on other variables is optional but highly desirable.

Provision of data on cash management instruments (such as CPs or repos) is a requirement for backward looking data (for q and q-1). Provision of data on cash management instruments on forward looking data (q+1) is optional but highly desirable.

⁷ The reporting horizon will be revisited in dependence of a stabilisation of conditions on European sovereign debt markets.