



## Press Release

Luxembourg, 4 December 2019

### EU fiscal governance: requirements for Member States need to be strengthened further and better monitored, say Auditors

The EU needs to further strengthen its legal requirements for national budgetary frameworks and better monitor how Member States put them into practice, according to a new report from the European Court of Auditors (ECA). In several respects the requirements are softer than international standards and the European Commission has so far only limited knowledge about whether countries apply them properly. The auditors also warn against the risk of inconsistency between the Commission's and independent fiscal institutions' (IFIs) assessment of countries' compliance with EU fiscal rules, as well as of the limited effectiveness of the European Fiscal Board due to the fact that it is not fully independent from the Commission.

To remedy the root cause of the financial crisis and improve fiscal governance, particularly in the euro area, the Commission sought to complement the EU fiscal framework with binding national provisions. Amongst other things, it required Member States to set up IFIs, national fiscal rules and multi-annual budgetary frameworks. The auditors examined whether the EU requirements strengthened the national budgetary frameworks and whether the Commission assessed how the Member States applied them.

*"The EU's legislative action provided an impetus to strengthening the way the Member States conduct their fiscal policies," said Mihails Kozlovs, the ECA Member responsible for the report. "However, the EU legal framework governing the national budgetary frameworks is fragmented and leaves room for improvement."*

The number of national fiscal rules and IFIs increased significantly following the first EU directive in 2011, which set minimum requirements for Member States' budgetary frameworks. However, the auditors found that a number of requirements fall short of the standards and best practice set by the IMF and OECD, in particular on Member States' medium-term budgetary frameworks and IFIs. If the new EU directive proposed in 2017 is approved, it would correct many of the weaknesses identified, but not all. One example highlighted by the auditors is the correction mechanism; the definition of the circumstances under which it is to be activated remains vague.

The Commission has experienced delays in verifying whether the national legislation complies with EU requirements, for a number of reasons but also because of factors beyond its control.

*The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at [eca.europa.eu](http://eca.europa.eu).*

## ECA Press

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Furthermore, its assessments of how the Member States actually implement these requirements have either not yet been carried out or came too early to be meaningful, and are therefore of limited informative value, say the auditors. Currently, the Commission’s monitoring relies on the information provided by the Member States, which mainly focus on the institutional set-up rather than on the actual functioning of the budgetary frameworks.

IFIs verify their countries’ compliance with national fiscal rules and some also verify compliance with EU fiscal rules. In the latter case, there have been instances where the Commission and IFIs came to different conclusions. One reason for this is that the Commission can make use of its discretionary power and accept “exceptional circumstances” as a justification for softening the adjustment requirements for the countries that have not yet reached their medium-term budgetary objectives.

The report stresses that the establishment of the European Fiscal Board – tasked to assess the EU fiscal framework and whether the fiscal stance at euro-area and national level is appropriate – was a good step. However, there is room for strengthening its role and independence. The board is currently an advisory body to the Commission, which is not bound by the “comply-or-explain” principle and can ignore the board’s proposals and recommendations without providing any reason or appropriate explanation.

The auditors recommend that the Commission:

- review EU requirements for national budgetary frameworks and take account of international standards and best practices;
- enhance assurance on the functioning of budgetary frameworks;
- improve cooperation with the IFIs to minimise divergences in compliance assessments;
- strengthen the European Fiscal Board.

### Notes to Editors

Member States retain their sovereignty on budgetary policies, but coordination of the policies is needed to avoid negative spill-overs and threats to monetary stability in the euro area. The Commission assesses compliance with EU fiscal rules of Member States’ draft budgetary plans and stability and convergence programmes.

National budgetary frameworks are the arrangements, procedures, rules and institutions underlying budgetary policies, including statistics, forecasts, annual budgeting, medium-term budgetary frameworks, IFIs, fiscal rules and the correction mechanism.

Special report 22/2019: “EU requirements for national budgetary frameworks: need to further strengthen them and to better monitor their application” is available on the ECA website ([eca.europa.eu](http://eca.europa.eu)) in 23 EU languages. The ECA previously examined the corrective and preventive arm of the Stability and Growth Pact, as well as the macroeconomic imbalance procedure.

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