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COVER NOTE

From:	General Secretariat of the Council
To:	COUNCIL
Subject:	Specifications on the implementation of the Two Pack (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, *and*, Regulation (EU) No 472/2013 of the European Parliament and of the Council 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) and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports.

Delegations will find attached the document Specification 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 as agreed by the Economic and Financial Committee.

Encl.:

Specifications on the implementation of the Two Pack (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, ***and*****, Regulation (EU) No 472/2013 of the European Parliament and of the Council 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)**

and

Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports.

1 July 2013

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[1,2] See COM(2013) 490, *Communication from the Commission*, 'Harmonized framework for draft budgetary plans and debt issuance reports within the euro area', Brussels, 27.06.2013.

INTRODUCTION

The new legislation on economic governance, the so-called Two Pack, has entered into force on 30 May 2013.

The Two Pack consists of two Regulations: 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 (*hereinafter, Regulation 1*) and, Regulation (EU) No 472/2013 of the European Parliament and of the Council 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 (*hereinafter, Regulation 2*).

These two new Regulations contribute to strengthening the surveillance mechanisms applicable to all Member States in the Euro Area (EA), while at the same time establish a comprehensive and better aligned surveillance regime for those Member States in the EA threatened with or experiencing serious difficulties with respect to their financial stability, those in receipt of financial assistance, and those that are in the process of exiting such assistance.

The Two Pack builds on and complements the Stability and Growth Pact (SGP), the European framework for fiscal surveillance.

Regulation 1 applies to all Member States in the EA, with special provisions made for those which are subject to an excessive deficit procedure (EDP). According to this Regulation, all EA Member States will follow a common budgetary timeline and common budgetary rules; in particular, the soundness of national budgetary processes will be enhanced with the obligation to be based on independent macroeconomic forecasts and to set up independent bodies to monitor compliance with national fiscal rules, including the functioning of the automatic correction mechanism called for by the Treaty on Stability, Coordination and Governance in the Economic and Monetary union (TSCG). As part of this common timeline, a new coordinated surveillance exercise will take place annually in the Autumn. This Regulation also fosters a better coordination of national debt issuance plans, establishing a reporting obligation that concerns all EA Member States. For EA Member States in EDP, *Regulation 1* introduces additional reporting requirements that will complement those already envisaged in the SGP, allowing for an enhanced monitoring. In this sense, EA Member States in EDP should submit an economic partnership programme describing the structural reforms needed to ensure an effective and lasting correction of the excessive deficit.

Regulation 2 strengthens the monitoring and surveillance procedures for EA Member States experiencing or threatened with serious difficulties with respect to their financial stability, including those EA Member States in receipt of financial assistance and those in the process of exiting such assistance. The strength of the monitoring and the surveillance will depend on the severity of a Member State's particular situation. Surveillance of budgetary policy will build on but go further than the requirements for Member States under an EDP.

These Guidelines consist of four sections and two annexes and concern Member States whose currency is the euro. The first section elaborates on the fiscal surveillance aspects of the implementation of *Regulation 1* and *Regulation 2.* The subsequent sections consist of guidelines on the content and format of draft budgetary plans, debt issuance reports and economic partnership programmes respectively. Annex I presents standardized tables to be contained in draft budgetary plans, for data required in accordance with Article 6 of *Regulation 1*. Finally, Annex II details some considerations for the national arrangements framing the involvement of independent bodies in the production or endorsement of macroeconomic forecasts pursuant to *Regulation 1*.

SECTION I. SPECIFICATIONS ON THE IMPLEMENTATION OF THE TWO PACK

The new fiscal surveillance features stemming from the Two Pack for EA Member States are five-fold:

- The new common budgetary provisions of *Regulation 1* include a common budgetary timeline according to which, by 15 October every Autumn, all Member States in the EA will make public their draft budgets for the forthcoming year for the central government and the main parameters of the draft budgets for all the other sub-sectors of the general government. By that same date, 15 October, all Member States in the EA will submit the draft budgetary plans (DBPs) for the forthcoming year, along with the independent macroeconomic forecast on which they are based. For each EA Member State, the Commission will issue an opinion on the DBP before the final adoption of the budget; in case of particularly serious non-compliance of a plan with the obligations under the SGP, a revised dr aft plan will be requested. Based on all DBPs, the Commission will also provide a comprehensive overview of the budgetary outlook of the EA as a whole, to be discussed by the Eurogroup. In addition, this new common budgetary timeline also provides for the budget to be adopted or fixed upon by 31 December each year and for reversionary budget procedures to be put in place to ensure that the government remains able to discharge its essential duties in all circumstances.
- According to the new common budgetary provisions, EA Member States will have in place independent bodies for monitoring compliance with budgetary rules at the national level, including those incorporating the MTO into national law and assessing the functioning of the national automatic correction mechanism. The independent bodies will also play a role in either the production or endorsement of the independent macroeconomic forecasts upon which the budgetary process should be based.
- All EA Member States are required to ex-ante and timely report on their national debt issuance plans.

- More stringent reporting requirements are introduced by *Regulation 1* for all EA Member States under EDPs. Firstly, a graduated monitoring system for EA Member States in EDP is established, in order to ensure a timely correction of excessive deficit. This should allow an early detection of risks that a Member State does not correct its excessive deficit by the deadline set by the Council, so that appropriate action is taken. Secondly, once this Regulation enters into force, any new EDP (or new step in current EDPs) would imply the submission of an economic partnership programme (EPP), i.e. a roadmap for structural reforms instrumental to ensure an effective and lasting correction of the excessive deficit.

- The fiscal dimension of the enhanced monitoring and surveillance established in *Regulation 2* builds on but goes further than the requirements for Member States under an EDP. The intensity of the fiscal surveillance is proportionate to the severity of the financial difficulties encountered and to the nature of the financial assistance received. Accordingly, the fiscal monitoring of Member States subject to enhanced surveillance differs from that applicable to Member States subject to a macroeconomic adjustment programme or to post-programme surveillance.

This section details the implications of these new provisions in the following subsections: those concerning all EA Member States (subsection A), new provisions concerning EA Member States in EDP (subsection B) and new provisions concerning EA Member States in financial difficulties (subsection C).

A. NEW PROVISIONS CONCERNING ALL EURO AREA MEMBER STATES.

The new requirements introduced by *Regulation 1* concerning all EA Member States include the annual adoption of national medium-term fiscal plans and submission of DBPs, the setting-up of independent fiscal bodies, the use of independent macroeconomic forecasts and reporting on debt issuance plans. However, Member States subject to a macroeconomic adjustment programme are required neither to submit DBPs nor to report on national debt issuance plans.

The following subdivisions provide some specifications for each of these new obligations.

A.1 National medium-term fiscal plans (Article 4 of *Regulation 1*)

As a first step of the new common budgetary timeline, Member States will make public their national medium-term fiscal plan at the same time as their Stability Programme (SP) and national reform programmes preferably by 15 April and no later than 30 April. The national medium-term fiscal plan and the stability programme can be the same document.

National medium-term fiscal plans are targeted at the national audience and aim at enhancing national ownership of the fiscal strategy. Given their national dimension, there is no specific guideline on the format and content of such plans, however, they should comply with the minimum requirements set-up by Directive 2011/85/EU.

According to *Regulation 1*, they should be published at the same time as SPs, contain at least the information required for the SPs, be based on independent macroeconomic forecasts and include information on how the reforms and measures set out are expected to contribute to the targets and national commitments established within the framework of the Union's Strategy for growth and jobs. They should also indicate whether the budgetary forecasts have been produced or endorsed by an independent body. Their content should be consistent with the framework for economic policy coordination in the context of the annual cycle surveillance, as established in Article 4 of *Regulation 1.* Additionally, indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact should be included either in these national medium-term fiscal plans or in the National Reform Programmes.

A.2 Assessment of DBPs.

All EA Member States will make public their draft budget for the forthcoming year no later than 15 October every year. By that same date, they must submit their DBP to the Commission and the Eurogroup. Whereas the draft budget is a national act that, according to national procedures typically involving the national parliament, proposes the nature, amount and allocation of the resources of the State, the DBP is a synthetic document presenting the main aspects of the budgetary situation of the general government and its sub-sectors for the year to come.

According to Article 6 of *Regulation* 1, the DBP will be consistent with the recommendations issued in the context of the SGP and the annual cycle of surveillance, including the macroeconomic imbalances procedure as established by Regulation (EU) No 1176/2011.

As described in Article 6(3) of *Regulation 1*, DBPs will provide detailed information on budgetary policy measures for the year to come. Guidelines on DBPs' content and format are contained in section II.

The DBPs will be assessed by the Commission, taking into account to the extent possible the specific national fiscal schedule and parliamentary procedures. Two assessments will be provided: an opinion on each Member State's DBP and an overall assessment of the budgetary situation and prospects of the EA as a whole. This latter exercise mirrors the horizontal assessment of Stability and Convergence Programmes taking place in Spring, but, instead of looking at medium-term fiscal plans, it will be focusing only on the year to come. Its main purpose will be to focus on the adequacy of draft measures contained in the DBP to comply with SGP requirements and existing country-specific recommendations. It will also include additional elements such as sensitivity analyses that provide indications of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments. Thus, the Autumn exercise provides an important milestone to assess whether the orientations contained in the SPs and assessed by the European Commission and the Council during the European Semester have been translated into concrete plans.

Commission opinions on national DBPs concern all EA Member States, either indicating a positive assessment of the plan or pointing out underlying risks which could stem from its implementation, with the possibility to request a revised plan in case of particularly serious non-compliance with the SGP. Particularly serious non-compliance could be found in the following situations. These examples are non-exhaustive:

– If an obvious breach of the criteria laid down in Article 126(2) of the TFEU would follow from the implementation of the DBP;

– For Member States in the preventive arm of the SGP, if the fiscal effort envisaged in the DBP falls clearly short of the fiscal effort recommended by the Council in accordance existing Council recommendation issued in accordance with Article 121(4) of the TFEU;

– For Member States in the corrective arm of the SGP, if the fiscal effort envisaged in the DBP, i.e. the forecast change in the structural balance, falls clearly short of the recommended fiscal effort by the Council in accordance with Article 126(7) or 126(9) TFEU;

– Where the implementation of the initial budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardizing the proper functioning of the economic and monetary union.

The opinions are to be adopted by the Commission, made public and be presented to the Eurogroup. The Commission may also present its opinion to the Parliament of the Member State concerned and/or to the European Parliament at their request.

The timeline for the Commission's assessment and corresponding actions to be taken are presented in Table I:

Table I – Process for the Autumn assessment of DBPs (Article 7)

By when?	Who?	What?
15 October	Each Member State	Submits its DBP

Individual assessment of DBPS	***Normal process***		
	End-November ***at the latest***	Commission	Adopts an Opinion on each DBP
	If Commission detects particularly serious non-compliance with SGP obligations in a DBP		
	1 week of submission *[indicative: 23 October]*	Commission	Consults the Member State concerned
	2 weeks of submission *[indicative: 30 October]*	Commission	Adopts an Opinion requesting a revised DBP to be submitted within 3 weeks
	3 weeks of the date of Commission's Opinion at the latest *[indicative: 21 November at the latest]*	Member State concerned	Submits a revised DBP
	3 weeks of submission of revised DBP at the latest *[indicative: 12 December at the latest]*	Commission	Adopts a new Opinion on revised DBP
No fixed deadline *(in principle end-November)*		Commission	Overall assessment of the budgetary situation and prospects in the EA as a whole, on the basis of national DBPs and their interaction.

A.3 The setting-up of independent bodies (Article 2(1)(a) and Article 5 of *Regulation 1*).

Regulation 1 mandates the setting-up of independent bodies, spelling out principles to ensure the independence of these bodies. As established in Article 2(1)(a), ' "independent bodies" means bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability, including:

(i) a statutory regime grounded in national laws, regulations or binding administrative provisions;

(ii) not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body;

(iii) the capacity to communicate publicly in a timely manner;

(iv) procedures for nominating members on the basis of their experience and competence;

(v) adequate resources and appropriate access to information to carry out their given mandate;'

According to *Regulation 1*, these independent bodies have two major roles to play, which can be fulfilled by a single independent body or different ones. Firstly, they should produce or endorse the macroeconomic forecasts underpinning the budgetary process. Secondly, they should monitor Member States' compliance with national fiscal rules, including those rules incorporating in the national budgetary processes their medium-term budgetary objective (MTO) and the related activation of the correction mechanism linked to significant deviations from the MTO or the adjustment path towards it. In this sense, *Regulation 1* echoes Article 6(1) of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States and Principle (7) of the Communication from the Commission on the common principles on national fiscal correction mechanisms[3].

[3] COM(2012)342: *Communication on common principles for national fiscal correction mechanisms*. Following-up on Articles 3(1)(e) and 3(2) of the Treaty on Stability, Coordination and Governance in the EMU (TSCG), this Communication establishes that independent bodies acting as monitoring institutions should support the credibility and transparency of the correction mechanism.

Box. The role of independent fiscal institutions

With the strengthening of the legal framework regarding fiscal governance in the EU, independent fiscal institutions have gradually become a prominent feature of national fiscal frameworks. This development is supported in a coherent way by several provisions in the "Six Pack", the inter-governmental TSCG and more recently the "Two Pack".

First, the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States established that effective and **timely monitoring of compliance with the national numerical fiscal rules** should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States (Article 6(1)(b)). This requirement applies to all Member States except the United Kingdom.

Second, the Member States that are bound by the provisions in Title III of the TSCG have agreed upon involving national independent bodies in **monitoring compliance with the structural budget balance rule enshrining the medium-term budgetary objective** (MTO) at national level (Article 3(2)), including as regards the **associated correction mechanism**. Further specifications on this role stemming from the TSCG provisions are laid down in the Commission Communication COM(2012)342 on common principles on the national fiscal correction mechanism, namely as regards: i) the carrying out of assessments related to activating the correction mechanism, monitoring whether the correction is proceeding in accordance with national rules and plans as well as to triggering, extending or exiting escape clauses; ii) the obligation of Member States to comply or alternatively explain publicly why they are not following the assessments of the independent bodies; iii) features ensuring a high degree of functional autonomy (Principle 7).

Third, *Regulation 1* of the "Two-Pack" further reinforces the role of independent fiscal institutions in the EA Member States by firmly anchoring in the EU law the definition, independence-related features and tasks of such bodies, in correlation with the relevant provisions of the Council Directive 2011/85/EU and the TSCG. In particular, Article 5 of *Regulation 1* lays down the following key functions: i) **monitoring compliance with numerical fiscal rules incorporating in the national budgetary processes the MTO and numerical fiscal rules as referred to in the Council Directive 2011/85/EU; ii) providing public assessments with respect to national fiscal rules**, inter alia relating to activation of the correction mechanism for cases of significant observed deviation from the MTO or the adjustment path towards it, monitoring whether the correction is proceeding in accordance with national rules and plans as well as the occurrence and cessation of circumstances allowing a temporary deviation from the MTO or the adjustment path towards it.

<u>A.4 Production or endorsement of independent macroeconomic forecasts (Article 2(1)(b) and Article 6(3)(f) of *Regulation 1*).</u>

According to *Regulation 1*, DBPs, national medium-term fiscal plans and draft budgets should be based on independent macroeconomic forecasts, which are those produced or endorsed by independent bodies in the sense of Article 2(1)(a). Member States are required to communicate whether those independent macroeconomic forecasts are either produced or endorsed by the independent body.

According to Article 4(4) of *Regulation 1,* Member States may decide to involve the independent body in the preparation of the budgetary forecasts (either by production or endorsement), or on the contrary, assign the development of these budgetary forecasts to another institution with no further involvement of the independent body. In this sense, Member States are therefore required to report in their national medium-term fiscal plans whether the independent body was involved in the preparation of budgetary forecasts (through their production or their endorsement) or not. These budgetary forecasts will be made public together with the national medium-term fiscal plans and the draft budgets that they underpin.

Member States will define and adopt transparent procedures for the independent production/endorsement of the macroeconomic forecasts underpinning the budgetary process, therefore setting out specific criteria and procedural safeguards in accordance with the provisions of Chapter III of Council Directive 2011/85/EU[4]. The following paragraphs outline key milestones that Member States should consider when deciding on the precise internal procedures.

[4] Hard-wiring the essential features of these procedures in legislation would be the preferred choice to ensure process clarity, stability and transparency, as well as effective compliance; however, given the markedly technical characteristics of the forecasting process, additional elements may be specified through other means (e.g. administrative procedure, budgetary circular/order).

In the case of macroeconomic forecasts produced by the independent body, the latter should have in place a dedicated procedure for this purpose, in accordance with Directive 2011/85/EU, which should be consistent with the stages of the national budgetary process and related timetable. The Ministry of Finance should provide support to facilitate the production of the macroeconomic forecasts by the independent body, such as access rights to relevant budgetary information, including budgetary execution data. Additionally, the national legislation or the internal procedures of the Ministry of Finance should define rules governing the handling of forecasts received from the independent body.

Analogously, for the macroeconomic forecasts produced by public sector entities and submitted for endorsement to the independent body, Member States should lay down implementing aspects of the endorsement process (including deadlines for action and the consequences arising from the forecast-related decisions of the independent body), without prejudice to the independent assessment of the endorsing body. The independent body should make clear whether it endorses or not the forecasts and provide the underlying justifications. It is understood that, while the endorsement would enable the use of the respective forecasts for fiscal planning purposes, a negative decision would typically trigger a review of the forecasts in the light of comments issued by the independent body. A revised forecast may be produced and submitted for assessment to the independent body, which would have to issue a new decision.

Irrespective of the choice of having forecasts produced or endorsed independently, Member States should have in place specific mechanisms to cope with situations in which there are different views between the independent body and the Ministry of Finance on the main variables of the forecast. These could, for example, take the form of arrangements to reach an agreement.

In order to support the setting up or strengthening of effective national arrangements framing the involvement of independent bodies in the production or endorsement of macroeconomic forecasts, some optional considerations and suggestions are provided in Annex II.

<u>A.5 Reporting on debt issuance plans (Article 8 of *Regulation 1*).</u>

EA Member States are required to ex-ante report on their national debt issuance plans to the Commission and the Eurogroup. According to Article 8 of *Regulation 1*, the harmonised form and content of these report requirements should be laid down by the Commission in cooperation with the Member States.

Against this background, Section III sets out some Guidelines on the implementation of this provision.

B. NEW PROVISIONS concerning Euro Area Member States in EDP.

The reporting requirements set out below concern all EA Member States in EDP, with the exception of those subject to a macroeconomic adjustment programme in accordance with Article 7 of *Regulation 2*.

<u>B. 1 Additional reporting by EDP Member States.</u>

Article 10 of *Regulation 1* allows the Commission to request the activation of additional reporting requirements in the form of a letter, when recommending to the Council to place a Member State in EDP.

These more stringent reporting requirements by the Member State come on top of the reporting on action taken already foreseen by Regulation 1467/97, as explained in Table II:

Table II – EDP reporting obligations added by the Two Pack for EA Member States.

<table>
<tr><th>SGP reporting required by Regulation 1467/97 (as reformed by the Six-Pack)</th><th>ADDITIONAL reporting required by Regulation 1upon request by the Commission</th></tr>
<tr><td colspan="2">Within deadline set in 126(7) TFEU recommendation (max. 6 months), report on action taken to correct the excessive deficit</td></tr>
<tr><td>(Article 3(4)(a)) Targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets.</td><td>(Article 10(2)) Comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors. The financial risks associated with contingent liabilities with potentially large impacts on public budgets, as referred to in Article 14(3) of Directive 2011/85/EU should also be covered by the assessment to the extent that they may contribute to the existence of an excessive deficit.</td></tr>
<tr><td></td><td>6 months later and every 6 months until abrogation/stepping up</td></tr>
<tr><td></td><td>(Article10(3)) For the general government and its sub-sectors, in-year budgetary execution, budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, and information on the measures adopted and the nature of those envisaged to achieve the targets. The specific content of these reporting requirements will be detailed in a delegated act.

If subject to an Article 11(2) Commission recommendation for adoption of further measures because compliance with correction by the deadline is at risk: (Article 11(3)) Report on measures adopted in response to this recommendation, including the budgetary impact of all discretionary measures taken, targets for the government expenditure and revenues, information on the measures adopted and the nature of those envisaged to achieve the targets, and information on the other actions being taken in response to the Commission recommendation</td></tr>
</table>

Following 126(9) TFEU decision to give notice, report on action taken in response thereto	
(Article 5(1)(a)) Same as under Article 3.4a plus information on the actions being taken in response to specific Council recommendations in the decision to give notice.	
	3 months later and every 3 months until abrogation
	(Article 10(5)) Same content as biannual report following 126(7) TFEU recommendation, plus information on the actions being taken in response to the Council decision to give notice.
Within the deadline set by the Commission	
(Article 10(a)) If Member State subject to 126(8) or 126(11) decisions, all necessary information to prepare and conduct on-site monitoring missions.	*(Article 10(6)(a))* Comprehensive independent audit of the public accounts of all subsectors of the general government conducted preferably in coordination with national supreme audit institutions, aiming to assess the reliability, completeness and accuracy of those public accounts for the purposes of the excessive deficit procedure. *(Article 10(6)(b))* Any available additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.

B. 2 New recommendation by the Commission in case of risks of non-compliance with the deadline to correct the excessive deficit.

An important dimension of the EDP is the regular monitoring and assessment by the Commission of the Member State's compliance with EDP recommendations on the basis of the Member State's reporting on action taken, Commission forecasts and the Member States' plans, as described for example in the SP or the DBP.

When assessments are positive, the procedure is held in abeyance; when negative, the Commission recommends that the Council decides on non-effective action and the EDP is stepped-up. So far, for cases in-between, when risks to the correction were detected, warnings have been sent to the authorities to encourage them to take additional measures in order to prevent their procedure from being stepped-up at a later stage.

As a new provision included in Article 11(2) of *Regulation 1*, in the case of a risk of non-compliance with the deadline to correct the excessive deficit, the Commission may address an autonomous recommendation to the Member State regarding full implementation of the measures provided for in the recommendation under Article 126(7) TFEU or the decision to give notice under Article 126(9) TFEU, adoption of other measures, or both, within a timeframe consistent with the deadline for the correction of its excessive deficit. This additional recommendation would also define a timeframe for the Member State to publicly report on action taken.

B. 3 Implications of the new provisions for Commission actions under Article 126.

Some of the new provisions introduced by *Regulation 1* will be taken into account by the Commission in the context of the EDP, as they will enrich its assessment. In particular, as established in Article 12 of this Regulation:

- Compliance with the Commission's opinion on the DBP will be taken into consideration in the stages leading to the opening of an EDP:

- o when drafting a report under Article 126(3);
- o when recommending a Council decision under Article 126(6) and the imposition of a non-interest bearing deposit after the opening of an EDP.

– Compliance with any autonomous Commission recommendation, issued in accordance to Article 11(2) of *Regulation 1*, will be taken into account when monitoring and considering whether effective action has been taken in response to Article 126(7) TFEU recommendation or Article 126(9) TFEU decision to give notice. In particular, (non-) compliance with such autonomous Commission recommendation will be considered as a mitigating (aggravating) factor in the eventual careful analysis of the reasons for the shortfall with respect to the recommended target.

B.4 Economic partnership programmes (Article 9 of *Regulation 1*).

Excessive public deficit may be partially rooted on structural weaknesses. Therefore, budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit. In this sense, *Regulation 1* provides for economic partnership programmes (EPPs) to be submitted by Member States in which an EDP is opened. Specifically, any new EDP (or, according to Article 17(2), any new step in EDPs already opened at the time the Two Pack enters into force) will trigger the submission of an EPP, defined as a roadmap for the structural reforms instrumental to an effective and lasting correction of the excessive deficit.

EPPs should build on the overall national strategy as described in the National Reform Programme. They should identify specific priorities enhancing competitiveness and long-term sustainable growth and addressing structural weaknesses, and detail the main fiscal structural reforms in particular those referring to taxation, pension and health systems and budgetary frameworks that will be instrumental to correct the excessive deficit in a lasting manner. Where appropriate, the EPPs should identify the potential financial needs and resources.

The EPP should be developed by the concerned Member State in view of its specific situation. Given the range of possible situations and the importance of national ownership of such programmes, this Code of Conduct does not provide specific instructions for the content and timeline of such programmes. To ensure cross-country consistency of EPPs, a model structure is included in Section IV.

Taking into account that structural weaknesses to be identified in EPPs may already be contained in the concerned Member State's Country Specific Recommendations (CSRs) and, as such, may already be subject to surveillance in the context of the European Semester, the EPP should be considered as a focused update of the SP and the National Reform Programme (NRP), taking into account CSRs.

In order to streamline procedures, *Regulation 1* envisages some EPPs' specificities when a Member State enters into an Excessive Imbalances Procedure (EIP) or is already in one. In these cases: (i) the EPP would be subsumed as appropriate in and replaced by the corresponding Corrective Action Plan – if the Member State enters into an EIP after drafting the corresponding EPP, or (ii) when an EIP already exists at the time the EPP should be submitted, the Corrective Action Plan will stand for it or may be adapted where relevant and thus, there is no longer an obligation to submit it[5].

<u>Submission and endorsement process</u>.

According to *Regulation 1*, it is the Council decision on the existence of an excessive deficit that triggers the submission of an EPP. Thus, EPPs are envisaged as a 'one-off' document to be submitted when the EDP is opened, detailing the policy priorities and the fiscal structural strategy designed to accompany the correction of the excessive deficit situation.

[5] The opening of an EDP qualifies as a "relevant major change in economic circumstances" in the sense of Article 9(4) of Regulation EU No 1176/2011, which in turn allows for a revision of the Corrective Action Plan, according to the same Regulation.

Regulation 1 states that Member States should submit their programme to the Commission and the Council along with the report on action taken they provide in the context of the EDP, in response to Article 126(7) TFEU Council recommendation.[6] As established in *Regulation 1*, the Council, acting on a proposal from the Commission, will adopt an opinion on the EPP.

[6] Or, as a transitional provision, for Member States already in EDP when the Two Pack enters into force, and where any further step is being taken in the context of the EDP, the EPP should be submitted together with the report on action taken in response to the Council decision to give notice under Article 126(9) TFEU.

Monitoring.

In order to streamline procedures, the monitoring of EPPs' implementation will be based on Member States reporting in NRP and/or SP, as appropriate, within the context of the European Semester. Reforms set out in the EPP would therefore be expected to be further taken up in the following updates of the NRP and SP.

In case the concerned Member State is subject to an EIP, the provisions set out in Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances will apply instead. Similarly, Member States subject to a macroeconomic adjustment programme will not submit an EPP in case they enter in EDP or are already in one, as the macroeconomic adjustment programme should substitute it.

C. BUDGETARY SURVEILLANCE CONCERNING EURO AREA MEMBER STATES IN FINANCIAL DIFFICULTIES.

As stated above, *Regulation 2* strengthens the monitoring and surveillance procedures for Member States experiencing or threatened with serious difficulties with respect to their financial stability, Member States in receipt of financial assistance, and Member States in the process of exiting such assistance. As this strengthened surveillance encompasses also a fiscal dimension, -which builds on the requirements under an EDP but goes beyond them-, this Regulation also introduces new provisions to be duly considered.

The fiscal side of this strengthened surveillance is modulated according to the severity of the financial difficulties faced by the Member State and to the nature of the financial assistance received. In particular, *Regulation 2* envisages three different possible scenarios.

C.1. Member States subject to enhanced surveillance.

Member States subject to enhanced surveillance must, regardless of the existence of an excessive deficit, comply with the additional reporting requirements established in Article 10 (2), (3) and (6) of *Regulation 1*, as detailed above.

In particular, a Member State under enhanced surveillance will:

- Carry out a comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors, as stated in Article 10(2) of *Regulation 1*
- Report regularly on the in-year budgetary execution, the budgetary impact of discretionary measures on the expenditure and revenue sides, targets for the government expenditure and revenues and the measures adopted and envisaged to achieve the targets, according to Article 10(3) of *Regulation 1*;
- Carry out, on a request from the Commission, a comprehensive independent audit of the public accounts, as stated in Article 10(6) of *Regulation 1*.

C.2. Member States subject to a macroeconomic adjustment programme.

Where a Member State requests financial assistance, it is required to prepare together with the Commission, in liaison with the ECB, a draft macroeconomic adjustment programme, unless this assistance is on a precautionary basis, is granted for the recapitalisation of financial institutions or is not accompanied with a macroeconomic adjustment programme under the ESM rules. The Council approves the macroeconomic adjustment programme, on a proposal from the Commission.

Once a Member State is subject to a macroeconomic adjustment programme, and irrespective of the existence of an excessive deficit:

- It will carry out a comprehensive audit of public finances to assess the reasons that led to the building up of excessive debt levels. The scope of this audit will generally be analytical, but it can be extended to include accounting or statistical fields on a case-by-case basis, when this extension is necessary for having an accurate understanding of the Member State's fiscal situation. Additionally, in the cases where financial assistance is requested to the EFSM, the EFSF or the ESM, the Commission, in liaison with the ECB, has to assess the sustainability of government debt and the actual or potential needs of the Member State seeking the financial assistance. This sustainability assessment should be updated to incorporate the impact of the draft corrective measures negotiated with the Member State concerned.

- It will comply with the annual budgetary targets included in the macroeconomic adjustment programme, based on the assessment of the sustainability of the government debt.

- In case there is an EPP for the Member State concerned, the programme will build on and substitute it.

- The implementation of *Regulation 1* is suspended for the Member State subject to a macroeconomic adjustment programme, for the duration of the programme, with the exception of Articles 1 to 5 and 13 to 18.

Programme Member States have their budgetary surveillance framework considerably simplified so as to avoid overlaps and duplications of reporting obligations. In this sense:

- Programme Member States are exempted from submitting a SP (but should submit the SP tables) and are required to integrate the content of such SP into its macroeconomic adjustment programme.

- If the Member State is the subject of a recommendation under Article 126(7) TFEU:

- it is exempted from submitting, as appropriate, the reports on actions taken in response to the 126(7) TFEU recommendation;
- annual budgetary targets set in the macroeconomic adjustment programme will be integrated into the above-mentioned recommendation;
- monitoring of the progress made in the implementation of the macroeconomic adjustment programme replaces monitoring of implementation of action taken by the Member State in response to the recommendation of Article 126(7) TFEU.

– If the Member State is under an Article 126(9) TFEU decision to give notice:

  - it is exempted from submitting, as appropriate, the reports on actions taken in response to the 126(9) TFEU decision to give notice;
  - annual budgetary targets set in the macroeconomic adjustment programme, as well as the measures conducive to those targets will be integrated into the above-mentioned decision to give notice;
  - monitoring of the progress made in the implementation of the macroeconomic adjustment programme replaces monitoring of implementation of action taken by the Member State in response to the decision to give notice of Article 126(9) TFEU.

C.3. Member States under post-programme surveillance.

According to *Regulation 2* a Member State will be under post-programme surveillance until it has repaid at least 75% of the financial assistance received. From the fiscal monitoring perspective, the post-programme surveillance implies that, on a request from the Commission, the Member State must provide the information mentioned in Article 10(3) of *Regulation 1*, as summarized above.

SECTION II. GUIDELINES ON THE FORM AND CONTENT OF DRAFT BUDGETARY PLANS.

Regulation 1 foresees the annual submission of a DBP by each Member State in the EA to the Commission and the Eurogroup no later than 15 October. The requirements for the DBP are described in Article 6 of this Regulation.

According to Article 6(5), the specification of the content of the DBP is set out in a harmonised framework established by the Commission in cooperation with the Member States. The purpose of this section is to provide such harmonised framework.

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

The DBP should essentially 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 Annex I), the corresponding estimates for the current year (*t* in the standardized tables in Annex I) should also be included, together with the outcomes of the previous year (*t-1* in the standardized tables in Annex I), 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. Accordingly, Tables 1a, 1b, 1c, 1d of the DBP, included in Annex I, 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 1*, 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 Annex I. Further main assumptions typically relevant for the production of macroeconomic forecasts are presented in table 0.ii). Member States may find useful to check 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 Annex I. As stated in Article 7(2) of *Regulation 1*, 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 Annex I, 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 Annex I. Bearing in mind the conditions and criteria to establish the expenditure growth to be assessed in accordance with Article 5(1) of Regulation 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 Annex I. 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 1*, 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 Annex I, 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 and social transfers in kind supplied to households via market producers ESA code: D.62, D.6311, D.63121, D.63131), of which, where applicable, unemployment benefits including cash benefits (D.621 and D.624) and in kind benefits (D.6311, D.63121, D.63131) related to unemployment benefits should be also specified.
  - Interest expenditure (ESA code: D.41)
  - Subsidies (ESA code: D.3)
  - Gross fixed capital formation (ESA code: P.51)
  - 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+K.2+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 1* 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 (Alternates composition) 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 Annex I. 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 +/- 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 table[7]. By their nature, one-off measures should be always recorded as having an effect of +/-X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years must be zero.[8]

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[7] 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.

[8] 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.

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 Annex I.

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 1*.

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 Annex I; 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 Annex I 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.

G. Methodological Annex.

Finally, table 8 in Annex I 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.

SECTION III. GUIDELINES ON THE FORM AND CONTENT OF DEBT ISSUANCE REPORTS.

Following Article 8(2) of *Regulation 1*, this section provides a harmonised form and content for EA 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; (iv) cash deficit and (v) net acquisition of financial assets, excluding net cash financing,

   – the issuance plans for the next year including the break-down into short-term and medium- to long-term securities following the template provided below.

Table III – Template to be contained in annual debt issuance reports[9].

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

The report should be submitted to the European 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. Issuance plans for the quarter(s) to come should be accompanied by a report on actual issuance in the preceding quarter as well as the estimate of issuance for the current quarter 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.

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

Table IV – Template to be contained in quarterly debt issuance reports[10,11].

Financing plan (EUR million)				
	Short-term (T-bills + CPs)* **(1)**	**Medium to long-term** **(2)**	**Other** **(3)**	**Total** **(4=1+2+3)**
q-1 (preceding quarter, actual data)	*actual data*	*actual data*	*actual data*	*actual data*
q (current quarter, estimate)	*estimate*	*estimate*	*estimate*	*estimate*
q+1 (next quarter, plan)	*plan*	*plan*	*plan*	*plan*

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

The report should be submitted to the European 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.

All the amounts should be expressed in million Euros.

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

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

[11] The reporting horizon will be revisited in dependence of a stabilisation of conditions on European sovereign debt markets

<u>SECTION IV. GUIDELINES ON THE FORM AND CONTENT OF EPPs.</u>

Regulation 1 mandates that EA Member States entering in EDP should draft and submit an EPP. EPPs should be based on the following model structure:

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1. Introduction [1/2 page]

This section should contain overall information on:

- *The main macroeconomic context.*
- *The overall strategy at national level, including the relation between the measures presented in the EPP and the country-specific recommendations (CSRs).*
- *Potential financial resources, including credit lines of the European Investment Bank and other relevant financial instruments.*

2. Policy measures and structural reforms to accompany the correction of the excessive deficit.

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EPPs should contain the following reporting table, specifically covering the description of the fiscal structural reforms instrumental to an effective and lasting correction of the excessive deficit.

Tables to be contained in the EPPs[12]

Description of the structural reform measures in the fiscal area and information on their qualitative impact

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/ risks in implementing the measures	Qualitative elements

Quantitative assessment of the measures

List of measures	Methodological elements		Quantitative elements				
	Relevant features of the model used/ estimation technique	Main macroeconomic/ simulation assumptions	Main outcome of macroeconomic simulations				
			Variables	Yearly and cumulated effect on GDP and other main macroeconomic variables			
				Year t	Year t+1	Year t+…	Year t+n
			GDP				
			Contribution of production factors to potential GDP (labour capital, TFP)				
			Budgetary impact				

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

Two sub-sets can be distinguished in the reporting template:

- The first table, which should always be included in EPPs, contains the description of the structural reform measures in the fiscal area and information on their qualitative impact. In particular, it should include:
  - A description about the measures' main objectives in terms of fiscal structural policy, and how the measure is relevant to address the excessive deficit situation. An indication on which CSR (if any) each fiscal structural measure relates to.
  - A description synthesising key elements of the measure as well as its coverage.
  - A timetable on the implementation steps expected in the future. Each date should be accompanied by an explanation of what is concretely planned by that date.
  - The main challenges or risks pertaining to the implementation of the measures.
  - A brief qualitative description of the foreseen impacts of the measure and their expected timing, including its budgetary implications, both on the revenue and expenditure side and whenever possible the indirect budgetary impact via the macro-economic effects
- The second table is optional and covers useful information that Member States are encouraged to provide where relevant. This includes:

- Information on the estimated macroeconomic and budgetary impact of the respective fiscal structural measure, expressed as the yearly and/or cumulated effect on the GDP and potential GDP, as well as the policy simulation horizon. The macroeconomic impact of fiscal structural reforms needs to take the form of a number expressing the difference (in percentage points) with respect to the reference scenario, i.e. the scenario that does not include the fiscal structural measures. The budgetary impact should take an analogous form, expressing the change in the general government balance as a percentage of GDP.
- Relevant information on the analytical and methodological approach used in the empirical exercise, such as the type of the model or estimation technique applied (e.g. econometric estimations or simulation based assessments with DSGE/dynamic CGE/static CGE models, etc.) and the sources and frequency of the macroeconomic data used;
- The main macroeconomic and simulation assumptions underlying the estimation;

In this second part of the table, year *t* refers to the current year, that when the EPP is being drafted and submitted.

ANNEX I. MODEL STRUCTURE AND TABLES TO BE CONTAINED IN DRAFT BUDGETARY PLANS.[13]

A. MODEL STRUCTURE FOR DRAFT BUDGETARY PLANS.

1. Macroeconomic Forecasts.

2. Budgetary targets.

3. Expenditure and revenue projections under the no-policy change scenario.

4. Expenditure and revenue targets. General government expenditure by function.

5. Discretionary measures included in the draft budget.

6. Possible links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and CSRs.

7. Comparison with latest Stability Programme.

8. Distributional impact of the main expenditure and revenue measures.

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[13] Provision of data on variables in bold characters is a re quirement
Provision of data on other variables is optional but highly desirable

Annex: Methodological aspects, including the estimated impact of aggregated budgetary measures on economic growth.

B. TABLES TO BE CONTAINED IN DRAFT BUDGETARY PLANS.

1. Macroeconomic forecasts.

Table 0.i) Basic assumptions

	Year t-1	Year t	Year t+1
Short-term interest rate[1] (annual average)			
Long-term interest rate (annual average)			
USD/€ exchange rate (annual average)			
Nominal effective exchange rate			
World excluding EU, GDP growth			
EU GDP growth			
Growth of relevant foreign markets			
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)			

[1]If necessary, purely technical assumptions.

Table 0.ii). Main assumptions. Non-exhaustive check list. (Similar information can be provided in different formats)

	Year t-1	Year t	Year t+1
1. *External environment*			
a. Prices of commodities b. Spreads over the German bond			
2. *Fiscal policy*			
a. General government net lending / net borrowing b. General government gross debt			
3. *Monetary policy / Financial sector / interest rates assumptions*			
a. Interest rates: i. Euribor ii. Deposit rates iii. Interest rates for loans iv. Yields to maturity of 10 year government bonds b. Evolution of deposits c. Evolution of loans d. NPL trends			
4. *Demographic trends*			
a. Evolution of working-age population b. Dependency ratios			
5. *Structural policies*			

Table 1.a. Macroeconomic prospects

	ESA Code	**Year t-1**	**Year t-1**	**Year t**	**Year t+1**
		Level	rate of change	rate of change	rate of change
1. Real GDP	B1*g				
Of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth[1]		---	---		
2. Potential GDP					
contributions:					
- labour					
- capital					
- total factor productivity					
3. Nominal GDP	B1*g				
Components of real GDP					
4. Private final consumption expenditure	P.3				
5. Government final consumption expenditure	P.3				
6. Gross fixed capital formation	P.51				
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53				
8. Exports of goods and services	P.6				
9. Imports of goods and services	P.7				
Contributions to real GDP growth					
10. Final domestic demand			-		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-		
12. External balance of goods and services	B.11		-		

1/ Please report here the estimated impact on real GDP growth of the aggregated budgetary measures contained in the DBP.

Table 1.b. Price developments

	ESA Code	**Year** **t-1**	**Year** **t-1**	**Year** **t**	**Year** **t+1**
		Level	rate of change	rate of change	rate of change
1. GDP deflator					
2. Private consumption deflator					
3. HICP					
4. Public consumption deflator					
5. Investment deflator					
6. Export price deflator (goods and services)					
7. Import price deflator (goods and services)					

Table 1.c. Labour market developments

	ESA Code	**Year t-1**	**Year t-1**	**Year t**	**Year t+1**
		Level	rate of change	rate of change	rate of change
1. Employment, persons[1]					
2. Employment, hours worked[2]					
3. Unemployment rate (%)[3]					
4. Labour productivity, persons[4]					
5. Labour productivity, hours worked					
6. Compensation of employees	D.1				
7. Compensation per employee					
			-		
			-		

1/ Occupied population, domestic concept national accounts definition.

2/ National accounts definition.

3/ Harmonised definition, Eurostat; levels.

4/ Real GDP per person employed.

5/ Real GDP per hour worked.

Table 1.d. Sectoral balances

	ESA Code	**Year t-1**	**Year t**	**Year t+1**
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	% GDP	% GDP	% GDP
of which:				
- Balance on goods and services				
- Balance of primary incomes and transfers				
- Capital account				
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9			
4. Statistical discrepancy				

2. Budgetary Targets.

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	**Year** **t**	**Year** **t+1**
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13		
2. Central government	S.1311		
3. State government	S.1312		
4. Local government	S.1313		
5. Social security funds	S.1314		
6. Interest expenditure	D.41		
7. Primary balance[2]			
8. One-off and other temporary measures[3]			
9. Real GDP growth (%) (=1. in Table 1a)			
10. Potential GDP growth (%) (=2 in Table 1.a)			
contributions:			
- labour			
- capital			
- total factor productivity			

11. Output gap (% of potential GDP)			
12. Cyclical budgetary component (% of potential GDP)			
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)			
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)			
15. Structural balance (13 - 8) (% of potential GDP)			

1/ TR-TE= B.9.

2/ The primary balance is calculated as (B.9, item 8) plus (D.41, item 9).

3/ A plus sign means deficit-reducing one-off measures.

Table 2.b. General government debt developments

	ESA Code	**Year** **t**	**Year** **t+1**
		% GDP	% GDP
1. Gross debt[1]			
2. Change in gross debt ratio			
Contributions to changes in gross debt			
3. Primary balance (= item 10 in Table 2.a.i)			
4. Interest expenditure (= item 9 in Table 2.a.i)	D.41		
5. Stock-flow adjustment			
of which:			
- Differences between cash and accruals[2]			
- Net accumulation of financial assets[3]			
of which:			
- privatisation proceeds			
- Valuation effects and other[4]			
p.m.: Implicit interest rate on debt[5]			

Other relevant variables			
6. Liquid financial assets[6]			
7. Net financial debt (7=1-6)			
8. Debt amortization (existing bonds) since the end of the previous year			
9. Percentage of debt denominated in foreign currency			
10. Average maturity			

1/ As defined in Regulation 479/2009.

2/ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

3/ Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

4/ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

5/ Proxied by interest expenditure divided by the debt level of the previous year.

6/ Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if quoted in stock exchange).

Table 2.c Contingent liabilities

	Year t	Year t+1
	% GDP	% GDP
Public guarantees		
Of which: linked to the financial sector		

3. Expenditure and Revenue Projections under the no-policy change scenario[14].

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components.

	ESA Code	**Year** **t**	**Year** **t+1**
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR		
Of which			
1.1. Taxes on production and imports	D.2		
1.2. Current taxes on income, wealth, etc	D.5		
1.3. Capital taxes	D.91		
1.4. Social contributions	D.61		
1.5. Property income	D.4		
1.6. Other[1]			
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]		
Of which			
2.1. Compensation of employees	D.1		

[14] Please note that the no-policy change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.

2.2. Intermediate consumption	P.2		
2.3. Social payments	D.62[1] D.632		
of which Unemployment benefits[4]			
2.4. Interest expenditure	D.41		
2.5. Subsidies	D.3		
2.6. Gross fixed capital formation	P.51		
2.7. Capital transfers	D.9		
2.8. Other[5]			

1/ Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay

4. Expenditure and Revenue targets.

Table 4.a General government expenditure and revenue targets, broken down by main components.

	ESA Code	**Year** **t**	**Year** **t+1**
General government (S13)		% GDP	% GDP
1. Total revenue target	TR		
Of which			
1.1. Taxes on production and imports	D.2		
1.2. Current taxes on income, wealth, etc.	D.5		
1.3. Capital taxes	D.91		
1.4. Social contributions	D.61		

1.5. Property income	D.4		
1.6. Other [1]			
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]		
Of which			
2.1. Compensation of employees	D.1		
2.2. Intermediate consumption	P.2		
2.3. Social payments	D.62[6] D.632		
of which Unemployment benefits[4]			
2.4.= Table 2.a.9. Interest expenditure	D.41		
2.5. Subsidies	D.3		
2.6. Gross fixed capital formation	P.51		
2.7. Capital transfers	D.9		
2.8. Other[5]			

1/ .11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec)

2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

3/ TR-TE = B.9.

4/ Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, under ESA2010 D.632) related to unemployment benefits.

5/ D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+K.2+D.8.

6/ Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.

Table 4.b Amounts to be excluded from the expenditure benchmark

	ESA Code	**Year t-1**	**Year t-1**	**Year t**	**Year t+1**
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue					
2. Cyclical unemployment benefit expenditure [1]					
3. Effect of discretionary revenue measures [2]					
4. Revenue increases mandated by law					

1/ Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5

2/ Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

Table 4.c General government expenditure by function.

4.c.i) General government expenditure on education, healthcare and employment

	Year t		Year t+1	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]				
Health[1]				
Employement[2]				

1/ These expenditure categories should correspond respectively to items 9 and7 in table 4.c.ii)

2/ This expenditure category should contain, inter alia, government spending related to active labour market policies (ALMPs) including public employment services. On the contrary, items such as compensation of public employees or vocational training programmes should not be included here.

4.c.ii) Classification of the functions of the Government

Functions of the Government	COFOG Code	Year t	Year t+1
		% GDP	% GDP
1. General public services	1		
2. Defense	2		
3. Public order and safety	3		
4. Economic affairs	4		
4. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social protection	10		
11. Total Expenditure (= item 2 in Table 2.c.i)	TE		

5. Description of discretionary measures included in the draft budget.

Table 5.a Discretionary measures taken by General Government

List of measures	**Detailed description**[1]	**Target (Expenditure / Revenue component)** **ESA Code**	**Accounting principle**	**Adoption Status**	**Budgetary impact**				
						Year t	**Year t+1**	**Year t+2**	**Year t+…**
						% GDP	**% GDP**	**% GDP**	**% GDP**
(1)									
(2)									
…									
					TOTAL				

1/ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area .

Table 5.b Discretionary measures taken by Central Government

List of measures	Detailed description[1]	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Budgetary impact				
						Year t	Year t+1	Year t+2	Year t+…
						% GDP	% GDP	% GDP	% GDP
(1)									
(2)									
…									
					TOTAL				

1/ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area .

Table 5.c Discretionary measures taken by sub-sectors of the General Government[1].

List of measures	Detailed description[2]	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Budgetary impact				
						Year t	Year t+1	Year t+2	Year t+…
						% GDP	% GDP	% GDP	% GDP
(1)									
(2)									
…									
					TOTAL				

1/ Please name whether State Government, Local Government and/or Social Security Funds.
2/ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area .

<u>6. Indications on how the measures in the DBP address CSR and the targets set by the Union's Strategy for growth and jobs.</u>

Table 6.a CSR recommendations

CSR number	**List of measures**	**Description of direct relevance**

Table 6.b Targets set by the Union's Strategy for growth and jobs.

National 2020 headline targets	**List of measures**	**Description of direct relevance to address the target**
National 2020 employment target […]		
National 2020 R&D target […]		
GHG emission reduction target […]		
Renewable energy target […]		
National energy efficiency target […]		
National early school leaving target […]		
National target for tertiary education […]		
National poverty target […]		

7. Divergence from latest SP.

Table 7. Divergence from latest SP.

	ESA Code	**Year t-1**	**Year t**	**Year t+1**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme				
Draft Budgetary Plan				
Difference				
General government net lending projection at unchanged policies	B.9			
Stability Programme				
Draft Budgetary Plan				
Difference[1]				

1/ This difference can refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DBP. Differences are expected due to the fact that the no-policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.

8. Distributional impact of the main expenditure and revenue measures.

In accordance with Article 6(3)(d) of Regulation 473/2013,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.

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 this Annex. Quantitative estimations of the distributional impact of budgetary measures could be assessed by computing the expected changes in the Gini index, the S80/S20 indicator or the poverty rates as a result of them. This methodology could represent one possible way forward among others.

Annex to the DBP: Methodology, economic models and assumptions underpinning the information contained in the DBP.

Table 8. Methodological aspects.

Estimation Technique	**Step of the budgetary process for which it was used**[1]	**Relevant features of the model/ technique used**	**Assumptions**
Tool n.1			
Tool n.2			
…			

1/ Modeling tools may have been used:

- when doing macro forecasts

- when estimating expenditure and revenue under the no policy change scenario

- when estimating the distributional impact of the main expenditure and revenue measures

- when quantifying the expenditure and revenue measures to be included in the draft budget

- when estimating how reforms included in the DBP address targets set by the Union's Strategy for growth and jobs and CSRs.

ANNEX II. Considerations for the national arrangements framing the involvement of independent bodies in the production or endorsement of macroeconomic forecasts

Fully acknowledging that Member States are free to design their own rules and procedures taking into account the specific national legal frameworks, administrative practices and stakeholders involved, some considerations may be helpful in providing clearer and more effective national arrangements concerning the involvement of independent bodies in the production or endorsement of macroeconomic forecasts:

- In the light of the technical features of the forecasting process and the involvement of several institutions and bodies, Member States could opt for the preparation of an all-encompassing 'Code of Practice' (CoP) gathering all the relevant legal provisions and procedural elements framing the production and/or endorsement of independent macroeconomic forecasts.
- The national procedures/CoP should provide an important element fostering accountability and transparency by defining the different tasks allocated to every actor in the forecasting exercise and the milestones to be met within the annual budgetary cycle. They should also set out practical steps leading to the production and/or endorsement of forecasts and the principles of cooperation between the relevant institutional stakeholders.
- The arrangements should ensure inter alia that the independent macroeconomic forecasts are timely provided to support the relevant stages of the national budgetary process.
- For transparency purposes, it would be highly recommended to make the national procedures/CoP public.

With a view to supporting the Member States in developing the relevant procedures applicable in the case of assigning the production of macroeconomic forecasts to independent bodies, some more specific suggestions are provided below:

- The forecasting procedure of the independent body or the specific section of the CoP could include a template for an annual schedule. The annual schedule would take into account the constraints of the domestic budget cycle and provide milestones governing the preparation of the forecasts. To be agreed between the Ministry of Finance and the independent body, the schedule would be released publicly at the beginning of every year by the Ministry of Finance. In particular, the delivery date(s) of the forecasts to the authorities would be specified.

As regards the case of independent bodies being mandated to endorse the macroeconomic forecasts, the following specific suggestions may also be considered when developing the applicable procedures:

- The national legislation and/or procedures could specify deadlines for the producer of the forecasts to submit them to the independent body. A subsequent deadline could be fixed for the independent body to deliver its decision, balancing the need for providing a reasonable amount of time for the independent body to shape its informed opinion and the constraints implied by the annual budget cycle;
- If, following an initial non-endorsement by the independent body and the subsequent preparation of a revised forecast, the independent body issues another negative decision, this should be made public, along with supporting explanations.