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INTRODUCTION

The series of articles placed in this issue of the Białystok Legal Studies ("Białostockie Studia Prawnicze") comprises outcomes of comparative research concerning current problems of public finance management in selected European countries. Most of the articles refer to changes in the principle of budget annuality as well as its complementing with the principle of multi-annual financial planning. A very important legal step taken in this area was issuing the Council Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States. This "six pack" element included the problems of annual and multi-annual financial planning into important instruments of restoration of the public finances of the EU and its member states. Therefore, it is essential to be familiar with the regulations of the directive in point as well as their correct interpretation, all the more that particular EU member states should implement them by 31 December 2013.

The logic of the problems presented strictly determines the order of the articles. The first four concern the results of the NCN research "Annuality and Multi-Annuality in Public Finances"[1] prepared by the project participants. The opening article is by E. Ruśkowski and concerns annuality and multi-annuality in public finances of the European countries under examination before issuing Council Directive 2011/85/EU. This is followed by M. Tyniewicki's article on the regulation and interpretation of the Directive. Two subsequent articles by J. Stankiewicz and U.K. Zawadzka-Pąk, concern connections between annuality and multi-annuality (respectively) with the multi-annual financial plan and participatory budget. Further articles are dedicated to the implementation of Council Directive 2011/85/EU in selected member states (the Czech Republic, France, Lithuania, Poland, Slovakia) and its relation to solutions of countries which are not members of the EU (Russia). Additional values of these articles consist in their topicality (they all concern the legal status of 2014) and the fact that their authors are representatives of the countries presented, who are research consultants in the project "Annuality and Multi-Annuality of Public Finances". Two articles, placed in the further part of the collection and including considerations on the EU financial crisis as well as legal aspects of the liquidation of a bank in Slovakia, are connected with the problems of the restoration of the public finances of the EU and its member states. The materials presented are concluded with a review of the book "Annual and Long Term Public

1 Decision No. DEC-2011/01/B/HS5/03357.

Finances in Central and Eastern European Countries", Białystok 2012 and the collective bibliography.

I hope the problems presented in this issue will find favour not only among academics but also specialists employed in EU institutions, becoming an incentive for further research, including extensive comparative studies.

Prof. Eugeniusz Ruśkowski

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ANNUALITY AND MULTI-ANNUALITY IN THE PUBLIC FINANCES OF SELECTED EUROPEAN COUNTRIES – BEFORE COUNCIL DIRECTIVE 2011/85/EU[1]

Introduction

The principle of an annual budget is embedded in the tradition of public finance. For decades, however, there have been concepts of replacing or supplementing it with a principle of multiannual budgetary (financial) planning. In the past, there were attempts at implementing this concept in practice, which have gained in force in the last twenty years. Consequently, at the beginning of the second decade of the 21st century there already existed complex systems of annual and/or multiannual financial planning in various countries, with different relationships between the annual and multiannual budgetary principles. This study characterizes this situation and its effects. It shows that the recent phenomenon of extending multiannual financial planning has a continuous character and can be treated as an independent principle, right next to the annual budget principle. At the same time, it allows to answer the question of how much justice was there in issuing Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of Member States[2], which came into force on 11 December 2011, obliging member states to implement it by 31 December 2013. As a result of implementing the directive, every country of the EU should be legally obligated to make multiannual fiscal plans, by preparing a budgetary framework for a minimum period of three years.

The problems discussed above were the subject of study of a special research team[3], financed by the National Science Centre. The comparative study involved the

1 This Article was prepared within the framework of the project financed by the National Science Centre granted on the basis of decision no. DEC-2011/01/B/HS5/03357.
2 Official Journal of the European Union, L 2011 306, further referred to as Council Directive 2011/85/EU.
3 The team consisted of: E. Ruśkowski (project manager), J. Stankiewicz, M. Tyniewicki and U.K. Zawadzka-Pąk.

finances of the EU and ten European countries (Belarus, the Czech Republic, France, Lithuania, Poland, Russia, Slovakia, Hungary, Ukraine, and the UK).

1. The subject of doctrinal issues

The doctrine in the second half of the 20th century saw a variety of opinions concerning the relationship between annual budgets and multiannual planning of public finance[4]. This relationship is accurately presented in the views exhibited in Polish studies on public finance and financial law. More than 40 years ago, M. Weralski expressed it like so: "Annual budget legislation ensured a continuity and stability of the parliament's decisions and control in terms of budgetary economy. Today however, there are various reservations to this rule; these include the need for a multi-annual perspective on the development of national financial economy, and the fact that a lot of the expenditure has a continuous character (such as investment expenditure) and that the annual legislation of these expenses creates an atmosphere of uncertainty and makes the normal operation of government institutions difficult. There are postulates of introducing multiannual financial plans working alongside annual budgetary legislation"[5]. Some years later, J. Harasimowicz emphasized that "for years we have discussed on the necessity of extending the budgetary period. It is stressed that, for example, the one-year period is too short, especially for planning and financing investments, or that the budgetary system lacks an equivalent of multi-annual and prospective economic plans, and that budgets for a longer term should be prepared next to annual budgets. It must be noticed though that practice knows only annual budgets. The current attempts at extending the budgetary have period failed (such as the 5-year field budgets in Czechoslovakia, 2-year cluster budgets in Poland), and the concept of a budgetary period, therefore, requires further theoretical studies"[6]. In the Polish body of work on the subject, N Gajl was a supporter of replacing annual budgets with a multi-annual one[7]. At the time, similar opinions prevailed in other European countries[8]. These views highlighted the fact that such changes would partially be mutually exclusive. On the one hand, it was postulated to replace annual budgets with long-term financial plans (following the competitive principle), and on the other hand, there were postulates of preparing (and possibly implementing) multiannual financial plans alongside annual budgets that would

4 For more on the subject of annuality and multiannuality in public finance see our study, E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk, Comparison Between Long-Termism in Reform of Public Finance in Poland and Other Central and Eastern European Countries, in: E. Ruśkowski, J. Stankiewicz. M. Tyniewicki, U. Zawadzka-Pąk (eds.), Annual and Long Term Public Finances in Central and Eastern European Countries, Białystok 2013, pp. 28-30 (the same article was published in Russian in a topical paper).

5 M. Weralski, Socjalistyczne instytucje finansowe, Warszawa 1973, p. 143.

6 J. Harasimowicz, Finanse i prawo finansowe, Warszawa 1977, p. 51.

7 See N. Gajl, Gospodarka budżetowa w świetle prawa porównawczego, Warszawa 1993, pp. 349-350.

8 See for example: P.M. Gaudemet, Finanse publiczne, Warszawa 1990, p. 229 ff.

support and enhance the latter (following the complementary principle). The most recent literature on this subject emphasizes mainly the advantages of multiannual financial planning, existing alongside with annual budget legislation, stressing the fact that the two do not interfere with each other[9]. Such a solution may have a positive impact on the economic growth of a country by creating resources for implementing structural projects and reforms. It ensures also a specific level of certainty of development for business entities[10]. It has also been noticed that a government's programming abilities increase along with extending the use of medium-term budget legislation[11]. It facilitates and also determines the rationalization of public expenditure, especially when using task based budgeting[12]. From the perspective of the European Union's policy, it also makes it easier for the organization to influence the status and prosperity of public finance in member states[13].

2. The possibility of implementing annual and multi-annual budget planning principles (model perspective)

Theoretically, the relationship between annual budget legislation and the principle of multi-annual financial planning may shape in the following manner[14].

1) The exclusive existence of an annual budget in financial planning, with the exceptions serving to confirm the annuality principle. In these cases, the principle of a multi-annual budget does not occur in practice.
2) The existence of multi-annual budgets instead of an annual budget. In these cases the budgets implement the multi-annual principle, which exists in conflict with the principle of annuality.
3) the side by side existence of an annual budget and multi-annual forecasts or fragmentary projections, reflecting key fiscal categories and influencing indirectly the shape of the budget. This group of measures is called *Medium Term Fiscal Frameworks - MTFF.*
4) Creation of multi-annual plans for the whole of the public finance sector, including budgetary calculations (assessments) assigned to services or tasks year on year. Sometimes, this applies only to plans at the central level; but

9 V. Babčak, M. Štrkolec, K. Prievozniková, Finančné pravo na Slovensku a v EÚ, Eurokódex, Bratislava 2012, p. 208.
10 M. Sidak, M. Duračinská i in., Finančné právo, C. H. Beck, Bratislava 2012, p. 120.
11 M. Bakeš , M. Karfiková, P. Kotáb, H. Marková i in., Finančni právo, 6 wyd., C. H. Beck, Praha 2012, pp. 109-152.
12 M. Postuła, P. Perczyński (eds.), Budżet zadaniowy w administracji publicznej, wyd. II, Warszawa 2010, p. 34 ff.
13 K. Piotrowska-Marczak, Kondycja finansowa Unii Europejskiej i jej członków w przeddzień przyjęcia nowych ram finansowych na lata 2014-2020, in: C. Kosikowski (ed.), Przyszłość Unii Europejskiej w świetle jej ustroju walutowego i finansowego, Białystok 2013, p. 14.
14 This outline was first presented in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk (eds.), *op. cit.*, pp. 32-33. To prepare it, especially for elements 3-5, the authors used a formula presented in S. Franek, Wieloletnie planowanie budżetowe w praktyce międzynarodowej i polskiej, in: T. Lubińska (ed.), Kierunki modernizacji zarządzania w jednostkach samorządu terytorialnego, Warszawa 2012, p. 71.

often these are independent financial plans at the central and local level. These kinds of plans are called *Medium Term Budgetary Frameworks -MTBF.* Such plans exist independently from the annual budget, although they are interlinked in many ways.

5) If multi-annual financial plans mentioned in Point 4 "contain mechanisms aimed to raise effectiveness and efficiency of public finance while measuring the achievement of targets set at the planning stage"[15] they may be regarded as *Medium Term Expenditure Frameworks - MTEF.* These plans can exist alongside the traditional annual budget or the annual task based budget.

3. Annual and multi-annual financial planning principles in selected European countries

The above-discussed theoretical model of the relationship between annual budget legislation and the principle of multi-annual financial planning may be associated with the conditions of selected countries at a given time. However, due to the dynamics of the analyzed situation, the attachment of the countries to specific elements of the model will be subject to changes. Poland may serve as a typical example here - its public finance system in the 1990s was based on annual budget legislation with specific exceptions (the first element of the model), in years 2004-2009 it implemented medium-term financial frameworks (third element of the model), and from 2010 on, thanks to the Multi-Annual State Financial Plan and multi-annual financial forecasts for regional authorities, Poland can be included among countries with medium-term budgetary frameworks (element four of the model). However, classifying Poland as a country with a medium-term expenditure framework (element five) is still open for discussion due to its unfinished reform of task-based budgets.

Due to space limitations, it is impossible to present here the dynamic statuses of the financial systems of all of the studied countries. Therefore, the analysis will be limited to an overview of practical implementations of specific elements of the model, using examples of selected states[16]. This classification involves only historical data, until the end of 2011.

Generally, the exclusive existence of an annual budget in financial planning, with the exceptions serving to confirm the annuality principle (the first element of the model) was a regular practice until the end of the 20th century. The reforms in the UK in 1998 initiated significant changes in the development of multi-

15 S. Franek, *op. cit.*, p. 71.

16 See for example E. Ruśkowski, Zasada jednoroczności budżetu we współczesnych realiach, in: C. Kosikowski (ed.), Prawo skarbowe i prawo finansowe. Szkoły i uczniowie. Księga dedykowana pamięci Profesora Jerzego Lubowickiego, Białystok 2013, p. 183 ff.

annual financial planning in Europe[17]. The British system is formed in the shape of Spending Reviews, prepared for three years, and since 2010, for the period of four years. The Spending Reviews from 1998 and 2007 had an overall character and are called Comprehensive Spending Reviews. Their preparation involves creating new strategies and determining a hierarchy of priorities for the decade, and a new distribution (allocation) of resources for their realization[18]. Unfortunately, the reforms of British public finance lost their momentum in 2007 with the replacement of the "golden rule" with a more flexible and less restrictive, so-called, temporary operating rule[19]. Although France is usually associated with significant achievements in terms of multi-annual financial planning, which will be discussed further on, specific reforms on the subject were introduced there relatively late, in years 2007-2008. Some authors highlight that the organic law on financial laws of 2001 (so-called LOLF) further enhanced the annual budgetary principle, which was already well-entrenched in France[20].

The existence of budgets for a period of more than one year (the second element of the model discussed above) is in practice very rare[21]. The last two decades have not seen a single case of such budget in the surveyed European countries. Among EU member states, the most quoted exception to the annuality principle is Slovenia, whose budget is legislated every two years. Due to the annual nature of budget planning (rolling budgetary planning), even though the budget in Slovenia is legislated every two years, the work on it takes place every year[22].

Under the influence of ongoing scientific discussions and the impact of the concept of New Public Management[23], but also because of the requirements of the European Communities (and then the European Union), already in the 1990s some countries used, alongside their annual budgets, multi-annual financial projections, perspectives or forecasts involving specific fiscal categories, directly affecting the shape of the annual budget. For example, Slovakia used them since 1995, and Lithuania used them since 2000, many years before these countries joined the European Union. A prominent example of the existence of a multi-annual financial

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17 For more see: U.K. Zawadzka-Pąk, Instrumenty nowego zarządzania finansami publicznymi w Wielkiej Brytanii, in: E. Ruśkowski (ed.), Instrumenty nowego zarządzania finansami publicznymi w wybranych krajach Unii Europejskiej, Białystok 2011, p. 151 ff.

18 Cf. E. Ruśkowski, O potrzebie prowadzenia badań porównawczych w zakresie reformy zarzadzania finansami publicznymi w Unii Europejskiej, ze szczególnym uwzględnieniem reform planowania finansowego, in: E. Ruśkowski (ed.), Instrumenty nowego zarządzania finansami publicznymi w wybranych krajach Unii Europejskiej, Białystok 2011, p. 181 ff.

19 R. Chote, C. Emmerson, G. Tetlow, The fiscal rules and policy framework, in: R. Chote, C. Emmerson, D. Miles, J. Shaw (eds.), The Institute for Fiscal Studies Green Budget, January 2009, pp. 97-98.

20 See for example L. Saïdj, Brèves réflexions sur quelques moys-clefs de finance publiques pour le future. "RFFP" 2003, no. 82, p. 16.

21 They are discussed by, for instance, P.M. Gaudemet, *op. cit.*, pp. 232-233; T. Lubińska (ed.), Kierunki modernizacji, pp. 69-70, N. Gajl, *op. cit.*, p. 349 ff.

22 M. Stachurska, Procedury budżetowe w wybranych krajach, „Analizy BAS" 2010, no. 18, p. 9.

23 J. Supernat, Administracja publiczna w świetle koncepcji New Public Management, Wrocław 2005; B.G. Peters, J. Pierre, Handbook of public administration, London 2007; T. Lubińska (ed.), Nowe zarządzanie publiczne – skuteczność i efektywność, Warszawa 2009.

planning scheme (in the broad sense) in EU member states included - next to annual budgets - convergence and stability programmes functioning since 1999[24]. In principle, member states prepare such frameworks for three years and update them annually. Still, some rules and legal consequences vary between states with derogation (convergence programmes) and other countries (stability programmes). What is also significant here is the binding of public finance of the EU (EEC), planned for a five year period and later for a seven year period, with the public finances of member states. Within the former, the members must "if only to provide relevant data required to prepare multi-annual financial framework, forecast certain financial factors also for periods extending the one-year budget"[25]. Sometimes this is linked with specific legal requirements (obligations). In recent years, the efforts to rationalize and limit public debt and deficit have also resulted in separate multi-annual programmes and plans within this scope of most European countries. Generally, it may be said that by the end of 2011 most European states did implement various elements of multi-annual financial planning, which were linked with and affected their annual budgets in different ways[26].

The above mentioned elements of multi-annual financial planning (programming) of public finance did not exclude the preparation of comprehensive, multi-annual financial plans in individual countries (element four of the proposed model). The European Community, and later the European Union, encouraged its members to prepare such plans. The same inspiration also came from other European organizations, especially from the International Monetary Fund, the World Bank, or the Organization for Economic Growth and Development (OECD). The European Union (preceded by the European Economic Communities) gave a good example on how to implement these principles in practice. Since 1998, the EU has had a general annual budget and a multi-annual financial framework, both co-dependent and mutually supportive[27], which will be expanded upon in the following section of the article.

The documents containing multi-annual financial plans or their elements exist in different countries under various names, which is why it is not their name, but rather their character and contents that decide on their importance. We assume that multi-annual financial plans are separate documents adopted in a specific legal form, which pertain to the whole public finance sector and contain a set of revenues and expenses (or profits and losses) for a period of at least three years, with an internal distinction

24 See C. Kosikowski, Prawo Unii Europejskiej w systemie polskiego prawa finansowego, Białystok 2010, p. 62 ff.
25 *Ibidem*, p. 184.
26 The details on the states involved in the survey are presented in – E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U.K. Zawadzka-Pąk, Roczność i wieloletniość finansów publicznych, (ed.) E. Ruśkowski, Warszawa 2014 (in press).
27 Cf. M. Tyniewicki, Znaczenie klasycznych zasad budżetowych w budżecie ogólnym Unii Europejskiej, in: L. Etel, M. Tyniewicki (eds.), Finanse publiczne i prawo finansowe – realia i perspektywy zmian. Księga Jubileuszowa dedykowana Profesorowi Eugeniuszowi Ruśkowskiemu, Białystok 2012, pp. 214-217.

into separate years, with an additional division into scope and/or coverage. Such a multi-annual financial plan should essentially have a specific influence on the annual budget (i.e. it cannot be a parallel financial forecast, independent from the annual budget). Having regard to these assumptions, it may safely be assumed that at the time of issuing Council Directive 2011/85/EU (end of 2011), among the surveyed countries, the following countries possessed a multi-annual financial plan: Poland, France, the UK, Slovakia, the Czech Republic[28] and Russia[29]. For various reasons, documents prepared in other surveyed countries cannot be regarded as multi-annual financial plans[30].

Multi-annual financial plans in some of the states mentioned above have a task-based character. This is most evident in the case of France, the UK and Slovakia.[31] From a formal perspective, the Multi-annual State Financial Plan in Poland corresponds to these assumptions, as it includes expenditures with functional divisions and measuring methods for their realization. There is a dose of uncertainty raised here connected with the fact that the reform of task-based budgeting in Poland is not yet complete, the annual budgets are based on traditional principles, and the effects of the task-based budgeting reform will surely influence the properties and structure of the multi-annual financial plan[32]. Multi-annual financial plans in Russia and the Czech Republic on the other hand are more of a traditional character, corresponding to the traditionalist annual budget approach in these countries.

To summarize this part of the analysis it can be said that in recent years the phenomenon of multiannuality in the planning of public finances or their elements became prevalent. At the time of issuing of Council Directive 2011/85/EU (end of 2011), even though there yet was no legal obligation in the EU to do so, many member states did have multi-annual financial plans, and some of them even had task-based multi-annual expenditure plans. Also, these countries evidently show that the annual budgetary principle started to be supplemented by a (legal) multi-annual financial planning principle. This means that in many countries, the principle of

28 See E. Ruśkowski, Roczność i wieloletniość w finansach publicznych Republiki Czeskiej, in: M. Perkowski et al. (eds.), Całowiek i prawo międzynarodowe. Księga Jubileuszowa dedykowana Profesorowi Bogdanowi Wierzbickiemu, Białystok 2014 (in press).

29 Cf. A. Пауль, Долгосрочное бюджетное планирование в Российской Федерации: результаты и тенденции, in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk (eds.), *op. cit.*, p. 295 ff.

30 See for example Л. Абрамчик, Правовые основы составления годового и долгосрочного бюджета в публичных финансах Республики Беларусь, in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk (eds.), *op. cit.*, p. 49 ff. and B. Sudavičius, Роль распорядителей бюджетных ассигнований в бюджетном планировании в Литовской Республике, in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk (eds.), *op. cit.*, p. 325 ff.

31 For information on France see for example E. Ruśkowski, U.K. Zawadzka-Pąk, Prawne problemy konstrukcji i funkcjonowania budżetu zadaniowego we Francji. Wnioski dla Polski, (ed.) E. Ruśkowski, Białystok 2010; for details on The UK, see U.K. Zawadzka-Pąk, Instrumenty…, p. 151 ff.; for Slovakia cf. V. Babčak, M. Štrkolec, K. Prievozniková, *op. cit.*, p. 208 ff.

32 See for example S. Owsiak, Węzłowe problemy i dylematy związane ze stosowaniem budżetu zadaniowego w Polsce, in: B. Woźniak, M. Postuła (eds.), Budżet zadaniowy metodą racjonalizacji wydatków, Warszawa 2012, p. 29 ff.

annual budgetary legislation existed within the multi-annual budgetary or financial frameworks (plans).

4. Prerequisites for developing multi-annual financial planning before Council Directive 2011/85/EU[33]

It may be stated, in general terms, that during the whole of the 20th century the principle of annuality in finance was an absolute statutory rule, yet it was more and more often criticized by the doctrine which demanded its replacement (or augmentation) with the principle of long-termism. This state of affairs persisted despite multiple attempts by practitioners to introduce multi-annual frameworks which failed in the end. Although this was due to a number of different reasons, the fact remains that objective negative experiences did not refer to the governmental system in nature - these occurred both in capitalist and socialist countries based on centralized planning. Only towards the end of the 20th century and in the last decade there was a major shift in existing practice both in terms of legal provisions and management methods. Long-termism has been introduced into the legislation and even into the Treaties and Constitution by the European Union and by various European states[34]. The practical management of public finance has also evolved as more and more countries experiment with multi-annual planning and task-based budgets, which in the future should lead to changes in statutory rules and the nature of the plans. Under these circumstances it is important to question the main factors in the development of the principle of long-termism in public finance in the last ten or so years in Europe. Some examples are listed below.

1) Positive experiences of the European Union (European Community) in terms of multi-annual financial planning and resulting increasing demands on member states. Experience in the EU clearly indicates that multi-annual budget planning is possible through EU Directives (the Union and its predecessors have been working on this since 1988[35]) while retaining a general annual budget.[36] Apart from showing the practical advantages of this type of planning, member states (as well as associated states) are interested in including in their internal calculations multi-annual data

33 This section of the article uses some of the remarks published earlier in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U.K. Zawadzka-Pąk, *op. cit.*, pp. 30-32.

34 Provisions concerning multi-annual planning in the EU were included for the first time in TFUE (Chapter 2 – Multi-annual financial framework); prior to this, the legal basis were multi-agency agreements. Regulations concerning long term programming of finance were also included in the 2008 amendment of article 34 of the French Constitution.

35 The first Financial Perspective concerned years 1988-1992, then following Perspectives were developed for periods of seven years: 1993-1999, 2000-2008, 2007-2013.

36 See, for example, M. Tyniewicki, Programowanie budżetowe w Unii Europejskiej, in: J. Głuchowski, A. Pomorska, J. Szołno-Koguc (eds.), Uwarunkowania i bariery w procesie naprawy finansów publicznych, published by KUL, Lublin 2007, p. 358 ff.

adopted by the Union. Moreover, of direct concern to member states, they are obliged to submit three-year convergence programmes (those states which are included in derogation) or stability programmes and to keep them up-to-date. They may also be included in excessive deficit procedures and therefore be subject to additional conditions[37]. In terms of the requirement for multi-annual financial planning in particular member states, the Union has limited itself to supporting its development until the issuing of Council Directive 2011/85/EU.

2) The influence of the New Public Management (NPM) on the European financial management practice. New Public Management, whose cornerstone ideas had been formulated in the 1940s in the USA, was developed and applied in the UK and several other countries. It was then adopted by the OECD and the European Community. In its political scope, NPM is supposed to ensure better use of public resources and delivery of better public service - things that are universally accepted. According to independent research by C.H. Hood, and D. Osborne and T. Gaebler, this means introducing competitiveness, service delivery standards, objective quality measuring, decentralization and de-aggregation, professional management into the public sector as well as deploying management techniques and methods used in the private sector.[38] These features in the public sector will always be debatable, especially if introduced too quickly and formally. However, they do have their application in public finance management. Hence the coining of the phrase *New Public Finance Management.* This is based on defining the tasks and objectives for the public sector and measuring their delivery with the help of objective measuring factors, with the aim of replacing administering of public resources with effective management. Achieving these objectives is aided in an obvious way by the introduction of task based budgets, which must be accompanied by multi-annual financial planning (programming). It is worth noting that although most modern countries are applying some elements of NPM, there are countries like, for example, Germany which have retained their traditional methodology and frameworks of their public sector[39].

3) Positive experience in a number of countries, including the European Union, in introducing multi-annual public finance. In accordance with a number

37 Cf. J. Stankiewicz, Procedury prawne ograniczania nadmiernego deficytu jako instrument konsolidacji finansów państw Unii Europejskiej, in: H. Litwińczuk (ed.), Ius fiscale. Studia z dziedziny prawa finansowego. Księga pamiątkowa dedykowana Profesorowi Marianowi Weralskiemu, Oficyna Prawa Polskiego, Warszawa 2012, p. 161 ff.

38 These features, frequenting in research by various authors, are listed by B. Woźniak, Nowe czy stare zarządzanie publiczne?, in: J. Głuchowski, A. Pomorska, J. Szołno-Koguc (eds.), Główne wyzwania i problemy systemu finansów publicznych, Published by KUL, Lublin 2009, pp. 274-275.

39 *Ibidem*, p. 276.

of authors, it is possible to state that these experiences have originated in the experiments conducted in the USA involving the PPBS method. Its reworking in the 20th century led to the creation of the PPB in the UK, and the RCB in France; however, those first attempts at implementation failed. Still, these experiences were regarded as a useful learning exercise, and citizens and public administrators were being prepared for upcoming changes. It does not come as a surprise, therefore, that the successful introduction of multi-annual financial planning and task based budget in the UK in 1988 sent an impulse for similar changes to be adopted in France (where a task based budget was introduced in 2006 and multi-annual financial programmes in 2008)[40]. France, on the other hand, seems to set the example and be the trigger for the reforms partially introduced in Poland. A positive example within the European Union has been described above.

4) The IT revolution has also been a positive factor in spreading the principle of multi-annual public finance. The influence of the world-wide financial and economic crisis upon these processes is open for debate. The latter is the subject of heated discussion, with completely incompatible arguments,[41] warning researchers about making rash syntheses.

5. Council Directive 2011/85/EU as a new premise for developing the multi-annual financial planning principle

So far, the analysis brings the following conclusions and questions:

1) Recent years have seen a systematic increase of the importance of multi-annual financial planning in public finance management in European countries. In some countries, the principle of multi-annual financial planning acquired a legal status, involving in its scope the principle of annual budgetary legislation (the annual budget principle within the framework of multi-annual financial planning). This happened under the influence of numerous experiences and recommendations of the EU, experiences from other countries and public finance management reforms, i.e. substantial and voluntary factors and not legal obligations. This raises the question: was it necessary to use international (EU) legislation to intervene in the development of this principle, or could all this have happened naturally anyway?

40 See E. Ruśkowski, U.K. Zawadzka-Pąk, Prawne problemy konstrukcji i funkcjonowania budżetu zadaniowego we Francji. Wnioski dla Polski, (ed.) E. Ruśkowski, Temida 2, Białystok 2010 (especially ch. I, pt. 4), p. 36 ff.

41 Cf., for example, S. Owsiak, Sanacyjna funkcja finansów publicznych, in: S. Witeska, S. Wypych (eds.), W poszukiwaniu efektywności finansów publicznych. Księga Jubileuszowa dedykowana Profesor Krystynie Piotrowskiej-Marczak, Published by Uniwersytet Łódzki, Łódź 2009, p. 42.

2) Although multi-annual financial planning is common in European countries – either in the form of partial financial plans supplementing the annual budget principle or separate multi-annual financial plans within (or alongside) the framework of the functioning of annual budgets – there was an array of various legal and material solutions for the matter. Therefore, it seems that there were premises for unifying these solutions, pushing for implementing a minimum of common standards and definitions. Although Europe-wide (such as the Council of Europe) organizations did not have the relevant legal instruments, such actions could be introduced by the bodies of the EU.
3) It was impossible to illustrate a clear relationship between the development of the multi-annuality principle and the state of public finances in particular counties. The countries where the principle is broadly applied (such as France, Poland, Slovakia, the UK), and those with a task-based budget or at advanced stages of developing one, all have various problems in terms of public finances (the amount of public debt or deficit, the reality of income plans, etc.). This shows that singular solutions, even though they should in principle improve public finance management, may not present the expected results, if they are not involved in an overall, cohesive system. It may well be stated that until the issuing of Council Directive 2011/85/EU, multi-annual financial planning and the problems corresponding to it in member states remained outside of EU policy in terms of the Growth and Stability Pact. It, therefore, comes as no surprise that the reform of the pre-emptive and corrective parts of the pact should also involve problems connected with multi-annual financial planning.

Supporting this idea is the fact that in June 2010, the European Council reached an agreement on the immediate need for increasing the coordination of economic policies among member states that involved reforming the Growth and Stability Pact and budgetary supervision. It was decided in particular: to strengthen the preventive and corrective parts of the Growth and Stability Pact, even by sanctions and proper recognition of the individual situations of particular member states in the euro zone; to pay - in terms of budgetary supervision - much closer attention to the levels of debt and the overall stability of public finance and changes in them; to make all member states implement budgetary principles and medium-term budgetary frameworks conforming to the Growth and Stability Pact within their legal systems; ensure the reliability of statistical data[42].

42 European Commission. Explanatory memorandum to the proposal for a Council Directive on requirements for budgetary frameworks of the Member States of 29 September 2010, COM (2010) 523 final. 2010/0277 (NLE), Brussels, 29 September 2010 (script), p. 3 Memorandum.

In terms of detailed information on Council Directive 2011/85/EU it was decided that it cannot be expected that the efficiency of executing the frameworks of budgetary coordination within the Economic and Monetary Union (EMU) will only stem from the regulations enforced by the EU. Due to the peculiar, decentralized budgetary policy of the EU and because of the general need to ensure a national identity with EU regulations, it is essential that the objectives of the budgetary coordination frameworks in the EMU were reflected in national budgetary frameworks. National budgetary frameworks are a set of elements which form a base for managing a national budget. It involves a system of public accounting, statistics, forecasting principles, numerical budgetary rules, budget procedures applied at various levels of the budgetary process and - in particular - medium-term budgetary frameworks, as well as the various relations between various subsections of the public sector. Although the specific needs and preferences of member states have to be respected, some of the criteria seem to be of particular importance, as they mean to ensure a minimum of quality and cohesion within the budgetary frameworks of the EMU. These criteria are the subject of Council Directive 2011/85/EU in terms of national budgetary frameworks that are intended to supplement the reforms of the Stability and Growth Pact. The above mentioned justification for the Commission's proposal also stresses the fact that the national budgetary frameworks should also be supplemented with multi-annual budgetary planning principles, in order to ensure the realization of medium-term objectives on the EU level.[43] The subject sentence is also important in terms of the deliberation in this article as well as because of the not-entirely clear provisions of the Council Directive 2011/85/EU in this scope.

The issuing of the Directive that should have been implemented by 31 December 2013 by EU member states, is an additional direct legal premise to develop the principle of multi-annual financial planning in EU states. By that date, particular countries of the EU should have implemented, among others, the following principle, as expressed in point 20 of the Directive's Preamble: "Although the approval of annual budget legislation is the key step in the budget process in which important budgetary decisions are adopted in the Member States, most fiscal measures have budgetary implications that go well beyond the annual budgetary cycle. A single-year perspective therefore provides a poor basis for sound budgetary policies. In order to incorporate the multiannual budgetary perspective of the budgetary surveillance framework of the Union, planning of annual budget legislation should be based on multiannual fiscal planning stemming from the medium-term budgetary framework"[44]. This is a good moment to highlight that both the interpretation of the legal wording of this principle as well as its practical realization by particular

43 Same as above, p. 7 Memorandum.
44 Point 20 of the Preamble to Council Directive 2011/85/EU.

countries (which will change with time and experience) can vary and will require constant and broad study in the future.

Final remarks

After the dominance of annual budget principle, which lasted until the 1990s, and even though the doctrine saw numerous discussions on the need of implementing multi-annual financial planning (alongside or instead of an annual budget) and had specific practical experiences in the field, at the turn of the century more and more European countries began introducing fragments of multi-annual financial planning to strengthen their annual budgets, and, later, comprehensive multi-annual financial plans. It may well be said that in 2011 it was common for European countries to strengthen their annual budgetary principles with multi-annual financial plans, even though there was no such obligation or standard in international law. Still, it is important to recognize the vast differences in the approaches to this problem between particular countries. Therefore, it seems good that in order to unify the regulations in particular member states the EU decided to issue Directive 2011/85/EU which introduced the minimal standards, requirements, and definitions in terms of medium term budgetary planning. This is, however, both the effect and the cause of issuing the said directive. Its main objective was to introduce medium-term financial planning into the policy of the EU, aimed at coordinating the financial policies of particular members and to increase the supervision over this policy. Also, it is supposed to improve fiscal policies and stabilize the public finances of the EU and of particular member states. Therefore, the provisions of Council Directive 2011/85/EU (including the provisions on multi-annual financial planning) cannot be treated as an end in itself but rather as a measure of implementing more general goals, outlined in the reform of the Growth and Stability Pact, and budgetary supervision.

Eugeniusz Ruśkowski

ROCZNOŚĆ I WIELOLETNIOŚĆ W FINANSACH PUBLICZNYCH WYBRANYCH KRAJÓW EUROPEJSKICH – PRZED WYDANIEM DYREKTYWY RADY 2011/85/UE

W przedmiotowym artykule przedstawiono problem stosunku zasady roczności budżetu do wieloletniego prawa finansowego, zarówno w ujęciu doktrynalnym, jak i jego realizacji w zarządzaniu finansami publicznymi poszczególnych krajów. Powstaje z tego obraz dominacji zasady roczności budżetu do lat dziewięćdziesiątych XX w. oraz jej uzupełniania początkowo fragmentarycznymi, a potem całościowymi wieloletnimi planami finansowymi w późniejszych latach. Analiza sytuacji wybranych krajów europejskich w 2011 r. pokazuje, że wiele z nich ma już wyodrębnione, wieloletnie plany finansowe (a często także budżety zadaniowe) i zasadę roczności budżetu można w nich rozpatrywać w ramach zasady prawnej wieloletniego planowania finansowego. Istnieją jednak poważne różnice między poszczególnymi krajami w tym zakresie. Dlatego wydanie dyrektywy Rady 2011/85/UE z dnia 8 listopada 2011 r. w sprawie wymogów dla ram budżetowych państw członkowskich należy traktować jako nowy impuls rozwoju i ujednolicenia wieloletniego planowania finansowego w skali UE. Wieloletnie planowanie finansowe oraz jego stosunek do roczności budżetu będą jednak odtąd elementem szerszej polityki koordynacji finansowej i nadzoru budżetowego ze strony UE oraz porządkowania zarządzania finansami publicznymi i ich dyscyplinowania w poszczególnych krajach członkowskich.

Słowa kluczowe: roczność budżetowa, wieloletniość budżetowa, średniookresowe ramy budżetowe, wieloletni plan finansowy, Dyrektywa Rady 2011/85/UE

Keywords: budget annuality, budget multi-annuality, medium-term budgetary frameworks, multiannual financial plan, Council Directive 2011/85/UE

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MEDIUM-TERM BUDGETARY FRAMEWORKS IN THE LIGHT OF COUNCIL DIRECTIVE 2011/85/EU[1] AS A BASIC OF MULTIANNUAL FINANCIAL PLANNING IN MEMBER STATES

Introduction

Multiannual financial planning in the European Union (EU) is considered a well-established and commonly practiced measure for managing its public finances. However, until the mid-1980s this type of planning had not been in use, and the financial economy of the then European Economic Community (EEC) was based solely on annual budgets. Today EU's multiannual financial frameworks, the instrument used in financial forecasting in a seven - year perspective, are essential enough in Union's financial system to be regarded as treaties. They were therefore regulated as an act equivalent to the constitution act in EU's legal order, namely, the Treaty on the Functioning of the European Union.[2]

Individual member states, however, for a long time were not required by the Union to undertake any actions that would serve in implementing the rules of multiannual planning as regards public finances, giving the members a free hand in that matter. Yet, this situation started to change as the competences of the EU and the then European Communities expanded on further areas of life, and along with the need to reform the Union's structures and principles of functioning. Other important events include the signing of the Maastricht Treaty in 1992 and the establishment of the Economic and Monetary Union (EMU).

Recent years have seen an intensification of these actions levelled at member states, which seemingly climaxed with the ratification of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of Member

1 This Article was prepared within the framework of the project financed by the National Science Centre granted on the basis of decision no. DEC-2011/01/B/HS5/03357.

2 Treaty on the Functioning of the European Union (Official Journal of the European Union, C 326, 26 October 2012, p. 47, consolidated version), further referred to as TFEU.

States.[3] Based on this act, member states are directly required to implement the principles of multiannual budgetary planning in their legal systems. However, fiscal planning itself was not the objective of the EU, but rather an instrument to achieve other, far more important objectives that should correspond with both individual member states and the EU as a whole, which shall be discussed further on.

This paper aims to present the most important assumptions of Directive 2011/85/EU and to interpret this regulation as regards the medium-term budgetary frameworks which are introduced by this act. Also, based on the analysis presented here, the author endeavours to answer the question referring the essence of obligation to construct the aforementioned fiscal frameworks by member states.

1. The issue of multiannual financial planning in the European Union and member states

1.1. The origin of multiannual financial planning in the European Union

Multiannual financial planning in today's EU historically originated from past economic reforms and is closely related to them. Until 1988, community programmes were an ersatz of fiscal planning. These programmes covered a period of 5 years and concerned specific undertakings of the then EEC and member states, similarly to today's projects financed by Community funds (including structural funds). However, the programmes were not connected with multiannual financial plans as they were in fact non-existent. The EEC's annual budget was only available, which provided specific information on the amount of financing allocated for a particular programme.

Initiated in 1988, the programme of economic reforms within the framework of the so-called Delors I Package, which involved cohesion policies and structural funds, brought about a need for changes in terms of the EEC's fiscal resources[4]. At the time, the so-called fourth resource was introduced - a direct membership contribution collected from all member states. Another important development was the establishment of a total amount of resources for projects financed by Community funds in a five-year perspective and not - as it was done before - annually. It was concluded that since those investment undertakings were forecast in a 5-year period then the resources necessary for their implementation should be evaluated within the same timeframe. Therefore, in 1988 the programming of expenditures on Community projects was coordinated (synchronized) with legislative and fiscal planning. This

3 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of Member States. (Official Journal of the European Union, L 306, 23 November 2011, p. 41), further referred to as Directive 2011/85/EU.

4 European Commission, European Union Public Finance, Luxembourg 2008, p. 35 and further.

resulted in adopting the first multiannual EEC fiscal plan called the Financial Perspective, which was standing for 5 years, from 1988 to 1992. The perspective was formulated in a legal document called the Interinstitutional Agreement (between the Council, the European Parliament, and the Commission) on budgetary discipline and improvement of the budgetary procedure.[5] The perspective itself was presented in the form of a table with specified general priorities (objectives) together with the amounts of funding devoted to them for the period of five years, with specific amounts per each year.

Hence, it may be stated that the 1988-1992 Financial Perspective initiated and formalized the process of multiannual fiscal planning that we see in the EU today. Later documents of this type had the same form of legislation – of an interinstitutional agreement - until 2009, although the Perspective for 1993-1999 was extended to a period of seven years, which resulted from the implementation of another programme of reforms called the Delors II Package.[6]

Some essential changes on the subject of multiannual financial planning were introduced in the 2007 Lisbon Treaty[7] which raised this problem to a treaty dimension. The current Treaty on the Functioning of the European Union devotes Article 312 entirely to financial planning. The article includes general descriptions of what multiannual financial frameworks (such terminology was used to name the document formerly known as a financial perspective) are, their relations to Union's general budget, and it outlined a minimum five-year period of validity. Also, what is very important, the legal rank of multiannual financial planning was raised - today, multiannual frameworks are adopted using a special legislative procedure in the form of a regulation, which belongs to the group of legislative acts[8] and not as before - in the form of an interinstitutional agreement, whose legal character was rather ambiguous (these agreements were classified as so-called specific or unnamed acts - *sui generis*). Therefore, while the previous 2007-2013 Financial Perspective was formulated in an interinstitutional agreement,[9] the next one, for years 2014-2020, took the form of an EU Council Regulation[10].

5 Interinstitutional Agreement of 29 June 1988 on budgetary discipline and improvement of the budgetary procedure. (OJ L 185, 15.7.1988, p. 33).

6 European Commission, *op. cit.*, p. 51 and further.

7 Treaty of Lisbon amending the Treaty on European Union and the Treaty Establishing the European Community, signed in Lisbon, 13 December 2007 Official Journal of the European Union, C 306, 17 December 2007, p. 1).

8 See Art. 312 (2) and Art. 289 (3) of TFEU.

9 Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management of 17 May 2006 (Official Journal of the European Union, C 139, 14 June 2006, p. 1 with later changes).

10 Council Regulation (EU, EURATOM) no 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 (Official Journal of the European Union, L 347, 20 December 2013, p. 884).

1.2. Multiannual planning in the public finances of Member States

In general, until 2011 the EU did not require member states to implement national multiannual financial plans that would be convergent both in time and subject matter with the Union's financial perspective. It can be said that, to some extent, operational programmes connected with cohesion policy were exceptions in this rule. Each member state must adopt such a programme for the duration of the existing multiannual financial framework (and the programmes have to be accepted by the European Commission), but only because they are instruments which, to put it briefly, determine the objectives (actions, investments) and individual state plans to implement within the cohesion policy framework, and for which it can receive resources from various funds, including structural funds and the Cohesion Fund. Yet, it must be clearly stated that operational programmes are not multiannual fiscal plans, or plans which determine the level of budgetary revenues and expenses, their structure, the amount of deficit/surplus, etc.

In this respect, stability programmes and convergence programmes (which also function today) are far more similar to multiannual budget plans. Stability programmes are prepared by those member states which have adopted the euro (i.e., which are in the third stage of the EMU). Convergence programmes are developed by countries which are not yet in the euro zone, but are potential candidates to join it. The functioning of such programmes did not originate from the existence of a common financial perspective. The obligation to make annual update reports on those programmes was introduced in the EC Regulation 1466/97, which belongs to the Stability and Growth Pact.[11] Later, the programmes are evaluated by the European Commission and the Council. The pact itself, on the other hand, was established as an instrument of monitoring and supervising the adherence to budgetary convergence criteria - the requirements which permit a state to participate in the third stage of the EMU and adopt the euro.

Essentially, stability and convergence programmes are elements of a multilateral budgetary surveillance that serves two goals. First, it should prevent excess deficit, or in case of deficit - influence the member state at an early stage to reduce the excess to its referential value (i.e. 3% GDP). Second, it aims at strengthening the surveillance and coordination of economic policies (Art. 1 of Council regulation 1466/97, before the 2011 amendments). Stability and convergence programmes include, within the perspective of the current budgetary year and three subsequent years, such information as: the medium-term budgetary objective and the adjustment path towards that objective for the general government balance, the expected path of

11 The Stability and Growth Pact includes two regulations: Council Regulation 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1, with subsequent amendments) and Council Regulation 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, with subsequent amendments).

the general government debt ratio, the main assumptions about expected economic developments and important economic variables (in particular, GDP growth, employment and inflation), a detailed quantitative assessment of budgetary and other economic policy measures.

Generally speaking, in their assumptions, stability and convergence programmes were documents developed to improve the stability of the functioning of the EMU. In particular, they were supposed to be elements of budgetary surveillance, an instrument that monitors the general condition of budgetary balance (of general government) in member states and signals the possibility of exceeding the deficit. Additionally, the programmes were used to coordinate the EU's economic policy.

The economic crisis in the eurozone, manifested mainly by a rapid increase of budgetary deficit and public debt above their referential values - 3% and 60% respectively[12] in individual member states, proved the pact's inefficiency, which was in reality demonstrated by the fact that the pact provisions were not executed. This state motivated the EU's institutions, mainly the Commission and the Council, to take actions aimed at introducing excessive changes to the pact. These actions resulted in enacting the so-called "six pack" - a set of six legal acts (five regulations and one directive) which were aimed at strengthening coordination of fiscal (economic) policies among member states and improving budgetary surveillance. The reform modified the provisions of the Stability and Growth Pact[13], an example of which was the establishment of a new institution - a European Semester for strengthened coordination of economic and budgetary policies, within whose framework several documents were adopted on the forecasts of budgetary (economic) policies of member states.

The reform also influenced the aforementioned stability and convergence programmes by expanding the information that should be contained in them. Member states were asked to add information on implicit liabilities related to aging and contingent liabilities (such as public guarantees) with a potentially large impact on the general government accounts, and information on the consistency of the stability/convergence programme with broad economic policy guidelines and the national reform programme.

The aforesaid "six pack" also included the previously quoted Directive 2011/85/EU. On the basis of its provisions, member states were for the first time required to construct medium-term budgetary frameworks, which introduced the principle

12 See Art. 126 (5) and protocol 12 of the TFEU.

13 Regulation (EU) no 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) no 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (Official Journal of the European Union, L 306, 23 November 2011, p. 41); Council Regulation (EU) no 1177/2011 of 8 November 2011 amending Regulation (EC) no 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (Official Journal of the European Union, L 306, 23 November 2011, p. 33).

of multiannual budgetary planning to ensure the achievement of medium-term objectives set by the EU.[14]

2. Objective and meaning of medium-term budgetary frameworks in financial planning of the Member States in the light of Directive 2011/85/EU

The analysed Directive 2011/85/EU complements the reforms of the Stability and Growth Pact. The medium-term budgetary frameworks established in the Directive do not duplicate the stability and convergence programmes discussed earlier. Rather, they respond to the need for strengthening the coordination of a fiscal (economic) policy of the EMU and the EU as a whole, and for reinforcing the importance of budgetary surveillance on the level of individual member states. As the explanatory memorandum to the Directive project reads, due to the particular decentralised nature of fiscal policy-making in the EU and the general need for national ownership of EU rules it is essential that the objectives of the EMU budgetary coordination framework are reflected in the national budgetary frameworks.[15]

The rationale for the adoption of this Directive is even more explicitly put in art. 1, which states that the objective is to ensure member states' compliance with obligations under the TFEU with regard to avoiding excessive *general government* deficits. Such wording of the objective results from the aforementioned economic crisis in the eurozone, which is believed to have originated from excessive public debt, a consequence of budgetary imbalances in general government. As a side note, it is worth noting that within the framework of the Stability and Growth Pact, the EU paid more attention to excessive budgetary imbalance than to public debt,[16] although today the Commission is signalling a need for the improvement of compliance to the debt criteria.[17]

The Directive highlights the multiannual element in budgetary frameworks of the member states. Although the annual budget legislation is still considered a key element of the budget process, the budgetary implications of most fiscal measures go well beyond the annual cycle. Thus, the one-year forecast horizon should not be a basis for sound budgetary policies of the member states. Such an objective can be met with multiannual fiscal planning stemming from a medium-term budgetary

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14 Explanatory memorandum to the proposal for a Council Directive on requirements for budgetary frameworks of the Member States of 29 September 2010, COM (2010) 523 final, p. 7.

15 *Ibidem.*

16 J. Rostowski, Pakt Stabilności i Wzrostu – niezbędny i nie do wyegzekwowania (J. Rostowski, *The Stability and Growth Pact: Essential and Unfeasible*), in: Funkcjonowanie Unii Gospodarczej i Walutowej, "Zeszyty BRE Bank – Case" 2004, no 75, p. 37 and further; P.J. Lewkowicz, M. Tyniewicki, Ocena unijnych i krajowych regulacji prawnych ograniczających dług publiczny, in: H. Litwińczuk (ed.), Prawo europejskie – 5 lat doświadczeń w polskim prawie finansowym, Warszawa 2010, pp. 70-72.

17 Explanatory memorandum to the proposal for a Council Directive on requirements for budgetary frameworks of the Member States of 29 September 2010, COM (2010) 523 final, p. 7.

framework, which should at the same time be the basis for annual budget legislation (see Section 20 of the preface to Council Directive 2011/85/EU).

Therefore, the obligation to incorporate the principles of multiannual fiscal planning in the national legal systems of members states, as elements of medium-term budgetary frameworks, is not an objective in itself but rather is supposed to serve - as highlighted before - the strengthening of the coordination of budgetary policies and surveillance on the national level.

3. Main assumptions of medium-term budgetary frameworks in Directive 2011/85/EU

3.1. Definition and scope of medium-term budgetary frameworks

The most important institution implemented in Directive 2011/85/EU is the budgetary framework, which is the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government. Then Article 2 of the Directive outlines in detail particular elements which constitute the frameworks, namely a system of budgetary accounting and statistical reporting; rules and procedures governing the preparation of forecasts for budgetary planning; numerical fiscal rules expressed in terms of a summary indicator of budgetary performance (such as deficit, borrowing, debt); budgetary procedures; arrangements for monitoring and analysis, to enhance the transparency of elements of the budget process; mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors public finances. Significantly, one particular element of the budgetary framework is the so-called medium-term budgetary framework, defined in Article 2 (e) of the Directive as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar, including the setting of policy priorities and of medium-term budgetary objectives. Therefore, the Directive establishes the principle of multiannual budgetary planning that should apply in formulating the priorities of the budgetary policies of the member states. Thus, in the process of designing and managing their public finances, the members cannot refer only to a short-term (annual) horizon, but rather should consider the timeframe that goes beyond a one-year budget cycle. In other words, multiannuality should be the base of these processes, just as it should be the base of the annual budgetary legislation.[18.]

Although the body of the Directive does not include the term “multiannual fiscal (budgetary) plan”, the medium-term budgetary frameworks described in Article 9 of Council Directive 2011/85/EU may well be regarded as such a plan. Section

18 See point 20 of the Preface to the Directive.

1 of the Article outlines the general conditions for frameworks established by the member states, namely that they should be credible and effective, and should extend to a three-year budgetary planning horizon. Only meeting these requirements will ensure that the national fiscal planning follows a multiannual fiscal perspective.

Section 2 points to the subject matter of medium-term budgetary frameworks, which involve a set of procedures for establishing the following items:

- comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicators such as expenditure, ensuring that these are consistent with any numerical fiscal rules;
- projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies;
- a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;
- an assessment as to how in the light of their direct long-term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances.

In fact, the quoted text of Article 9 section 2 of Council Directive 2011/85/EU is only the bare minimum that must be taken into account in implementing (transposing) a framework into national legislation. Moreover, the member states are in no way limited to establish other, additional principles (regulations) referring to national, multiannual fiscal plans. Still, the principles implemented by individual members cannot be contrary to the principles outlined in the Directive, which shall be discussed in more detail in part 3.2; for example, member states cannot create plans for a perspective shorter than three years.

3.2. Minimum standards for creating budgetary frameworks by the member states

The provisions of the analysed Directive provide several important principles that should be taken into account when establishing national rules for creating multiannual financial plans.

1) Establishing a minimum, three-year, budgetary planning period. According to Article 9 (1) of Directive 2011/85/EU, member states are required to establish a fiscal planning horizon of at least 3 years. Such timeframe is convergent with the period of preparation and update of stability/cohesion programmes, whose subject matter is to some extent convergent with the multiannual budgetary frameworks of member states. It seems that here it

is essential to maintain consistency, also as regards the Stability and Growth Pact (see point 19 of the Preface to Directive 2011/85).

2) Basing multiannual planning on an unchanged budgetary policy. To ensure that the multiannual plan is realistic and stable, member states are required to design their plans based on a set and unchanged budgetary policy (see point 21 of the Preface and Article 9 section 2 (c) and (d) of Directive 2011/85/EU).

3) Maintenance of credibility, reality and transparency of the fiscal data which is the basis of multiannual planning. In the light of point 4 of the Preface to the Directive, member states must guarantee that multiannual planning is based on realistic macroeconomic and budgetary forecasts prepared with the most up-to-date information. In their multiannual plans, member states should assume the most likely macrofiscal scenario or a more prudent one. Another requirement of multiannual planning is the maintenance of transparency, realised by public availability of macroeconomic and budgetary forecasts prepared for fiscal planning, but also of the methodologies, assumptions, and relevant parameters on which such forecasts are based (see point 4, 8, 9 of the Preface to Directive 2011/85). Non-compliance to those principles will cause the multiannual budgetary plan to lack credibility, which is required on the basis of Article 9 (1) of Directive 2011/85. Moreover, biased and unrealistic forecasts can considerably hamper the effectiveness of planning and, consequently, impair commitment to budgetary discipline.

4) Necessity to evaluate the data used in budgetary planning. According to Article 4 (6) of Directive 2011/85, the macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased, and comprehensive evaluation (including *ex post* evaluation). The evaluation should be based on objective criteria and its results shall be made public.

5) Maintenance of consistency of annual budget legislation with the provisions of the medium-term budgetary framework. This obligation stems from Article 10 of Directive 2011/85/EU, but this rule also determines the sequence of budgetary planning and the relationship between annual budgets and multiannual frameworks (plans). It seems that the Directive does not simply order to adjust annual budgets to multiannual frameworks, as the nature of the two plans is different. The frameworks should be a strategic act, and as the name implies, it should be relatively general if only due to the fact that while involving at least a three-year horizon, their reality and verifiability is lower than in the case of an annual budget. Also, according to Article 9 (2) of the Directive, the data used by member states in their multiannual plans are of rather general nature. This is because multiannual planning is more of a guideline - a framework upon which further annual budgets should be built. The point is therefore in maintaining a proper sequence of

budgetary forecasting - first, a particularly general multiannual plan should be established, and then, annual budgets expand upon the multiannual plan for a given fiscal year. The proper model of co-functioning of the two plans is the relationship between multiannual budgetary frameworks of the EU and its annual budget.[19]

6) Summary (consolidation) character of budgetary planning. The Directive requires member states to construct their multiannual budgets so that they revolve not only around general government bodies. It should also present specific information on public finance institutions which function outside such budgets, and whose financial economy impacts the whole of public finances. Multiannual planning should be prepared in a consolidated manner with reference to forecasts of specific amounts - that is, forecasts considering the whole general government sector, which is significant from the perspective of deficit and public debt forecasts for the sector (Article 14 of Council Directive 2011/85/EU).

Obviously, there are more principles of multiannual planning resulting from Directive 2011/85/EU - those described above are only the most important ones.

4. Transposition of the provisions of Directive 2011/85/EU into the laws of the member states

The regulations of Directive 2011/85/EU on the implementation of medium-term budgetary frameworks into the laws of member states, as well as on the construction of multiannual budgetary plans, are the necessary minimum that must be included in the process of transposition of this Directive. According to Article 288 paragraph 3 of TFEU, a directive, as a regulatory instrument, is binding, as to the result to be achieved, but leaves to the national authorities the choice of form and methods. The result, in this case, is the implementation into a member's laws of the principles of national multiannual planning with the retention of the minimum criteria outlined in the Directive. The act is, therefore, a framework which outlines the standards of multiannual planning in member states. Keeping to the provisions of the Directive, the members are free to make the rules more specific or create yet more rules, only making sure that there is no contradiction between national regulations and those contained in the Directive. Only then will the process of its transposition, or introduction into national law, be effective, and the member states will not risk accusations of avoiding their treaty obligations, which could result in bringing action

19 See also: M. Tyniewicki, General Budget and Budget Law of the European Union, Białystok 2008, p. 21-22 and Article 312 section 1 paragraph 3 of the TFEU.

to the Court of Justice of the European Union, on the basis of Article 258 of the TFEU.

According to Article 15 of Directive 2011/85, the deadline of its transposition was set to 31 December 2013, which means that the national regulations implementing the provisions of the Directive should be in force since 1 January 2014. The form of the transposition is not dictated by the Union's law, and the member state is free to decide what measures shall be used to achieve the objective outlined in the Directive, with a simultaneous requirement to communicate the text of the main provisions to the Commission. Therefore, the implementation does not necessarily have to take the form of an act of law. The only requirement is that the relevant national transposition act (or acts) ensure the effectiveness (efficiency) of the Directive in national law. For example, Poland enacted the provisions of the Directive mainly by specific amendments in its Public Finance Law, although also other acts were amended.[20] Poland's medium-term budgetary frameworks is outlined in the National Multiannual Financial Plan, formulated in Articles 103-108 of the Public Finance Law[21], adopted in the form of a resolution of the Council of Ministers. Whether Poland's transposition meets the requirements outlined in Directive 2011/85/EU is not touched upon in this Article.

Also, Article 15 (3) of Directive 2011/85/EU obliged the Commission to prepare an interim progress report on the implementation of the Directive, as it did in the Communication on 14 December 2012.[22] Additionally, a summary report was published, which presents information on the progress of implementing the Directive in particular member states.[23]

Conclusion

The analysis of the provisions of Directive 2011/85/EU allows to present the following conclusions on the obligation of creating and using multiannual budgetary frameworks by member states in their fiscal planning.

1) Establishment of the obligation to create medium-term budgetary frameworks by member states should be an instrument for strengthening budgetary coordination and surveillance in the EU on the national level, serving the

20 European Commission, Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, „European Economy" 2013, no 128, http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp128_en.pdf, p. 70-71.

21 Act of 27 August 2009 on Public Finance (Journal of Laws, 2013, item 885, as amended).

22 European Commission, Report from the Commission to the European Parliament and the Council, Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, COM (2012) 761 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0761:FIN:EN:PDF.

23 European Commission, Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, „European Economy" 2013, no 128, http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp128_en.pdf, pp. 70-71.

execution of the provisions contained in the Stability and Growth Pact in terms of preventing excessive deficit and debt.

2) As a result of enacting and implementing the provisions of the Directive, the EU obliged the member states to introduce multiannual financial planning principles that should be the basis for constructing the so-called medium-term budgetary frameworks. Also, to some extent, the Union is trying to standardise these rules.

3) Medium-term budgetary frameworks of member states should meet a range of significant requirements: a minimum three-year budget planning horizon; unchanged budgetary policy based on the established framework; maintenance of credible, realistic and transparent data used in creating a multiannual plan, and a proper evaluation of the data; proper compliance of annual budget legislation with the content of budgetary frameworks (the frameworks should be a strategic-grade documents); consolidation character of multiannual financial planning (involving the whole general government sector).

4) The principles outlined in the Directive, which the member states must consider in preparing their multiannual financial plans (medium-term budgetary frameworks), are the minimum standards which are implemented in national laws. This does not prevent the member states from enacting more detailed or additional rules in respect to multiannual planning, on condition that these actions do not lead to contradictions between national regulations and those outlined in the Directive.

ŚREDNIOOKRESOWE RAMY BUDŻETOWE W ŚWIETLE DYREKTYWY RADY 2011/85/UE JAKO PODSTAWA WIELOLETNIEGO PLANOWANIA FINANSOWEGO W PAŃSTWACH CZŁONKOWSKICH

Początkowo Unia Europejska nie wymagała od państw członkowskich stosowania reguł planowania wieloletniego w zarządzaniu ich finansami publicznymi. Sytuacja ta jednak zaczęła się zmieniać wraz ze wzrostem kompetencji UE oraz ówczesnych Wspólnot Europejskich, uzyskiwanych w kolejnych dziedzinach życia i w związku z tym potrzebą reform jej struktur oraz zasad działania. Nie bez znaczenia było również przyjęcie w 1992 r. Traktatu z Maastricht i utworzenie Unii Gospodarczej i Walutowej (UGiW).

Intensyfikacja działań w tym zakresie jest zauważalna w ostatnich latach. Można stwierdzić, że punktem kulminacyjnym było uchwalenie w dniu 8 listopada 2011 r. dyrektywy nr 2011/85/UE w sprawie wymogów dla ram budżetowych państw członkowskich. Na podstawie tego aktu bezpośrednio nałożono na nie obowiązek wprowadzenia do ich systemów prawnych reguł wieloletniego planowania budżetowego. Jednakże planowanie to w założeniu UE nie miało być celem samym w sobie, a tylko instrumentem do osiągnięcia innych, o wiele bardziej istotnych celów, które powinny odnosić się zarówno do poszczególnych państw członkowskich, jak i do całej UE, o czym dalej będzie jeszcze mowa.

Niniejszy referat ma na celu przedstawienie najważniejszych założeń powoływanej dyrektywy 2011/85/UE oraz dokonanie jej interpretacji, w szczególności mając na uwadze instytucję średniookresowych ram budżetowych. Ponadto autor, na podstawie przeprowadzonej analizy, postara się odpowiedzieć na pytanie, na czym polega istota obowiązku konstruowania powoływanych ram budżetowych przez państwa członkowskie.

Słowa kluczowe: średniookresowe ramy budżetowe, wieloletnie ramy finansowe, programy stabilności i zbieżności, wieloletnie planowanie finansowe, implementacja (transpozycja) dyrektywy

Keywords: medium-term budgetary frameworks, multiannual financial frameworks, stability and convergence programmes, multiannual financial planning, Directive implementation (transposition)

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MULTIANNUAL FINANCIAL PLANNING OF THE STATE IN POLAND COMPARED WITH SELECTED EUROPEAN COUNTRIES[1]

1. General premises of introducing multi-annual financial planning

Creating new currency by the Maastricht Treaty and transferring the monetary policy of the states participating in the Economic and Monetary Union onto the community level seems, from today's perspective, the most significant decision of an enormous impact on the further process of European integration. This thesis may be posited not only because it meant a practical implementation of the concept of monetary cooperation of European states which had earlier been formulated in the Treaty Establishing the European Economic Community, almost simultaneously with the breaking down of the monetary system established in Bretton Woods. Due to this, the economic crisis of the late first decade of the new millennium, unprecedented over the last dozens of years, could be opposed by the potential which considerably exceeded individual financial capacities of even the richest states.

The Maastricht Treaty established economic indicators which should be fulfilled by the state aspiring to participation in the Union. These indicators, also defined as Maastricht criteria, were subsequently reflected in the Treaty of Lizbon, which came to force in 2009, as well as in Protocol No. 13 determining the criteria of convergence. They refer to the condition of the state in the areas of monetary policy and budgetary policy. It is impossible, however, to omit the fact that, according to the official statistics of the European Central Bank, the total public debt of all euro

1 This Article was prepared within the framework of the project financed by the National Science Centre granted on the basis of decision no. DEC-2011/01/B/HS5/03357.

zone states at the moment of introducing the currency into cash turnover[2] amounted to 69.2% of GDP; thus, exceeding significantly the standards established.

It is also important to note that as early as the very beginning of the euro zone a connection between the undisturbed implementation of the economic and social goals and a good shape of public finances of the member states manifested in a lasting budgetary balance. It was taken into consideration that the European potential would be strong by the potential of the member states. It was noticed that troubles of a member state in balancing public expenses and weakening this state's potential means troubles of the community. Their consequences will be reflected both in the form of reducing such a state's payments to the European budget as well expecting aid in the form of financial support on the part of the community in order to lead the situation of this state to a relative balance of public finances.

While the introduction of common currency meant transferring monetary policy from a national level to the EU level, which resulted in strengthening the potential, which could be used against the effects of the economic breakdown caused by the economic crisis, the sphere of the state budgetary policy on this stage of integration was maintained at the discretion of national authorities, remaining in the conviction of full rationality of their actions. It is also important to underscore that with the simultaneous lack of precise standards of accountancy and financial reporting, requirements for conducting budgetary policy was formed quite generally. On the other hand, at that time European authorities did not have effective instruments of affecting member states, which would allow to motivate them more strongly to action which would provided for, in the period of good economic situation and stability, creating precautions allowing to prevent potential effects of recession and stagnation. They forgot about the basic canons of the economic theory of cyclic budget, which actually allow for resolving a budget closing with a deficit in the periods of bad economic situation, but only on condition of resolving budgets with a surplus balancing those deficits in the periods of good economic situation. The member states used the discretion in the sphere of this policy quite blithely and almost uncritically. This, in combination with the deep and long lasting crisis of the first decade of the 21st century, resulted in a rapid growth in the public debt of the euro zone member states from 70% in 2005 to 90.6% in 2012,[3] as well as applying (in mid-2013) the procedure of excessive deficit to 20 of 27 member states of the community.

Despite noticing the problem relatively early and signaling the need for more insightful observation of the shape of public finances of particular states and

2 The common currency was introduced on 1 January 1999 for cashless transactions and on 1 January 2002 for cash transactions.

3 J. Stankiewicz, Doskonalenie procedury ograniczania nadmiernego deficytu jako instrument dyscypliny finansowej państw członkowskich Unii Europejskiej, in: A. Grynia (ed.), *Reakcja na kryzys w krajach członkowskich Unii Europejskiej i perspektywy rozwoju*, Vilnius 2012, p. 77 as well as *European Central Bank, Statistics Pocket Book*, April 2014, p. 46.

initiating a decisive disciplinary reaction acting against the undesirable phenomena of excessive budgetary deficit, it was not until 1997 that they recognized the need for introducing the Stability and Growth Pact into practice,[4]. Critical opinions on this act emphasizing the poor efficiency of its provisions of preventive nature formulated a few years after its introduction, were the basis of reforms implemented in 2005 and 2011. These provisions aimed to strengthen member states' discipline and their responsibility for the shape of public finances through introducing an obligation of obeying the medium-term budgetary objective.

The systematic infringement of standards resulting from the Stability Pact under the deep and lengthy economic crisis and failing to achieve the premises of the budgetary goal determined by the criteria of convergence, resulted in the EU member states (except the UK and the Czech Republic) signing the Treaty Establishing the European Stability Mechanism (commonly known as the Fiscal Compact). The Treaty could only come into force on 1 January 2013 if it had been ratified by at least 12 of the 17 member states of the euro zone. This was achieved in December 2012. The Treaty aims to implement the program of budgetary and economic partnership as well as annual budgetary plans consistent therewith, as well as monitoring its implementation according to the rules determined in the Treaty by the European Commission and the Council of the European Union. The end of the preamble states that granting financial aid under new programs within the framework of the European Mechanism of Stability would depend, from 1 March 2013 on, on the ratification of the Treaty by the contracting party as well as taking into consideration the date allowing for obeying the rules resulting there from within the whole cycle of the national budgetary mechanism. The Treaty is mandatory for the euro zone states and open to the states from beyond the zone. On 20 February 2013, the Sejm authorized the President of the Republic of Poland to ratify the agreement. Signed by the President of the RP the agreement came into force on 18 March 2013.

According to the Treaty the states under the derogation, which (like Poland) ratify the agreement, may be bound with all of its selected provisions included in Title III "Fiscal compact" and Title IV "Economic policy coordination and convergence". Ratification of the Treaty by a state under derogation means, on the other hand, a commitment to treating the requirements of the budgetary discipline established by the Treaty seriously. Monitoring the observation of the provisions of the Stability and Growth Pact and the Treaty by the European Commission and the Council of the European Union, makes the credibility of medium-term economic assumptions realistic and may become a realistic basis of implementing long-term financial planning. Beside irrefutable benefits the achievement of which may be encouraged by multi-annual financial planning, which would involve rationalization

4 See: J. Stankiewicz, Problemy racjonalizacji wydatków publicznych i wieloletniego planowania finansowego w aspekcie budżetu zadaniowego i wieloletnich planów finansowych w Polsce, in: E. Ruśkowski (ed.), *System prawa finansowego,* vol. II*, Prawo finansowe sektora finansów publicznych,* Warszawa 2010, p. 293 onwards.

of the management of public resources, it allows for revealing explicit and implicit financial consequences of the realization of political commitments by the executive-managing authorities, and, consequently, serves well to implement the principle of transparency of public finances.

The ways particular states achieve the medium-term budgetary goals are diversified, therefore, the concepts of multi-annual financial planning in particular states should be different too. Thus, characterizing the Polish practice of heading for implementing multi-annual financial planning at the level of state, this paper is focused on presenting the most important observations connected therewith against the experience of other states: France, which definitely may be counted among the countries with the richest practical experience in rationalization of public expenses, as well as Slovakia and Lithuania, which, along with Poland, were admitted to the EU in 2004. Moreover, Slovakia has been a member of the Eurozone for 5 years and therefore it remains under the obligation of maintaining a high level of permanent convergence, especially stability of public finances and a good shape of budgetary items, and Lithuania meets the conditions of admission to the euro zone and probably it will be admitted to the zone next year.

2. Evolution of standards of the multi-annual financial plan of the state in Poland

Poland's accession to the European Union in May 2004 may be recognized as the completion of the first stage of the political and economic transformation originated in 1989. The second stage may be defined as a stage of building a democratic state with social market economy, integrated with other states within the framework of the European Community. For the transformation it was necessary to implement democratic procedures of state functioning, to introduce market mechanisms into its economy as well as social changes consisting in society developing skills of adapting to the new rules of state functioning. The complexity of transformation processes, a downturn of economic development and a widening gap in material status of society, resulted in the process of making up losses in the standard of living in relation to developed countries, measured with a synthetic Human Development Index, shaping below the expectations formulated before.[5] Hence, in the assessment of social acceptance of the effects of the changes, the revival of democratic state gains a strong approval while fulfillment of economic and social expectations in relation to the rates noted at its beginning, results in a wider polarization of views of both its strong supporters and its strong opponents.

5 HDI: Human Developing Index taking into consideration statistics for 2012 prepared by the UN and classifying 187 countries ranks Poland in 39th place in group I, to which very developed countries with the highest Human Developing Index are counted. In relation to the early 1990s it is a considerable advancement (58th place in 1994) and stabilization of the position in the last decade (35th place in 2003).

The completion of the first stage of political and economic transformations meant the recognition that the Polish legal system, including the financial law system, had achieved at least a satisfactory level of convergence with European law. The change in status from "a state aspiring to join the community" into "a member-state of the community" evoked certain particular legal consequences manifested both in the rights and the responsibilities of the member state. From a time perspective it is possible to show the numerous and various complications that occurred in the process of harmonization of Polish financial law with Community law after the accession to the Community. Several complications occurred anyhow in the subsequent years, when shortages connected with discrepancies or incompatibilities of law and practice of its application with the European standards were gradually eliminated, often under strong pressure from the European authorities.[6]

Poland's joining, on 1 May 2004, the community of European states building their future on cooperation based on bonds of economic and military security, regional cooperation and jointly developed concepts of human development, implied a necessity of taking into consideration organizational connections between the national budget and the financial system of the European Union, which is based on multi-annual financial frameworks. This also meant an obligation to enhance the effectiveness of public finance management in a medium-term cycle. It is important to underscore that Poland, sufficiently in advance, managed to introduce a public debt threshold established by the Maastricht Treaty into the regulations of the binding Constitution along with prudential and remedial regulations establishing procedures in the case of exceeding the established public debt thresholds into the Act on Public Finances. It is also important to highlight the fact that our actions in the sphere of reforming public finances were implemented under very difficult and unfavorable external conditions, on which we had no influence. However, noticing and appreciating the impact of the presented determinants on the pace of the changes, one cannot ignore the fact that Poland from the moment of its accession to the European Union incessantly tackles the problem of exceeding budget deficit standards over the referential value and almost all the time is under the procedure of excessive deficit. Also other important convergence indices referring to the area of monetary policy (e.g. the criterion of price stability) or basic macroeconomic values are characterized by changeable dynamics. Thus, a potential future accession to the

6 C. Kosikowski, Prawo Unii Europejskiej w systemie polskiego prawa finansowego, Białystok 2010, p. 16. The Eurozone member states' evading to obey the requirements of financial security resulted in the weakening of the Eurozone and even a threat to its existence. It also weakened the arguments of opponents to EU interventionism in affairs of such a member state based on the European authorities taking control over part of sovereignty of the state in the budgetary sphere. This situation made the theoretical legal problem of the boundaries of interventionism and financial sovereignty of a state important and permanent, See. C. Kosikowski, Poziom granic i form interwencjonizmu Unii Europejskiej w dziedzinie waluty i finansów publicznych państw członkowskich, in: C. Kosikowski (ed.), *Przyszłość Unii Europejskiej w świetle jej ustroju walutowego i finansowego*, Białystok 2013, p. 101 onwards.

monetary union must be determined by meeting the requirements of expedient and secure integration.[7]

A great number of expectations may result from the prolongation of the planning period. Depending on these expectations and the role ascribed to multi-annual planning it should have an appropriate legal framework. Thus, we can implement the proposal, put forward for many years, of prolonging the planning period in such a way that the multi-annual plan will validly determine the state's obligations in basic social (human) and economic issues aiming at improvement of the social and material status of citizens, and annual plans will determine the way of achieving these goals. It is also possible to assume that prolonging the planning period is supposed to determine the way, the expectations, other than social (cultural, educational, civilization, improvement of material existence) ones, and not less important tasks of the state (defense, internal security and order, territorial cohesion of the state through reducing differences in the development potential on its territory, control over public debt of the state and preventing its unjustified growth threatening the financial security of the state etc.) are fulfilled. We can also assume that the reasons for prolonging the planning period are justified by development of modern knowledge and skills in forecasting and using electronic calculating technology allowing for a current analysis of the situation and potential correction of undesirable phenomena, and, through this, for rationalizing public finance management.

The proposal of prolonging the planning period is based foremost on the arguments emphasizing the fact that an important part of the tasks implemented with public funds are investments whose time of implementation exceeds (often significantly) the period of twelve consecutive months. Against these arguments other arguments can be presented. Undoubtedly, this prolongation of the budget period rationalizing guarantees of providing funds for financing the costs of the whole enterprise, is accompanied by the necessity to improve the methods of forecasting the scale of current expenses in the budget medium-term cycle as well as the need to develop instruments of reaction to unpredictable phenomena and current correction of deviations from the determined way. This concept does not change the present status quo between the legislative power and the executive-managing power in terms of their obligations and rights. It may be implemented either by prolonging the 12-month period or by establishing a longer period divided into subperiods. A multi-annual plan may define expectations and annual plans are to determine valid goals which must be achieved by the end of each subperiod to make the achievement of the final goal feasible. Finally, a multi-annual plan may be binding and may result in parameters necessary to achieve in subperiods included. If a dominating reason for prolonging the planning period is social (human) issues, due to historical traditions

7 See: J. Stankiewicz, Stan finansów publicznych Polski jako państwa objętego derogacją, in: C. Kosikowski (ed.), *Przyszłość Unii Europejskiej w świetle jej ustroju walutowego i finansowego*, Białystok 2013, p. 77 onwards.

and an unquestionable substantial and political justification, such a solution requires rather an appropriate constitutional decision. If a dominating reason is to be technical aspects of financial planning such a condition does not seem indispensable. If, however, a consequence of the introduced changes would be a change of the relation between multi-annual planning and annual planning, appropriate changes in constitutional regulations seem inevitable.

A Multi-Annual Financial Plan of the State was introduced to the Polish financial planning practice by Article 106 para 2 of the Act of 27 August 2009 on Public Finances,[8], according to the provisions of Article 122 para 1 of the Act of 27 August 2009. The regulations introducing changes into the Act on Public Finances[9] were to be adopted by 31 July 2010.[10]. In the original version of the bill on public finances submitted to the Sejm on 20 October 2008 (Sejm paper no. 1181) its role was broadly outlined. It provided that "the Council of Ministers will adopt and present a multi-annual financial plan of the state to the Sejm, which will take a resolution thereon".[11]. It was also provided that the government would yearly update the plan by the date determined by the law and submit to the Sejm information on the state of its implementation during the debate on a report on the state budget implementation. The solution proposed would be, thus, from a formal point of view, correct, because, although actually the provisions of the Constitution claim that home and foreign policies are in the competences of the government, the binding regulations provide certain influence of the Sejm on determining directions of the state policies. Beside deciding on the shape of the budget act the Sejm is authorized to take problem resolutions in various areas, for example, those concerning economic and social (human) policies. Clear emphasis on social reasons could suggest an intention of vesting in this financial plan a role of a plan reflecting obligations of the state represented by the government to citizens, and even its potential transformation, in the future, into a multi-annual budget. Eventually, the government withdrew from the concept of confirming the plan with the Sejm resolution, reducing its rank to the role of a governmental auxiliary plan, which is only to be synchronized with other governmental plans. The change of the role of the plan did not change its substance significantly.

Another, after introducing the multi-annual financial plan of the state, innovative element of the reform included in the Act on Public Finances of 2009 was determining that the expenses of the multi-annual financial plan of the state would be laid out in a system which embraces the functions of the state or the planes of activities connected with implementing its tasks. Performance budgeting at the level of state was the first such a broad reform of budget planning aiming at rationalizing

8 Dz. U. No 157, item 1240 with amendments.
9 Dz. U. No 157, item 1241 with amendments
10 Adopted by Resolution No 119 of the Council of Ministers of 3 August 2010, M.P. of 2010, item 773.
11 See paper No 1181, Article 124 para 3 and Explanatory Statement of the Bill, part II, p. 8.

public expenses. The concept of the reform assumed the replacement (after gaining necessary experience) of the then appropriate method of preparing prospective projects of state budget on the basis of subjective division of public funds (division among disposers of parts of the budget), objective and functional division (division into goals and functions of the state). 22 functions of the state which determine the goals implemented by the state were identified. Within those functions 151 tasks were established, which included subtasks and actions enabling to achieve the task objectives.[12]. The most difficult challenge and necessary attribute of implementing the reform was to determine standards which would allow to control the state of implementation of the goals, as the essence of performance budgeting is planning and informing on the goals and effects of the use of public funds. The number of objectives and standards allowing for controlling the state of implementing particular goals was varied. The assumptions of the state finance reform were first determined in the Act of 8 December 2006 on the Amendment of the Act on Public Finance and some other laws.[13] It was established that the explanatory statement for the budget bill would contain information on tasks, goals, expenses and standards. The practice of first experiments consisted in using this method for expenses of only some disposers and only selected parts of the budget. The exemptions of this type may be applicable at the stage of experiments exclusively. It was assumed that for the first time the holistic concept of performance budgeting would be applied for preparing a draft for the year 2013. So far the draft budget bill has been prepared with a traditional method and performance classification is applied in the multi-annual financial plan for research purposes.

It was assumed that the Multi-Annual Financial Plan would contain basic macroeconomic prognoses, such indices as: gross domestic product and its components listed in the law; rate of prices of goods and services; exchange rate, average gross wage in national economy, employment and unemployment rate, and current account balance. The income prognosis was prepared in compliance with requirements determined in Article 104 para 2 of the Act of Public Finances specifying: tax incomes divided into those from indirect taxes and direct taxes (indicating specific taxes); non-tax incomes (practically including mainly incomes collected by budgetary units: fees, fines and interests); dividends and payments from profits; payments of local government units; payments from the profits of the National Bank of Poland; duties and funds from the EU budget and non-refundable funds from the aid granted by the EFTA member states.

It was also decided that MAFP would be annually updated, and this updating would aim at introducing into the plan data confirmed by the budget act as values of the base year. The Act on Public Finances determined the date of updating,

12 See: J. Stankiewicz, Problemy racjonalizacji wydatków publicznych i wieloletniego planowania finansowego…, p. 302 onwards.

13 Dz.U. No 249, item 1832.

connected therewith, which depended on the day of the budget act promulgation. Simultaneously, the APF demonstrated that the reason for updating may also be securing the compliance of MAFP with the directions of the socio-economic policy and medium-term strategy of the country's development. In this case APF did not determine the date of correcting the prognosis. However, the Act of 6 December 2006 on the Rules of the Development Policy provided that the medium-term strategy of development would be updated at least once every four years, and the Council Regulation (EC) No. 1055/2005 of 27 June 2005 amending Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, also allowed for a revision of the medium-term budgetary objective of a member state in every case every four years, and also more often, any time it results from introducing a considerable structural reform. Noticing connections, strongly emphasized by the legislator, of MAFP with the budget law as well as the possibility of including this plan into the medium-term macroeconomic planning and thereby completing the missing system of substantive, financial and spatial planning as well as connections with the European regulations strengthening budgetary discipline to control its lasting, its considerable sensitivity to changes was underscored.

The amendment of APF of December 2010 is undoubtedly a consequence of Poland being placed under the procedure of excessive deficit and a recommendation referring to the way of its reduction. A rule was then established that a prognosis of expenditures in MAFP would be prepared for each budgetary year, according to the requirements defined by the expenditure disciplinary rule determined in Articles 112a-112b of APF. These regulations were to reduce discretionary expenses of the state budget (flexible spending) and new fixed expenses, to the level compatible with the average annual index of prices of goods and services forecasted for the given year extended by 1 percentage point. The Act established categories of expenses exempted from the rule reducing spending (counting among them expenses on public debt service, expenses resulting from obligations assumed by Poland as regards implementing national and international agreements and binding regulations referring to pension and social welfare benefits). The legislator assumed that the spending disciplinary rule would be applied until the situation of public finances improve, which would manifest in lifting the procedure of excessive deficit for Poland. In practice, these regulations were applied while constructing the budget for 2011 and 2012. Unfavorable external conditions resulting from the current economic crisis as well as lengthy discussions between the government of the Republic of Poland and the European Commission in relation to the statistical methodology of presenting expenses of the pension reform in progress, resulted in the situation that Poland has until now been under the procedure of excessive deficit, and in this situation maintaining the spending disciplinary procedure was considered as burdened with negative consequences for macroeconomic stability. The amendment of 26 July

2013 to the Act on Public Finances[14] suspended its application in 2013, and the Act of 8 November 2013 on amending the Act on Public Finances and a number of other laws,[15] the disciplinary spending rule was replaced with the stabilizing spending rule.

The deficiency of the lifted mechanism was the fact that some actions were taken only when certain prudential thresholds were exceeded. International experience has demonstrated that in the circumstances of slowdown in economic growth such a mechanism may mitigate the effects of this slowdown but at the same time may lead to a pro-cyclical intensification of it. It was concurrently stated that such a mechanism was devoid of automatic instruments which serve to prepare public finances for worse times. The Polish budgetary practice is an example of a situation where the permanent imbalance of public finances brought about exceeding the first prudential threshold, and its further duration put at risk exceeding another threshold. Instruments forcing certain behaviors provided by the mechanisms of prudential and remedial procedures, working procyclically, could tighten the fiscal policy, consequently leading to the risk of macroeconomic stability. The new formula is devoid of the signaled defects. Its introduction is supposed to achieve and maintain the medium-term budget objective determined by the Convergence Program. However, simultaneously, this amendment considerably changes the legislator's intentions in the scope of the relation between the budgetary act and the multi-annual plan, since it changes radically the content of the MAFP.

In accordance with the changes introduced at that beginning of 2014 MAFP consists of two parts:

1. the Convergence Program which establishes a medium-term prognosis of the economic situation for Poland, and
2. the state (government) tasks presented in the system which includes its main functions with the objectives and the degree of their implementation.

Actually it is difficult to justify the intentions of the legislator that imposed the obligation to include the Convergence Program into MAFP. The obligation of preparing the Program results from the Council Regulation 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.[16] Placing the Convergence Program in MAFP does not raise its rank. Neither does placing the plan beside the Convergence Program raise the rank of the Program, for we deal with a plan of a technical nature in relation to the budget act and is also confirmed by an instrument which is of government resolution rank. Moreover, MAFP is complemented with extra prognoses and documents determined in Article 103 para 2 of APF. Undoubtedly,

14 Dz.U. of 2013, item 938.
15 Dz.U. of 2013, item 1646.
16 OJ EC L of 2 July 1997 with amendments, item 209.

adopting such a construction seems to underline the fundamental goal of such a legal solution – to achieve a stable shape of the whole Public Finance sector.

The November 2013 Amendment rescinded the institution of MAFP updating, and Article 103 of APF in its current valid wording decides on “preparing a plan for a budget year and three ‚subsequent years.” Thus the earlier concept of cyclic updating of its establishments was abandoned. Stabilizing the provisions of the plan, this solution is also of certain positive values. It may be transformed into a multi-annual plan with binding spending parameters for particular changes but a solid and clear legal construction needs to be established to do so. The government does not declare a will to introduce such a solution. The only thing we may expect is the rules of annual planning annually determined with a budget note will shape permanent practice of multi-annual financial planning.

3. Legal solutions of selected states and their practice in applying multiannual financial planning

France has enormous experience in introducing the methods of rationalization public spending. A basic instrument of French theoretical reflections and practical experiences considerably affecting the current policy was the RBC method applied there for almost 20 years (1968-85). While searching for methods of rationalization of spending public funds it was observed (following the American concept PPBS), that modern socio-economic circumstances require from the state implementing medium-term and long-term programs of achieving public objectives. A financial counterpart of programs containing characteristics of economic and social effects of their implementation were budgets of programs grouping needs for the funds necessary for their implementation, based on an analysis of estimated costs and expected profits. In contrast with fragmentary experiences and experiments applied in different states, in France, budgets of programs were developed in all ministries for a few years.

The principle of annuality of budget is very strongly embedded in the French law system. It found its reflection already in the Constitution of 1791 and then in the royal decree of 1822 on adopting “an annual act on finances” as regards accountancy and justifying public spendings, in the decree on budget law of 1862 (being the first so comprehensive quasi-codification of budgetary law of a European state), in which a definition of budget was formulated (considered a classical one until now) and finally in the organic ordinance of 1959 binding until 2001. Although as early as the inter-war period attempts were taken to prolong the annual frameworks of financial planning through introduction of the so-called prolonged budgets (budgets whose validity was prolonged for another year; e.g. the budget for 1923 was prolonged over 1924) and biennial budgets (a budget adopted once in one voting for the next subsequent years, for example the budget for the years 1934-35), it is important to underscore that in the French academic doctrine[17] the principle of annuality of budget is unanimously named in the first place among traditional (classical) rules of budgetary economy. Referring to the problem of multi-annual financial planning in the French budgetary law, the outstanding expert in these issues, M. Bouvier, states that at the moment we deal with the position according to which formally multi-annuality is an exception to the rule of annuality.[18]. However, several internal and external determinants affect that. The main external element being an impulse for introducing multi-annual financial planning, is the EU imposing an obligation to develop a multi-annual concept of public funds to establish the way to achieve financial stability. Since 2009, France has been under the procedure of excessive deficit and its hitherto efforts to achieve stability has been regarded insufficient.

The Organic Law of 2001[19] confirms the validity of annuality as one of the main principles of the French budgetary law. This act does not take into consideration solutions on a multi-annual pilot testing. Assessing the situation, M. Bouvier pointed out that as a consequence of such a regulation "a specific inaccuracy occurred as a result of insufficient precision of the term program referring to the period for which it is developed".[20] It was only the amendment to the Constitution of 23 July 2008 (that introduced multi-annual programming repealing the regulations, arousing objections for several years and deciding on non-binding nature of the laws on programs) is regarded as an important step materializing multi-annual budget programming. The Constitution provides that multi-annual directions of public finances are defined in programming laws, whose objective is to balance the accounts of public administration. The new version of the Constitution points at the goal of implementing programming laws, which is balancing public accounts, and introduces a definition of multi-annual programming of the whole sector of public finances.

The Act of 23 July 2008, which amended the Constitution, enabled entering into force a new category of laws: laws on multi-annual public finance programming. It is emphasized that in the light of the rules of French law organization, acts on multi-annual public finance programming have no status of organic laws (are not financial or budgetary laws) but ordinary laws. Owing to this, the assumed solution does not infringe the principle of annuality remaining in compliance with the position of the Constitution and the doctrine. It enabled to adopt the multi-annual financial

17 P. Lalumière (1973); Ch. Bigaut (1995); P.M. Gaudemet, J. Molinier (1997); J. Mehkhantar (2003).
18 M. Bouvier, M.-Ch Esclassan, J.-P. Lassale, Finances publiques, 8e ed., Paris 2008, p. 294.
19 In the literature it is referred to as LOLF (fr. *loi organique relative aux loi de finances*).
20 M. Bouvier, Konstytucjonalizacja wieloletniego programowania finansów publicznych we Francji, in: E. Ruśkowski (ed.), Instrumenty nowego zarządzania finansami publicznymi w wybranych krajach Unii Europejskiej, Białystok 2011, p. 33 onwards.

plan for the period 2009-11,[21] which neither infringes nor negates the rule of budget annuality. Multi-annual financial programs are not (as President Sarkozy put it) "multi-annual budgets either, because they include only spending limits. On the other hand, as discussed in the National Assembly and the Senate, annual financial (budgetary) laws (which include both expenses and incomes) are the only ones with binding force and with their spending aspect are inherent in the framework of three years' programming.

The first multi-annual financial program established a general limit of expenses for three years and could not be changed but modified only, if the initially assumed rate of inflation increases (in the case of a fall of inflation rate no modification was provided). It would also establish limits for particular functions, for funds transferred to local government units and for EU. For the first two years of programming they were definite values, for the third year they could be modified, if the general spending limit was not exceeded. Then the allocation of expenses into programs was established. It remained intact in the first year of programming and as so determined an amount was taken into consideration in the budget bill. On the other hand, it could be modified in subsequent years. The third year was a basis for the development of the next multi-annual program. Two consecutive acts on programming included three-year sections (respectively: the years 2009-2011 and 2012-2014). After the Organic Law of 18 December 2012 on Programming and Management of Public Finances entered into force, the Act on Programming for the years 2012-2017 was adopted (thereby repealing the law which was to be valid until 2014).

The Republic of Slovakia and the Republic of Lithuania are states which share the date of accession to the European Union with Poland. Before this date all aforementioned states were to a high degree similar in organization of budgetary economy as to annuality and multi-annuality of the financial management of public funds. We can say that the main source of law of these states refer similarly to the basic organizational questions of budgetary systems, as well as that a certain common thread binding the organizational solutions of these states is the same requirements resulting from the obligation of preparing stability programs (Eurozone states) as well as convergence programs (states under derogation). However, in specific issues we can point out several crucial differences.

First of all, it is important to highlight the fact that the Republic of Slovakia has belonged to the euro zone since 1 January 2009, whereas the Republic of Lithuania did take efforts to introduce the common currency euro, which turned out unsuccessful. The failure resulted from the fact that inflation rate was exceeded. In the early years of the economic crisis the inflation grew rapidly to such extent that in 2009 the European Commission recommended, and the Council of the EU on 7 July

21 During the first Council for Modernization of Public Policies the then President Nicolas Sarkozy stated: „...we establish, for the period 2009-11, a multi-annual budget, coherent with the directions of our public finances…", quotation after M. Bouvier, *op. cit.*, p. 33 onwards.

2009 made a decision and applied the procedure of excessive deficit to Lithuania and issued recommendations of its removal by 2012. This requirement was fulfilled and on 21 June 2013 the procedure of exceeding deficit was closed for the Republic of Lithuania. Currently Lithuania's accession to the euro zone is assumed for the year 2015.[22]

The Constitution of Slovakia of 1 September 1992 r.efers to the problems of public finances to a minor extent. In contrast to many modern constitutions it did not dedicate a separate chapter to public finances. The Constitution does not refer to the issues of annuality or multi-annuality at all, merely stating that the state budget is approved of with an act of law.

Contrary to that, the Constitution of the Republic of Lithuania, enacted in the referendum on 25 October 1992, in Chapter XI on Finances and State Budget stipulates the principle of annuality of the state budget very clearly and does not provide an institution of financial planning. On 28 June 2012 the Seimas of Lithuania also ratified the Fiscal Compact, which admittedly will be fully applicable to the Lithuanian state having fulfilled certain conditions. However, the fact of ratifying this act by a country under derogation, resulting in binding itself with selected provisions of Title III Fiscal Compact and Title IV Economic Policy Coordination and Convergence (like in the case of Poland), is a very clear signal of its readiness to subordinate to the requirements of budgetary discipline and building the system of credibility of medium-term economic assumptions.

In spite of the clear exposure of the principle of annuality, particular states introduced original solutions even before their accession to the EU, which, on the one hand, may be treated as an exception to the rule of budget annuality serving to prolong the budget period and thereby rationalizing public spending, and on the other, as an exception to the rule of annuality understood as permission to derogate from this rule. In this sense in the practices of the two states we can talk about such derogations the effect of which is heading towards medium-term planning with simultaneous exposure of the rule of annuality. Under Act No.303 on budgetary rules, the Slovakian legislation introduced three-year budgets i.e. a binding budget for one year and non-binding budgets for two subsequent years. As a rule, they were held in acts of 2004 addressed to the government administration as well as to local government units, and then confirmed and extended by Act No. 493 of 2011. This law stipulates that the National Council adopts an annual budget bill (with certain exceptions), apart from a three-year budget of public administration approved by the government and submitted to the parliament for informative purposes only. Besides, it is important that the three-year budget is appended with reports on implementing the budgets for previous years, thereby making a five-year budgetary cycle a subject

22 See: E. Ruśkowski, Roczność i wieloletniość w finansach publicznych Litwy, „Rocznik Stowarzyszenia Naukowców Polaków Litwy” vol. 12, Wilno 2013, p. 123 onwards.

of analysis.[23] In the Republic of Lithuania the Seimas approves the programmed national budget indices for the period of three years. The act of approval is in the form of a resolution of the Seimas of quite a general nature which determines only total amounts of budgetary incomes and expenses provided for particular years, even without division into a budget of the state and budgets of municipalities. The act of approval binds neither the government nor the Seimas, because, without any legal and actual limits and without consequences, the following year amounts may be completely different. In spite of this it is not possible to definitely state that they did not actually affect the shape of the annual budget of the state. Before 1 January 2014, apart from some resolutions of the Seimas on three-year indices of the national budget, there were legal constructions (applied at the stage of implementing the budget) which "prolonged" its annuality. E. Ruśkowski defines them as technical or declaratory constructions. There were also practical connections between the annual state budget and various documents, including those of the nature of programs (also programs indirectly connected with public finances and concerning, for instance, achieving various macroeconomic objectives).

Bearing in mind that the budgetary system of Lithuania in many aspects fails to meet the standards determined by the Directive of the Council of 8 November 2011 on requirements for budgetary frameworks of the Member States, the Lithuanian government adopted in November 2012 an extensive and specific program of implementing the provisions of this directive. Among the decisions taken in this program (which entered into force in 2014) there are also the ones which essentially differ from those applied in other states (like in Poland). For instance, on the basis of government programs the Seimas of the Republic of Lithuania approves projects of three-year budget indices. Projects of state budget (and budgets of municipalities) may not comply with the forecast indices approved for three years. However, in such a situation the government is obliged to submit a written explanation to the Seimas on how new priorities of economic and social (human) policies are reflected in these changes. The program does not establish the form in which the Seimas takes its standpoint towards the explanation presented (the whole spectrum of options is possible: from that accepting acknowledgement, through the demand of completing the explanations, and even their rejection). In Slovakia, the Constitutional Act of 2011 on Budgetary Accountability appoints an independent organ for monitoring and evaluation of economic development and assessment of implementing the principles of budgetary accountability. This agency will, among others, be vested with competences such as preparing and publishing reports on long-term stability of public finances of the state.

23 E. Ruśkowski, Roczność i wieloletniość w finansach publicznych Republiki Słowacji, duplicated typescript, a study prepared within the framework of the research project „Roczność i wieloletniość w finansach publicznych Republiki Słowacji, financed by NCN (UMO-2011/01/B/HS5/03357).

Conclusions

Fiscal rules are one of the characteristic instruments of the reform of management of public funds in European states in the face of financial crisis manifesting itself by growth in budget deficit and public debt. Apart from transnational quantity rules, which had to be fulfilled by the states aspiring to accession to the EU, new rules have been introduced that are binding on the euro zone member states aiming at achieving a medium-term budgetary objective. Moreover, several various national rules appeared which were established by particular states, aiming at combating undesirable phenomena. Besides the existent fiscal rules concerning the desirable level of budgetary deficit and public debt in relation to GDP, others appeared such as: appointing independent fiscal institutions, obligation of establishing medium-term budgetary frameworks and current monitoring of the maintenance on the established path of implementation, as well as introducing budget procedures guarding budgetary discipline.[24] Within the framework of the reforms introduced as a result of the rapid deterioration of the economic situation in 2008, EU member states foremost increase the range of use and restrictiveness of the institutional solutions of the fiscal policy. The observations conducted prove that among four most important areas of reforms of public finances as well as the use of institutional restrictive solutions, i.e. according to rules, institutions, procedures and medium-term financial planning, according to the date of the European Commission for 2009, the most frequently applied methods are changes of budgetary procedures as well as changes of fiscal rules.[25] Among the countries under scrutiny, Poland and Slovakia have decided to introduce spending rules. All the states apply in their legal solutions the rule of annuality of budget modified in practice with introducing elements of multi-annual financial planning.

Also, earlier experiences have undoubtedly had an impact on the selection of the method to implement the concept of the reform. One of the essential elements of success is to adopt a high legal rank of the agreed rule through its record in the Constitution or in a Law on Public Finances, which will confirm its serious and long-term nature. One of a few reasons which contributed to the failure of introducing the method of rationalization of budgetary choices of the Government Centre for Security in France, was a weak connection of the method with the budgetary procedures and lack of a strong political impulse comparable with the one which supported the method Planning, Programming and Budgeting System (PPBS) in the United States[26]. This mistake was not repeated in 2000 when the reform was

24 See: K. Marchewka-Bartkowiak, Reguły fiskalne w warunkach kryzysu finansów publicznych, „Ekonomia i Prawo" 2012, vol. 10, No. 3, p. 47.

25 *Ibidem*, p. 54.

26 U.K. Zawadzka-Pąk, Etapy wdrażania współczesnego budżetu zadaniowego we Francji, in: E. Ruśkowski (ed.), Prawne problemy konstrukcji i funkcjonowania budżetu zadaniowego we Francji. Wnioski dla Polski, Białystok 2010, p. 54.

introduced in France. This reform was carried out with a dominant role and support from the part of the Parliament, with an appropriate organizational framework and the highest rank of legal regulation. Its director and author was the Parliament and not the central administration seeking its favors.[27] The complete lack of political support for the reforms of public finances in Poland, the lack of legal grounds in the sources of law of the highest hierarchy, no clear definition of the goals of multi-annual planning of the state finances, does not give a fair promise for the Polish reform of public finances. Its weak shape manifests itself in the fact of several concepts of changing the role of this plan, which less frequently is perceived as one of the principal instruments of the reform of the state finances, and more and more often is reduced to the role of a technical government plan, which is to serve to improve budget planning.

Transnational fiscal rules have an essential influence on adopting certain national rules. Particular states, selecting their way of stabilization and strengthening the shape of public finances and their rationalization, base their choices on their hitherto experience. Observation of the hitherto practice demonstrates that the established objectives will be achieved in particular states at a different pace and along different paths.

27 E. Ruśkowski, in: E. Ruśkowski (ed.), Prawne problemy konstrukcji…, p. 100.

Janusz Stankiewicz

WIELOLETNIE PLANOWANIE FINANSOWE PAŃSTWA W POLSCE NA TLE WYBRANYCH KRAJÓW EUROPEJSKICH

Wprowadzenie wieloletniego planowania finansowego oraz przygotowania do wprowadzenia metody planowania zadaniowego to najbardziej eksponowane elementy reformy finansów publicznych wprowadzone ustawą o finansach publicznych z 2009 r. Determinanty wprowadzania tych rozwiązań mają charakter wewnętrzny i zewnętrzny. Przestrzeganie średniookresowego celu budżetowego i wymogów dyscypliny budżetowej ustalonych prawem europejskim wymusza stosowanie metod racjonalizowania gospodarowania środkami publicznymi. Wieloletnie planowanie finansowe sprzyja racjonalizowaniu gospodarowania tymi środkami, czyni praktykę wydatkowania tych środków bardziej transparentną, ujawnia wyraźne i ukryte konsekwencje finansowe realizacji politycznych zobowiązań. Wyraźne określenie zamierzonych celów pozwala na dobór najlepszej metody prowadzącej do ich osiągnięcia. Kolejne nowelizacje ustawy o finansach publicznych zmieniają te cele i standardy Wieloletniego Planu Finansowego Państwa. W opracowaniu przedstawiono kierunki tych zmian oraz instrumenty, które maja służyć ich realizacji w Polsce, na tle rozwiązań innych państw – Francji, która ma zdecydowanie większe doświadczenie i realizuje w pełni koncepcje planowania wieloletniego oraz stosuje metodę budżetowania zadaniowego oraz Słowacji i Litwy, które podobnie jak Polska zostały przyjęte do UE.

Słowa kluczowe: Wieloletni Plan Finansowy Państwa, roczność budżetu, ustawa budżetowa, reguły fiskalne, budżetowanie zadaniowe

Keywords: Multi-Annual Financial Plan of the State, budget annuality, budget act, medium-fiscal rules, performance budgeting

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PERFORMANCE BUDGETING AND THE MULTIANNUAL PROGRAMMING OF PUBLIC FINANCES[1]

1. Introduction

Generally performance budgeting is considered as a method of improving the effectiveness (quality of public services), the efficiency (understood as the ratio of expenditures to the obtained results) and the transparency of public tasks realisation (providing to citizens comprehensible information on the functioning of public administration). However, the multiannual aim of the application of performance budgeting should also consist of strengthening real convergence with the developed countries, by achieving and maintaining high rates of economic growth[2]. To achieve this goal it is necessary to link performance budgeting with multiannual planning (programming). For this reason, the principle of multiannuality has become one of the basic principles of performance budgeting[3].

Despite past attempts to extend the planning period of the budget, modern state financial management is still based on the annual budget voted in the form of a budgetary (or financial) act. On the other hand, multiannual plans that enable the reflection on planned expenditures in the horizon exceeding a period of one year have recently started to play a more important role in making decisions on the allocation of public funds.

Due to the nature of performance budgeting and its features distinguishing it from the traditional one (described in subsection 2), the link between performance budgeting and multiannual programming in principle can be carried out in two ways. Firstly, by extending the planning horizon of the annual budgetary (or financial) acts and its accompanying documents (see subsection 3) and secondly, by preparation

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1 This Article was prepared within the framework of the project financed by the National Science Centre granted on the basis of decision no. DEC-2011/01/B/HS5/03357.

2 M. Postuła, P. Perczyński, Budżet zadaniowy – wprowadzenie; znaczenie wieloletniego planowania strategicznego w procesie budżetowania, Warszawa 2010, p. 34.

3 T. Lubińska, Budżetowanie zadaniowe w kontekście zasad podatkowych i budżetowych, in: S. Wieteska, M. Wypych (eds.), W poszukiwaniu efektywności finansów publicznych, Łódź 2009, p. 88.

of the multiannual plans that are separate from the budgetary (financial) act (see subsection 4).

2. Essence of Performance Budgeting

The precise explanation of the nature of performance budgeting[4] firstly requires identification of the fundamental differences between the traditional budget and the performance one, as it enables the clarification of the relationship between performance budgeting and multiannual programming. Therefore, the main differences between the traditional budget and the performance one concern:

– the classification of expenditures – the traditional budget is based on parts, sections, chapters and paragraphs that have heterogeneous character (expenditures are divided on the basis of the entity or the subject criterion), whereas in the case of performance budgeting, expenditures are classified by function, tasks, sub-tasks and actions distinguished only on the basis of the financing subject criterion[5]. It should be noted that the introduction of performance budgeting does not cause any changes in the revenue side of the budget;
– the performance part of the budget – is an essential tool to assess the efficiency and effectiveness of the execution of the performance budget consisting of the objectives and indicators that enable the measurement of the effects of public spending. This performance part does not exist in the traditional budget;
– the control criteria – in the traditional budget emphasis is placed on the legality of expenditure and revenue collection, while in the performance budget, beyond compliance with the law, the effectiveness and the efficiency of public administration activity is evaluated;
– managerial autonomy – is one of the *sine qua non* conditions of the success of performance budgeting. It consists, according to public managers, of much larger freedom (autonomy) in making decisions on the use of budgetary resources. In return, however, they are expected to improve the efficiency and effectiveness of the execution of public tasks. The results of their work are assessed by realisation of the objectives that are measured by indicators;
– the planning horizon – the traditional budget is generally of annual character, whereas having implemented the performance budget the planning horizon is extended.

4 In some countries the terms "performance budget" and "performance budgeting" are used interchangeably, while the first one is related to a plan that satisfies the determined conditions and the latter one should be treated as a method of budgeting.

5 The nomenclature used to describe the levels of functional classification is sometimes different in particular countries, however, the general principles of the expenditure classification are almost the same.

Secondly, precise definition of the „performance budget" requires distinction between the budget as a legal institution and as an economic one[6]. The state budget in its legal terms is a plan that has particular legal form (budgetary or financial act), the special legal force (authorisation to collect revenues and make expenditures) and the specific period of validity (one year).

On the basis of the above-mentioned characteristics which distinguish the performance budget from the traditional one, it needs to be highlighted that the performance budget in legal terms is a financial and material plan [enacted in the form of the budgetary (financial act)], which authorises for the period of one year to collect the revenues and to make expenditures. The expenditures are classified in accordance with the functional classification and evaluated with the performance objectives and indicators.

In turn, the state budget in its economic terms should be regarded as a centralised fund of financial resources that are collected by the state and used in a planned way to carry out its tasks[7]. Assuming that the state budget is an economic category, there are no contraindications to consider the performance budget as the set of information on planned results of the determined financial fund, where the expenditures are classified in accordance with the functional classification and evaluated with the performance objectives and indicators.[8]

3. Relations Between Performance Budgeting and Multiannual Programming

As indicated in the introduction, the linkage between performance budgeting and multiannual programming can be done in two ways. The first – described in this sub-section – consists of the extension of the planning horizon of the (annual) budgetary (financial) act. It can be achieved through the implementation of the multiannual programs planned in the budgetary (financial) act or through the planning performance indicators in the multiannual horizon.

As an example of the first possibility one should examine the Polish solutions where multiannual programs are presented in the Budget Act (beyond the "typical" performance budget inserted in the justification of the budget bill[9]). Multiannual programs – due to the fact that they have been extracted from the actions (eventually sub-tasks or tasks) of the performance budget and therefore represent only a part

6 For more details about the differences between the performance budget in legal and economic sense see: U.K. Zawadzka-Pąk, Polish Financial Law, Bialystok 2014 (in press).

7 E. Ruśkowski, C. Kosikowski (eds.), Finanse publiczne i prawo finansowe, Warszawa 2008, p. 301.

8 OECD, Modernising Government. The way forward, Paris 2005, p. 59.

9 In Poland the traditional budget still constitutes the budget in its legal terms, while the performance budget in an economic sense is presented in the governmental justification of the budget bill. The functional expenditures classification consists of four levels: functions (the highest one), tasks, sub-tasks and actions. The information on the realisation of the performance budget is presented in the governmental report.

of them – are in most cases fulfilled by only one ministry. The interdepartmental programs are hardly ever planned, whereas with the performance budget, a significant proportion of the tasks budget is interdepartmental).

The values of indicators of multiannual programs are planned for a period of three years. The spending prognosis in principle is planned for a period of the same three years as well, however, in some cases the expenditures are indicated only for the upcoming budgetary year. Regardless of the expenditure planning horizon in multiannual programs (one or three years), the Budgetary Act authorises to make expenditures only for one year. Thus, the presentation of multiannual expenditures prognosis in the Budgetary Act (or its annexes) for the second or third year of the program realisation does not constitute the grounds to demand obtaining the pre-scheduled amount in the coming years.[10]

As indicated above, the vast majority of multiannual programs in Poland correspond to actions (the lowest level of the Polish functional classification) of the performance budget, eventually multiannual programs were extracted from these actions, so they constitute only its part. The adoption of such a solution causes that the exploitation of the multiannual programs enables to implement actions (usually the investments ones) in the next few years, but does not make it possible to coordinate the realisation of the tasks having similar objectives entrusted to several ministries[11].

Such a possibility exists, however, in France, where the "interdepartmental performance programs" constructed on the basis of the task of the performance budget are realised. The tasks in the French performance budget are always implemented by only one ministry, which allows to avoid problems of the "blurring" of responsibility between several ministers for the realisation of the planned objectives, and the institution of interdepartmental performance programs enables to coordinate the tasks with similar objectives to avoid financing the same objectives from different sources.

In turn, a slightly different solution has been applied in Slovakia, where two types of tasks have been distinguished in the structure of the performance budget, i.e. the timely determined tasks and the timely undetermined ones. The first of them has a starting and an ending date. The degree of its realisation is evaluated by means of objectives and indicators during the realisation period. In turn, the timely undetermined tasks are realised by the institutions whose tasks do not change significantly during the period of their validity. Its realisation is mainly assessed with the binary (yes/no) indicators which in fact do not describe task execution. The final evaluation of the timely undetermined tasks is strictly formal, since its purpose is to ensure the continuity of operations, which mainly arise from statutory obligations.

10 U.K. Zawadzka-Pąk, Commentary to Art. 122 of PFA, in: E. Ruśkowski, J.M. Salachna (eds.), Finanse publiczne 2014. Komentarz praktyczny, Gdańsk 2014, p. 542.

11 U.K. Zawadzka-Pąk, Konstrukcja prawna Konstrukcja prawna, wdrażanie i realizacja budżetu zadaniowego we Francji i w Polsce, Kraków-Legionowo 2014, pp. 91–95.

The responsibility for the realisation of these two types of tasks is conferred on singular ministers. Additionally, in the Slovak system of performance budgeting the interdepartmental performance programs are realised as well. Its implementation is coordinated by one of the ministers realising the program, whereas the other institutions involved in its execution realise the particular sub-programs.[12]

The second option to link the annual performance budgeting and the multiannual programming consists of the extension of the planning horizon of indicators used in the performance budget. The values of indicators can be planned only for the following year (such a solution is often used in the first years of implementation of performance budgeting, i.e. in the phase of learning mechanisms of its application), or for several years. For example, in Poland, the values of indicators were initially planned only in annual horizon, whereas nowadays they are planned for a few following years.

The situation is quite different in France, where since the introduction of the performance budget, the indicators have been planned in the multiannual perspective. Its values are published in the PAP plans (fr. *projet annuel de performance*) prepared separately for each function. In turn, the reports on the implementation of these plans are published in the RAP reports (fr. *rapport annuel de performance*) that have the analogues structure as the PAP plans [13]. In France, for every indicator not only are the planned values for several years presented (as it happens currently also in the Polish performance budget), but also the values that had been planned in the past for the future (to illustrate the quality of the planning of improving the efficiency and effectiveness of public service delivery) and the results achieved in the previous years (to illustrate the progress which had already been done).

4. Relations Between Performance Budgeting and Multiannual Financial Plans

In recent years (even before Directive 2011/85/EU[14] requiring the EU states to prepare multiannual financial plans entered into force), many countries started to develop their own plans aiming at ensuring multiannual sustainability of its public

12 Ministerstwo Finansów, Opracowanie dotyczące wizyty przedstawicieli Ministerstwa Finansów na Słowacji, której celem było zapoznanie się z funkcjonowaniem i rozwojem słowackiego budżetu zadaniowego i wieloletniego planowania wydatków, w kontekście przystąpienia Słowacji do strefy Euro, Warszawa 2009, p. 8.

13 The obligation to prepare the PAP plans and the RAP reports arises from the regulations of Organic Law on Finance Laws of 2 August 2001 (commonly referred as LOLF), while there are no references to them in the Financial Act (containing the annual state budget). Under financial laws the limits of tasks belonging to different functions are determined, as well sub-limits of persons expenditures of each task. The estimated division of other groups of expenditures (e.g. the capital expenditures, the intervention ones), as well the performance part of the budget (i.e. objectives and indicators) are presented in PAP plans that are non-binding from a financial point of view.

14 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306 of 23.11.2011, p. 41), hereinafter referred to as the Directive 2011/85/EU. EU Member States were obliged to implement it by 1 January 2014.

finances. In some countries, these plans are linked to the existing annual performance budgets (e.g. France), while in others there is no reference to performance budget in the multiannual financial plans (e.g. Hungary).

In this regard special attention should be paid to the solutions implemented in Poland, especially due to the latest changes in the Polish Public Finance Act (PFA)[15] that entered into force on 1 January 2014. In Poland the multiannual programming at the central level is realised via the institution of Multiannual Financial State Plan (pl. *Wieloletni Plan Finansowy Państwa,* WPFP). The first four plans (i.e. for the periods: 2010-2013, 2011-2014, 2012-2015, 2013-2016[16]) specified the objectives of the socio-economic policy and the fiscal one, the forecasts of public debt, the basic data on the state budget. Additionally, these plans also had to include the attachment where every function (the highest level of functional expenditures classification) of annual performance budget was described in multiannual perspective (i.e. description of function, its objectives and indicators, the values of indicators planned separately for each of four years of programming, as well as planned expenditures for the following year and for the last three years of programming).

The WPFP plan for the period 2014-2017, currently in force, approved by the Council of Ministers in April 2014, consists of the Convergence Programme (presented annually to the European Commission) and a surely synthetic description of the objectives of the main functions of the state together with indicators of its realisation (in general, only the value achieved at the beginning of 2014 and the value planned for 2017 are presented).

In France as well, in a result of the adjustment of national legislation to EU regulations (especially to the provisions of Directive 2011/85/EU), some modifications in the content of its multiannual financial plans, i.e. in acts on public finance programming (fr. *loi de programmation des finances publiques*) were made. This category of law had been introduced into the French legal system as the result of the 23 July 2008 Amendment to the French Constitution. Nowadays, according to the constitutional legislator, the acts on public finance programming define the objectives of the actions of the state and the multiannual directions of public finances, and are used to achieve the aims of balancing the accounts of public administrations (Art. 34 of the French Constitution).

The first two acts on public finance programming (i.e. 2009-2012[17] and 2011-2014[18]) were issued only on the basis of the above quoted, very general dispositions

15 Ustawa z dnia 29 sierpnia 2009 r. o finansach publicznych (Dz.U. N°157 item 1240 as amended), hereinafter referred to as PFA.

16 Interestingly enough, the provisions of PFA (prior to the above-mentioned amendment that came into force on 1 January 2014) obliged the government to update the WPFP annually to adapt its content to the Budget Act calling into question the idea of multiannual financial planning.

17 Loi n°2009-135 du 9 février 2009 de programmation des finances publiques pour les (JORF n°35 du 11 février 2009).

18 Loi n°2010-1645 du 28 décembre 2010 de programmation des finances publiques pour les années 2011 à 2014 2014 (JORF n°301 du 29 décembre 2010).

of Art. 34 of the Constitution, and therefore the decisions and the special needs of the government (rather than the legal provisions) affected the material scope of these acts. The situation changed with the entry into force of the organic law on the programming and management of public finances of 18 December 2012[19], which precisely determines the content of the acts on public finance programming.

On 31 December 2012, the third act on public finance programming for the period of 2012-2017[20] was adopted. It contains, for example, three fiscal rules, namely the rule of balance of the public finance sector, the expenditure rule and the debt rule (however, none of them has the character of the golden rule). Additionally, this act (similarly as the previous ones) contains a three-year expenditure plan of functions representing the highest level of French (annual) performance budget. However, there are neither objectives nor indicators of functions therein.

5. Conclusions

As the researches have shown, planning public revenues even in annual perspective[21] poses many difficulties, especially due to the need of taking into account certain macroeconomic phenomena, while without reliable revenues estimations it is not possible to plan expenditures. Obviously, the process of planning in a multiannual perspective is much more complicated. However, despite the complexity of multiannual programming, the consequences of the latest global financial and economic crisis have highlighted that multiannual programming is one of the *sine qua non* conditions of financial sustainability.

Also, performance budgeting, properly implemented and used, due to its role of improving the effectiveness and the efficiency of public spending also constitutes a tool to reinforce the stability of public finances. Therefore, the crucial thing is to profit from the synergy effect resulting from the effective combination of both instruments, i.e. performance budgeting and multiannual planning (bearing in mind that at times these tools may in some aspects be contradictory)[22].

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19 Loi organique n°2012-1403 du 17 décembre 2012 r.elative à la programmation et à la gouvernance des finances publiques (JORF n°294 du 18 décembre 2012).

20 Loi n°2012-1558 du 31 décembre 2012 de programmation des finances publiques pour les années 2012 à 2017 (JORF n°1 du 1 janvier 2013).

21 For example, in Poland the divergence between the revenues forecasts and its executions in the last decade are as follows: 2000: –3,7%, 2001: –12,8%, 2002: –1,1%, 2003: –2,3%, 2004: +1,1%, 2005: +2,9%, 2006: +1,2%, 2007: +3,2%, 2008: –10,1%, 2009: –9,5%, 2010: +0,5%, 2011: +1,6%, 2012: –6,2%. For more details on the difficulties in the process of the budgetary revenues planning see: U.K. Zawadzka-Pąk, The Reality of Planning of Budgetary Revenues in Poland – Facts, Reasons, Consequences, Journal of Voronez State University, Woronez 2014 (in press).

22 For more details concerning the relations between performance budgeting and multiannual financial planning see: U.K. Zawadzka-Pąk, Budżetowanie zadaniowe a programowanie wieloletnie finansów publicznych, in: E. Ruśkowski (ed.), Roczność i wieloletniość w finansach publicznych, Warszawa 2014 (in press).

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BUDŻET ZADANIOWY A PROGRAMOWANIE WIELOLETNIE W FINANSACH PUBLICZNYCH

Ostatni kryzys finansowy i gospodarczy unaocznił, jak ważne jest podjęcie skutecznych działań umożliwiających wzmocnienie stabilności finansów publicznych. W tym celu niezwykle istotne jest wykorzystanie zarówno budżetowania zadaniowego jak i planowania (programowania) wieloletniego, a także efektu synergii powstałego na skutego jednoczesnego zastosowania obu tych instrumentów. Ze względu na istotę budżetu zadaniowego i określone jego cechy odróżniające go od budżetu tradycyjnego powiązanie planowania zadaniowego z programowaniem wieloletnim może następować co do zasady w dwojaki sposób. Po pierwsze poprzez wydłużenie horyzontu planowania w (rocznej) ustawie budżetowej (finansowej) oraz w dokumentach jej towarzyszących, po drugie zaś poprzez opracowywanie odrębnych od budżetu planów o charakterze wieloletnim odwołujących się jednak do aktu autoryzującego do dokonywania wydatków, tj. ustawy budżetowej (finansowej).

Słowa kluczowe: budżetowanie zadaniowe, wieloletnie planowanie finansowe, mierniki, Polska, Francja, Słowacja

Keywords: performance budgeting, multiannual planning, financial programming, indicators, Poland, France, Slovakia

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MULTIANNUAL BUDGETARY FRAMEWORK IN THE REPUBLIC OF LITHUANIA

1. Introduction

It is recognised that the successful functioning of a state as a political organisation requires appropriate funds that are first of all collected in the state budget. In his book *Public Finance* published back in 1892, Charles F. Bastable stated that 'the collection of funds for state purposes and the use of the resources so obtained is [...] a vital part of the political organisation'[1]. A state, in order to achieve the objectives set to it as a political organisation, must collect the funds required to implement these objectives, distribute and use them in a rational manner, i.e. conduct appropriate activities in the sphere of public finance. This is not possible without developing an appropriate regulatory framework for the accumulation and use of state funds manifested as a whole of relevant legal rules and their enforcement. At the same time, the development of an independent system of public finance and its regulatory framework should be viewed as an essential precondition of independence of a state. This is especially relevant for the Republic of Lithuania (hereinafter – 'Lithuania') which after the restoration of independence had to take immediate steps to build a system of its public finance as an independent state since previously Lithuania had had neither an autonomous budget nor an independent tax or monetary system, i.e. it had had no financial independence[2]. It is no accident that the Provisional Basic Law of Lithuania approved by the Law of 11 January 1990[3] already included provisions on the budgetary framework of Lithuania as an independent state. According to Article 47(1) of the Provisional Basic Law 'the budgetary framework of the Republic of Lithuania shall consist of autonomous budgets of the State of Lithuania and

1 Ch. F. Bastable, Public Finance, London; New York, 1892, p. 2.
2 A. Medelienė, B. Sudavičius, Finansų ir mokesčių teisė kaip mokslinio tyrimo objektas. Būklė ir perspektyvos. Teisė, 2011, t. 78, p. 104-105.
3 Official Gazette, 1990, No. 9-224.

municipalities'. It should be noted that already the first years of independence saw the adoption of the main laws that not only laid the foundation for an independent public finance framework but also determined the formation of autonomous public finance law and budgetary law as the main institute of the former. Thus it can be maintained with confidence that before joining the European Union (hereinafter the 'EU') Lithuania already had both an autonomous budget and an independent regulatory framework for it.

2. The concept of annual and multiannual budget planning in Lithuanian law

In general budget planning is defined as 'the establishment and adjustment of a budgetary plan with a structure reflecting the structure of revenues and expenditure of a state, [...] taking into account the changed conditions'[4]. 'Expenditure provided for in the budget law is only valid for one year. After the expiry of this period, there can be no talk in principle of any new expenditure until a new law is passed'. This is how the principle of annual planning is understood in the financial law doctrine[5]. Certainly, one must note that in scientific literature budget planning for a certain period sometimes is referred to not as a principle but as one of the features of a budget. Such different approaches to the term 'budget planning' for a respective period are based on legal provisions. Article 2(14) of the Law on the Budget Structure[6] stipulates that 'State budget shall mean the plan of state budget revenue and appropriations for a budget year as approved by the Seimas' (the Parliament), and Article 13(2) reads that 'The draft State budget shall be prepared for three budget years [...]'. In the first case budget revenue and expenditure planning for a certain period is to be considered as one of the budget features, while in the second case it should be seen as one of the principles of the budgetary process.

Comparing the principles of long-term (multiannual) and short-term (annual) budget planning, one could note that long-term planning in essence only means public budget planning for a period longer than one year. However, the practical implementation of this principle results in the same legal consequences as annual planning: relevant institutions must comply with both long-term and annual planning targets approved under the established procedure as requirements of an appropriate law (i.e. as appropriate rules of law). Practically, long-term planning may be either provided for in the annual plan itself (in the form of carry-forward of unused appropriations) or acquire the form of long-term (multiannual) budgeting. Thus it

4 А. Горохов, Планирование бюджетных расходов в системе управления: диссертация кандидата экономических наук (http://www.dissercat.com/content/planirovanie-byudzhetnykh-raskhodov-v-sisteme-upravleniya-regionalnymi-finansami-na-primere-#ixzz2IJoTTLcK).

5 B. Sudavičius, Trumpalaikis ir ilgalaikis biudžeto planavimas Lietuvos Respublikoje. Teisė, 2013, t. 87, p. 9.

6 Official Gazette, 1990, No. 24-596; 2000, No. 61-1826; 2004, No. 4-47.

becomes obvious that long-term planning can be combined with or can even replace annual planning.

Apart from the understanding of long-term budget planning as the forecast of revenue and appropriations for a period longer than one year, one is frequently dealing with long-term planning as the preparation of appropriate financial projections (programmes, financial perspectives or financial plans) for a period longer than one year. The main purpose of such projections is to facilitate annual budget revenue and appropriation planning. In recent years, Europe has especially shown a tendency towards long-term financial projections (financial plans) with respect to a programme (projected, target or action) budget rather than a conventional (traditional) budget.

3. Reasons for the establishment of the principle of multiannual planning in budget planning in Lithuania

The problem of introduction of long-term planning in the sphere of budget planning is not new. One has to admit, however, that in practice priority, for a long time, was granted exclusively to annual planning of public finance, which only resulted in the establishment and approval of annual budgets at different levels. Generally it can be stated that almost throughout the 20th century the annual planning of public finance, especially budget planning, was a universally accepted rule enshrined in national law, even at Constitutional level[7], although the legal doctrine quite often featured criticism of this principle and proposals to replace (supplement) it with the principle of long-term planning of revenues and appropriations.

Essential changes only came around in the late 20th century when both the EU and separate states began to apply the principle of long-term planning in their public finance planning practice and enshrined this principle in national legislation, even in the Constitutions. These changes were not accidental, but were rather conditioned by a number of objective factors (reasons).

As for the establishment of the principle of long-term budget planning in Europe (in Lithuania, too), the main reason that deserves mention is the positive experience of the EU in public finance planning and the toughening requirements for EU Member States in this sphere. EU practice shows that partial medium-term and even long-term budget planning is possible along with traditional annual budgeting[8]. Such long-term financial plans (called multiannual budget in some contexts and financial perspectives in other cases) have been drawn up in the EU since 1988. One should also be mindful of the fact that, under the Treaty of Lisbon[9], the multiannual financial framework has become a legally binding act. Moreover, Article 312 of the Treaty

7 See: Article 129 of the Constitution of Lithuania (Official Gazette, 1992, No. 33-1014).
8 E. Ruśkowski, U. Zawadzka, Prawne problemy konstrukcji i funkcjonowania budżetu zadaniowego we Francji. Białystok. 2010, p. 161.
9 Official Journal, C 306/01, 17 12 2007, p. 1.

on the Functioning of the European Union stipulates that 'The multiannual financial framework shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources' and 'The annual budget of the Union shall comply with the multiannual financial framework, thus establishing a basis for financial discipline'.

Drawing up long-term financial plans in the whole EU also allows the Member States to plan their finances in a more efficient manner, with account of the expected financial support from the Structural Funds on the basis of the multiannual EU budget.

4. Multiannual and annual budget planning in Lithuania:

– ***before 2011:***

The practice of different states allows provisionally distinguishing the following organisational forms of the implementation of the principle of public finance planning for a certain period: (1) short-term planning: the planning of budget revenue and appropriations exclusively for a period of one year (annual budget establishment and approval); (2) long-term planning: the planning of revenue and appropriations for a period longer than one year (budget establishment and approval for several years); (3) short-term planning based on long-term fiscal projections; (4) short-term planning based on the general long-term plan of the whole public finance sector, and (5) annual planning based on the determination of medium-term objectives. In accordance with the legal framework in force before 2000, Lithuania was in the first group of states: the initial version of the Law on the Budget Structure of 30 July 1990 clearly stipulated that 'Budgets shall be established for one year – from 1 January through 31 December'.

To achieve more effective governance of financial resources on 22 October 1998 the Seimas passed a resolution 'On the concept of the budget structure'[10], that initiated reform of the budget structure and specified the key principles of its implementation, such as: (1) 'To plan the state budget for three years and to approve the same for one year'; (2) 'To establish the state budget by programmes drawn up by respective appropriation managers'; (3) 'Beginning with 2000 to establish municipal budgets by programmes as well'.

The legal basis for the implementation of multiannual and programme planning elements in budgeting was a Law of 11 July 2000 that approved the new version of the Law on the Budget Structure. The wording of Article 17(2) of this Version stipulated that 'A draft state budget for a period of three budget years shall be prepared on the basis of this Law, other laws, macroeconomic projections for the country's economic development, the Government Programme, principles of strategic planning,

10 Official Gazette, 1998, No. 95-2637.

preliminary basic indicators of the national budget, also the programmes submitted by managers of state budget appropriations and draft estimates of the programmes'. It is obvious that from this particular moment Lithuanian legislation has enshrined a transition from annual budgeting to medium-term planning based on long-term objectives.

Important changes in further improvement of budget planning took place after Lithuania's accession to the EU and the preparation of the first Convergence Programme approved by Government Resolution No. 568 of 11 May 2004[11]. Point 3.1.1 of the Programme stated that 'The key medium-term objective of the fiscal policy is to achieve a cyclically-balanced government budget by ensuring the implementation of the economic policy objectives. Steps will be taken to keep the government deficit of 2004–2007 below 3 per cent of GDP and approximate it to a balanced one as soon as possible'. By Resolution No. 446 of 25 April 2011 the Government Approved the Convergence Programme of Lithuania of 2012[12] which states that 'The primary task of the Government of the Republic of Lithuania in the short term (nearest term) is to strengthen the confidence of the financial markets in the long-term sustainability of general government finances' (Point 1), while 'the most important medium-term policy objective is to further consolidate public finances and essentially improve the situation in the areas that might ensure an economic breakthrough' (Point 2). The 2012 objective is to keep the government deficit below 3 per cent of GDP, and create conditions for this deficit to consistently decline by a percentage point of GDP during later years. The following measures are planned for the achievement of the general government budgetary target during 2012-2015: (1) to freeze funds, except for inevitable cases, such as debt service costs and contributions to the EU budget, and to allocate the funds that become available as a result of programmes to be discontinued or other objective reasons for deficit reduction; (2) to allocate for speedier consolidation the windfall revenues resulting from more favourable economic development conditions than those foreseen in the central economic development scenario; (3) to improve tax administration and reduce the scale of shadow economy; (4) to continue the pension system reform ensuring long-term sustainability of the general government finances with the aim to reduce general government liabilities towards future pensioners; (5) to increase the excise tariffs on diesel fuel and on cigarettes (aiming to meet the minimum tariffs stipulated in EU *acquis*); (6) as of 2013, to switch to land tax calculation based on the market value, thus ensuring adequate taxation of private land, and (7) should the aforementioned measures prove insufficient to meet the deficit targets for a specific year, to continue the reduction of public expenditure and/or change the applicable taxes.

11 Official Gazette, 2004, No.79-2793.
12 Official Gazette, 2011, No. 50-2453.

– ***after 2011:***

Thus it can be maintained that the model of medium-term budgeting based on the application of the programme method is gaining dominance in Lithuania at the moment of adoption of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States[13] (hereinafter 'Directive 2011/85/EU'), Article 9 of which obligates Member States to, establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective'.

The Ministry of Finance proceeding with the reform of budgetary framework and having aim to implement the requirements of Directive 2011/85/EU prepared the draft of Law amending the Law on Budget Structure that was adopted on 16 October 2012.

Version of Article 17(2) of the Law on Budget Structure in force states: 'A draft of forecasted indicators of the totality of the state budget and municipal budgets for a period of three budget years shall be prepared on the basis of the Government Programme, the Convergence Programme of Lithuania, the State Progress Strategy (until the entry into force of this strategy – the Long-Term Development Strategy of the State approved by the Seimas), the National Programme for the Advancement of Lithuania, other planning documents approved by the Seimas and the Government, this Law, the Law on Fiscal Discipline, other laws and other legal acts, the country's medium-term economic development scenario, EU financial support strategic documents, strategic plans of activities of appropriation managers and preliminary basic indicators of the state budget and municipal budgets as approved by the Government approved by the Government, also the programmes submitted by managers of state budget appropriations and draft estimates of the programmes'.

The Law establishes that a draft state budget is prepared for 3 budget years (medium-term budget) but is approved for one budget year (annual budget). The budget planning procedure is as follows: after the Government approves the three-year preliminary key budgetary targets and the draft general principles for determining maximum appropriations, the Ministry of Finance informs the appropriation managers of the estimated limits of the maximum appropriations that could be allocated to them for three years. On receiving this information, the state budget appropriation managers draw up (adjust) their strategic action plans and programmes, prepare preliminary draft programme estimates without exceeding the maximum limits for financing expenditure as indicated by the Ministry of Finance, and submit them to the Ministry of Finance. In addition, the appropriation managers also have the possibility to present alternative programmes and programme estimates which may not exceed the total amount of maximum appropriations either. The

13 Official Journal, L 306, 23.11.2011, p. 41.

limits of appropriations for expenditure of budgetary institutions for respective years are determined on the basis of the previous year plan and the use of appropriations for the following two years and their differentiation by separate state functions, with account of an upward-bias in macroeconomic indicators and national budget revenue, as well as the criteria set out in the Convergence Programme of Lithuania, and the priority programmes and measures approved by the Government.

It is evident that multiannual budgeting at present has a sufficient legal basis in Lithuania, and its shortcomings (officially identified by the National Audit Office in its state audit report 'Programme Budget Framework'[14]) are in principle related to the activities of entities involved in budget planning. Certainly, the audit has found that the three-year preliminary key budgetary targets are not complied with (they are changed by more than 26 per cent); the annually adjusted limits of maximum projected appropriations have an impact also on the distribution of appropriations by programmes as defined in the strategic plans of state institutions and agencies; the maximum amount of funds to be allocated to appropriation managers depends on the approved current year appropriations, with account of the used previous year appropriations and projections of macroeconomic indicators; the determination of the appropriation limits fails to take account of the actual need for funds to implement the programmes; unused appropriations should be returned to the budget, etc. As a result of the audit, the National Audit Office has concluded that 'one of the purposes of reform of the budget structure, in particular to plan the state budget for three years and to approve it for one year, has only been achieved in part: the three-year projections of the state budgetary targets are unsustainable, while the planning system not always promotes effective planning and use of budget appropriations. The budgetary process needs to be improved further, with a particular focus on revenue projections. The introduction of strategic planning has brought more clarity to the financing of activities of state institutions and agencies; however, the three-year projections of the state budgetary targets are unsustainable'. Thus the main problem of budget planning is linked with the stabilisation of the three-year budgetary targets which, in our opinion, should be solved in relation to the improvement of the practical activities of entities involved in budget planning rather than to a review of legislation. On the other hand, a question may arise concerning the improvement of the estimation of preliminary national budgetary targets; at present, only the total amounts of revenue and appropriations are determined, while a more effective use of state resources, as we believe, would require specifying medium-term appropriation targets, etc., to allow their approval by separate activities.

14 http:// www.vkontrole.lt/failas_senas.aspx?id=1661

5. Conclusions

It is widely recognised that one of the key principles of the budgeting process is the provision of budget revenue and appropriations for a certain period. As regards budget planning in terms of time, different models are possible, ranging from annual budget planning to medium-term or even long-term planning. A specific model is chosen by each subject independently, with account of its needs (certainly, in case of EU Member States, they must take also the requirements of EU legislation into consideration when solving budget planning issues).

In accordance with the legal framework in force before 2000, Lithuania was the state where budget planning was based exclusively on a one-year period: the initial version of the Law on the Budget Structure clearly stipulated that 'Budgets shall be established for one year – from 1 January through 31 December'. Essential changes in the transition to long-term budget planning occurred following the adoption of the Seimas Resolution on the Concept of the Budget Structure on 22 October 1998 and, to implement this concept, the adoption of a Law amending the Law on the Budgetary Structure of 11 July 2000 which enshrined programme-based draft state budget preparation for 3 budget years.

Beginning with the establishment of the state and municipal budgets for the budget year 2014, Lithuania has introduced a new budget planning model based on the provisions of Directive 2011/85/EU, transferred into national law. The essential feature of this new model is that, beginning from 2014, forecasted indicators of a totality of the state budget and municipal budgets for a period of three budget years are approved, and also the requirement of Article 9 of the above Directive to adopt 'a fiscal planning horizon of at least 3 years' is implemented. Actually, Lithuania has applied three-year budget planning already since 2000; however, now this planning should cover municipal budgets as well. Also stricter requirements for compliance with three-year budgetary targets are introduced: 'A draft of the state budget for a specific year and draft financial indicators of municipal budgets may derogate from the forecasted indicators of the totality of the state budget and municipal budgets for a period of three budget years as approved by the Seimas only in the case when the Government submits to the Seimas a written clarification of how new economic policy priorities are reflected in the changes'. One more novelty is the formalisation of the preparation of an Economic Development Scenario (a description of economic development which is determined by the assumptions selected and listed by the Ministry of Finance, is based on available statistical data and does not contravene national account data and economic regularities and on the basis whereof a draft Law approving the financial indicators of the state budget and municipal budgets for a specific year is prepared).

It seems to follow that these and other measures provided for in the Law on the Budget Structure will not only allow extending the limits of medium-term budget planning (also to cover municipal budgets) but will also ensure transparency in budget planning, improve the quality of macroeconomic and budget projections required for fiscal planning and enhance compliance of budget planning with the requirements of EU legislation.

WIELOLETNIE RAMY BUDŻETOWE W REPBLICE LITEWSKIEJ

Budżet państwa to plan finansowy zawierający wszystkie dochody i przychody zatwierdzone przez odpowiednią instytucję. Jest to plan oszczędzania, pożyczania i wydawania przez państwo, który jest sporządzany zgodnie z zasadami prawa. Niniejszy artykuł ma na celu wyjaśnienie istoty zasad krótko- i długo- terminowego planowania przychodów i środków budżetowych oraz powodów powstania długoterminowego planowania budżetu i jego zastosowanie w Republice Litewskiej. W artykule przedstawione zostały: wpływ prawa UE na te zjawiska (ich ramy prawne), prawna definicja i istota długoterminowego planowania oraz analiza powodów zmiany planowania krótkoterminowego na planowanie długoterminowe. Szczególna uwaga poświęcona jest kwestii reform planowania budżetu na Litwie, które rozpoczęły się w 1998 r. i przejściu z krótkoterminowego na długoterminowy model planowania budżetu. Planowanie budżetu państwa na określony przedział czasu zapisane jest w Ustawie budżetowej jako jedna z głównych zasad całego procesu budżetowego. Zgodnie z Ustawą budżetową oraz innymi aktami prawnymi, projekt budżetu Republiki Litewskiej jest przygotowywany na okres trzech lat, na podstawie litewskich aktów prawnych, informacji z urzędów statystycznych, programów społeczno-ekonomicznych, przewidywań naukowo-technicznych, itp.

Słowa kluczowe: budżet, planowanie budżetu, prawo budżetowe

Keywords: budget, budget planning, budget law

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...We used to think that you could
spend your way out of a recession
... that option no longer exists...

James Callaghan
British Prime Minister
Speech to the Labour Party Conference (1976)

EUROPEAN UNION FINANCIAL CRISIS – AUSTERITY OR POLITICAL SHORT-TERMISM TO BLAME?

1. Introduction

The current global economic and financial crisis has challenged the mechanism of economic policy coordination in the European Union.[1] Since 2008 all EU countries have been affected by this crisis,[2] most of them have been in recession, or close to it. The insolvent, in particular, PIIGS (Portugal, Italy, Ireland, Greece, Spain) cannot finance their deficits on their own in open credit markets. They are suffering from high government deficits and can keep on spending only by way of loans from international organizations.[3] Their debt ratings have been downgraded by various credit rating institutions and their unemployment rates are reaching record highs.[4] On the other hand, banks within wealthier EU member countries, such as

1 J. Dinnage, J.L. Laffineur, *The constitutional law of the European Union*, San Francisco 2010, p. 109.
2 M. Carammia, A. Timmermans, S. Princen, P. Alexandrova, *Analyzing the Policy Agenda of the European Council*, "Perspectives on Europe" 2012, Vol. 42, p. 42.
3 P.R. Gregory, *"Austerity" To Blame? But Where's the Austerity?*, "Forbes" 2013, 26 May.
4 M. Masse , *Is "Austerity" Responsible for the Crisis in Europe?*, https://mises.org/MisesDaily (11.06.2013).

Germany, hold PIIGS bond debt (notably that of Greece), and have had their central banks' credit ratings downgraded because of this exposure.[5]

In this respect, several attempts have already been made to explain the divergence between former economic plans and current financial outcomes, focusing mostly on the role of the economic cycle as an explanatory factor.[6] Nonetheless, the current economic crisis raises important questions about the future of the EU economy. Can the EU countries continue with public spending on such a grand scale? Can they continue generating deficits? Finally, can they really pay back their debt in full?

2. Austerity vs. anti-austerity

Austerity and anti-austerity have become hot-topics in the current economic debate.[7] First, there seems to be no doubt that the origin of public debt is closely associated with the existence of a long process of public sector deficit.[8] Some economists though see financial busts as largely unpredictable events that governments must prevent at all cost. Accordingly they demand that governments enhance (even profligate) their expenditure.[9] Against the crisis, in fact, many countries chose the way of borrowing to finance their public expenditures.[10] For one thing, a fiscal rule that is appropriate for the long term — for example a structural balanced budget rule — cannot be instantly enforced, some mainstream economists say, when the starting point is a deficit close to double digits.[11] Besides, the EU member states and the EU itself have provided financial support to a number of crises-stricken (not able to meet their international payment obligations) EU countries. Alongside the assistance programs and the temporary fund delivery vehicles, the eurozone member states have put together the permanent additional European Stability Mechanism offering assistance to countries facing difficulties financing their debt. On the other hand some economist explain financial crisis as the inevitable result of the unsustainable artificial boom provoked by government intervention in general and

5 E.R. Vickstrom, *Implosion in Greece? An analysis of the Greek debt crisis and its impacts on Europe and world markets*, Urbana-Champaign 2012, p. 28.

6 L. Moulin, P. Wierts, *How credible are multiannual budgetary plans in the EU?*, http://ssrn.com/abstract=2005228, p. 983.

7 G. Erber, *The Austerity Paradox: I see austerity everywhere, but not in the statistics*, "German Institute for Economic Research", Berlin 2013, p. 2.

8 K. Nizioł, *The Problem of Public Debt in the Context of Multiannual Financial Planning,* in: E. Ruśkowski, J. Stankiewicz, M. Tyniewicki, U. Zawadzka-Pąk (eds.), *Annual and Long Term Public Finances in Central and Eastern European Countries*, Białystok 2013, p. 275.

9 C. Leithner, *Austerity, What Austerity? Europe and the U.S. Desperately Need Genuine Austerity: Not the "Faux Austerity" of the Past Several Years*, a paper presented to the Mises Seminar, Brisbane, Queensland, Australia, on November 30, 2013, http://www.mises.org.au/leithner_bankruptcy.mainstream.economics.pdf, p. 7.

10 S. Cukurcayir, K. Tezcan, *Investigations on the Euro Area Public Debt Crisis: the Case of PIIGS*, "European Scientific Journal", June 2013, p. 314.

11 O. Blanchard, C. Cottarelli, *How to Bake a (Cr)edible Medium-term Fiscal Pie*, iMFdirect Blog (http://blog-imfdirect.imf.org/2010/11/04/how-to-bake-a-credible-medium-term-fiscal-pie).

excessive expansion of credit in particular[12] and they recommend that governments slash their spending.[13]

Today's politicians usually denigrate austerity. They say it has gone too far and is preventing an economic recovery.[14] But taking a somewhat closer look at the actual statistics available from Eurostat on the, in particular, PIIGS countries, one finds in fact little empirical evidence that the European governments there have *de facto* reduced their total public expenditures.[15] In other words, government spending has never really stopped rising in the EU as a whole since the beginning of the financial crisis. Spending grew during the period when so called "austerity" policies were supposed to have been applied. Whenever budget cuts were announced, it usually meant actually not total reductions in spending, just simply spending increases that were lower than what was previously planned. Governments maybe have not been borrowing as much, although still heavily and in the end public debt kept increasing. Instead, these governments tax their citizens more to fund their growing expenditures. France, where "austerity" has been most strongly criticized is a good example here. Finally, European governments are now usually as large as they were when the crisis struck in 2007.[16] Unlike genuine austerity, which shrinks the state's income statement and balance sheet, false-austerity, which is typically financed by borrowing, creates an ever-bigger state expenditure.[17]

3. Sound economic principles and spirit of the EU Treaties

Some countries have developed explicit links between the level of public investment and the public debt level. This may include the so called "golden rule", that increases in the amount of public debt should not exceed net public investment, conventions limiting the budget balance or conventions limiting the total level of public debt. The "golden rule" and budget balance are, for example, specified in the German Constitution. The Netherlands also used to apply this rule. The United Kingdom introduced a policy in 1997 under which the budget is balanced over the economic cycle, with no exceptions.[18]

EU monetary policy is also an issue here. This policy is now determined solely by the European Central Bank. The ECB was insulated from political interference and given a mandate to focus on price stability. The eurozone monetary mechanisms

12 C. Leithner, *op. cit.*, p. 6.
13 *Ibidem*, p. 7.
14 M. Masse, *op. cit.*
15 G. Erber, *op. cit.*
16 M. Masse, *op. cit.*
17 C. Leithner, *op. cit.*, p. 11.
18 M. Spackman, *Multi-Year Perspective in Budgeting and Public Investment Planning*, Draft background paper for discussion at session III.1 of the OECD Global Forum on Sustainable Development: Conference on Financing Environmental Dimension of Sustainable Development OECD, Paris, 24-26 April 2002, p. 13.

were similar to those of the former gold standard.[19] In this respect European Monetary Union countries face sometimes hard choices on their budgets.[20] The arrival of the crisis of 2007/2008 has even further revealed the disciplinary nature of the euro. For the first time, the eurozone countries have had to face an economic downturn without monetary policy autonomy. In other words, with the euro, despite all its errors and weaknesses, irresponsible fiscal behaviour has no longer been possible.[21] Finally, establishing a multi-annual fiscal framework in the EU proved to be very important as a basis for efficient planning of public expenditure and to achieve compatibility with EU procedures.

Besides, membership of the EU imposes many legal obligations and requirements on member states. In the field of fiscal policy and budgetary management, these obligations mainly relate to compliance with fiscal policy targets, the provision of statistical data, anti-fraud procedures and regulations concerning financial control. For EU members, some kind of austerity is not just a promise: it's a treaty obligation. The Maastricht Treaty required that countries joining the Union should have budget deficits no higher than 3 percent of GDP and debt levels no higher than 60 percent. Next, the Stability and Growth Pact demanded that the EU countries aim for "medium-term objectives of budgetary positions close to balance or in surplus". In the face of debt crisis and the possibility of PIIGS default on a debt, the EU has modified its economic model. Adopted in March 2011 as the more stringent successor to the former SGP and using the EU's open method of coordination, the Euro-Plus Pact created concrete commitments in which the member nations of the EU are forced to abide to a list of fiscal reforms intended to enhance their fiscal strength and discipline.[22] There are also some relevant extra-community methods in this respect. In particular, The Treaty on Stability, Coordination and Governance – which have been adopted by groups of EU states outside of the treaty and legislative structures of the EU.[23] What is particularly new about the TSCG is that the balanced budget rule is to be embedded and enforced within national law.[24]

4. Void for vagueness...

An European constitution, agreed on by citizens, binding the member states would be probably the best answer to ensure fiscal discipline among EU member countries. Though the former proposed EU Constitution was in fact no real

19 J. Singleton, *The Euro: An Economic Disaster Unfolds*, Paper for the SPERI conference "Beyond Austerity vs Growth: The Future of the European Political Economy", University of Sheffield, 1-3 July 2013, p. 2-3.
20 M. Carammia, A. Timmermans, S. Princen, P. Alexandrova, *op. cit.*, p. 41.
21 J.H. Soto, *An Austrian Defense of the Euro*, https://mises.org/daily/6069/An-Austrian-Defense-of-the-Euro.
22 E.R. Vickstrom, *op. cit.*, p. 24-25.
23 K.A. Armstrong, *The New Governance of EU Fiscal Discipline,* "Jean Monnet Working Paper" 2013, No. 29, p. 4.
24 *Ibidem*, p. 5.

constitution[25] and deteriorated even before it was approved.[26] On the other hand, the framework for fiscal policy and the Stability and Growth Pact, although revised in 2005, as applied in the early years of the European Monetary Union, did not prevent the accumulation of large fiscal deficits in the Union. For example, on January 1, 2001, Greece became the twelfth nation to join the eurozone. In order to qualify for euro membership, the Greek government was required to agree to adopt strict measures, mainly through some serious cuts in public expenditure. The Greek government hid the true level of its debt. Similarly, several other governments were able to cheat in fact to meet the Maastricht rules.[27]

Anyway, fiscal rules, at both EU and national level, have been so much flouted in most member states that ever-increasing government debt resulted from the lack of transposition of European good governance. [28] Indeed, few governments ever took "Maastricht criteria" seriously.[29] Now, by these criteria the average EU country doesn't qualify for admission into the EU![30]

Along with no respect for the rules of the Stability and Growth Pact, there is an unwillingness at EU level to impose sanctions for their breach.[31] Although the excessive deficit procedure was activated both for large and peripheral countries, the sanctions mechanism was not adequately implemented and the debt ratio standard was on several occasions just ignored.

In principle, then, "austerity" can thus cover all kinds of situations with differing economic impacts. Unfortunately, confusion over the meaning of the term impedes a better understanding of the current situation.[32] It seems to be universally taken for granted in current economic debate that austerity measures adopted in the EU have meant drastic spending cuts, coupled sometimes with some tax increases, the net effect being a downsizing of government. But is this really the case? [33] By the original Maastricht criteria, there is simply no "austerity" in Europe. Virtually without exception, member states of the EU aren't honouring their legal obligations.[34] The problems of the Pact on Stability and Growth are just as illustrative. The lack of authority in the Stability and Growth Pact led several member nations to stray from the minimum debt recommendations.[35] The German government broke the rules on

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25 A.R. Leen, *op. cit.*, p. 2.
26 J. Šíma, *A Note On Mises's Vision of Social Harmony in (Central) Europe*, "New Perspectives on Political Economy" 2012, Vol 8, No. 1, p. 7.
27 R. Wellings, *Euro crisis: the dangers of fiscal integration*, http://www.iea.org.uk/blog/euro-crisis-the-dangers-of-fiscal-integration.
28 P. Lampreave, *The New Regulatory Framework in the European Union and the Role of the Independent Fiscal Authority*, "Bulletin for International Taxation", November 2013, p. 592.
29 C. Leithner, *op. cit.*, p. 9.
30 *Ibidem.*
31 K.A. Armstrong, *op. cit.*, p. 2.
32 M. Masse , *op. cit.*
33 *Ibidem.*
34 C. Leithner, *op. cit.*, p. 9.
35 E.R. Vickstrom, *op. cit.*, p. 27.

budgetary deficits for up to five years. They did not, however, expect any serious financial punishment. By the outbreak of the current crisis, the Pact had ceased to be credible.[36] With the recently revised rules the member states can almost always get away with a larger deficit.[37] The same with EPP, the approval of the Euro-Plus Pact made integrated fiscal policy within the EMU a recommendation and not a requirement.

In order to influence the Greek debt crisis, the ECB changed its monetary policy by readjusting collateral requirements to ensure that the Greek public remained eligible to take out loans. On May 3, 2010, the ECB suspended its minimal credit rating threshold for collateral eligibility and then it announced measures to address severe tensions in certain market segments.[38] As a result not only the commercial banks, but governments running huge public deficits could safely count on a bailout. What is worse is that the European commercial banks continue to have no incentives to rationalize their investment portfolio since they can always rely on the ECB's plans to secure "financial stability" in the EMU.[39] The ECB's policy was and is, to bailout the banking system through: credit to governments in distress and lower interest rates. This policy is bound to replicate in the future the problems of the past.[40] European governments seem very reluctant to give up their extended welfare programs, but at the same time they are usually unable to finance these programs through taxes. Nonetheless this feature of political landscape should not be allowed to become an excuse for forcing the ECB into a role beyond its proper legal limits.[41]

Besides, it is worth mentioning, EU treaties oblige most of its non EMU members to join the Eurozone at some point. But this formal obligation has little weight in practice, as Sweden has demonstrated.

What Europe really needs now is addressing long term issues. That means that decision-makers should overcome their pressing daily preoccupations to tackle problems that will determine the next years or decades.[42] As an American economist M.N. Rothbard stated, *if we immerse ourselves wholly in day-to-day affairs, we cease making fundamental distinctions, or asking the really basic questions. Soon, basic issues are forgotten, and aimless drift is substituted for firm adherence to principle.*[43] The problem is, that EU member countries in general prefer to exercise individual control over what their expenses are and will be and they are interested mainly in

36 G. Selgin, *Incredible Commitments: Why the EMU Is Destroying Both Europe and Itself*, "Cato Journal", Vol. 33, No. 1 (Winter 2013), p. 151.
37 A.R. Leen, *op. cit.,* p. 2.
38 E.R. Vickstrom, *op. cit.*, p. 27.
39 M.G. Tsionas, *The Greek Economic Drama: An almost perfect Austrian application*, New York 2013, p. 5.
40 *Ibidem*, p. 16.
41 J.M. Buchanan, *Constitutional Efficiency and the European Central Bank*, "Cato Journal", Vol. 24, No. 1–2 (Spring/Summer 2004), p. 16.
42 Now for the Long Term "The Report of the Oxford Martin Commission for Future Generations", October 2013, p. 6.
43 M.N. Rothbard, *What has government done to our money?*, Ludvig von Mises Institute 2008, p. 7.

short term perspective.[44] Another problem is the temptation of governments to base these short or medium term plans on macroeconomic forecasts which reflect their politically driven aspirations, rather than objective analysis with long term perspective.[45] Besides, trying to integrate an individual EU member nation's fiscal policies still is a very sensitive subject area because it reduces national sovereignty. Then, the Community method is often treated, quite rightly, as a synonym for rules-based governance in which 'supranational' actors have the leading role.[46] And maybe this is the only method to guaranty a strictly enforced fiscal stability rule which would force national governments to cut expenditure instantly, not in the indefinite future.

Conclusion

At the Spring summit, in March 2010, EU Heads of State endorsed the European Commission's proposal for a Europe 2020 economic strategy. José Manuel Barroso, President of the European Commission, urged national and local authority leaders to *make sure that culture is firmly anchored in the long-term development strategies*.[47] This should be used to attain the medium term objective and ensure long-term sustainability of public finances. Markets will only be reassured by credible, long-term plans to cut deficits and debt. Only then can sustainable growth resume.

It became crucial that an appropriate reform of fiscal frameworks within the EU should be instituted.[48] In the Spring of 2013, a period of sustained legislative activity to strengthen EU economic governance seemed to come to an end. With it, 'six pack' and 'two pack' enter into force, completing the budgetary surveillance cycle and further improving European economic governance. Comprising a total of seven regulations and one directive, the 'six pack' and 'two pack' have been visible symbols of the EU's attempt to respond to an economic crisis.[49] In particular, Council Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States, includes these requirements: 1/ there is a need to build upon the experience gained during the first decade of the economic and monetary union; 2/ medium-term budgetary frameworks shall include procedures for an assessment as to how in the light of their direct long-term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances.

44 E.R. Vickstrom, *op. cit.* p. 25.
45 M. Spackman, *op. cit.* p. 5.
46 K.A. Armstrong, *op. cit.,* p. 1.
47 European Commission, *Long-Term Financing of the European Economy*, "Green Paper" 2013, p. 2.
48 P. Lampreave, *op. cit.*, p. 592.
49 K.A. Armstrong, *op. cit.* p. 1.

High levels of public debt cannot be sustained indefinitely. What happens if nothing is done? What happens if we forget about long term perspective and still focus on and stick to current issues? Clearly, as public debt rises, eventually default becomes likely. More likely, a break-up would take place amid plunging share prices, maybe runs on banks. Capital controls are illegal in the EU and the break-up of the euro system is outside the law, so the whole system would be cast into legal *limbo*.[50] Changes in EU economic governance cannot meaningfully be understood as mere switches from *soft* to *hard* legal rules or from *intergovernmentalism* to *supranationalism*.[51] Long term perspective taken into account by decision makers seems to be *sine qua non* condition in this respect. It is a cliché today that if we do not study the past we are condemned to repeat it.[52]

50 "The Economist", *The choice. A limited version of federalism is a less miserable solution than the break-up of the euro*, May 26th 2012.

51 K.A. Armstrong, *op. cit.,* p. 3.

52 T.E. Woods, *The Forgotten Depression of 1920*, http://mises.org/daily/3788 (27.11.2009).

UNIJNY KRYZYS FINANSOWY – WINNE PROGRAMY OSZCZĘDNOŚCIOWE CZY POLITYCZNA KRÓTKOWZROCZNOŚĆ?

Podejmowane w ostatnich latach próby naprawy sytuacji ekonomicznej w państwach członkowskich UE łączy wspólna właściwość – brak stabilności obowiązujących norm prawnych, które tym samym nie były w stanie gwarantować rozwiązań długoterminowych. Stabilność prawa nie stanowiła niestety w UE priorytetu politycznego, czego dobitnym przykładem jest choćby funkcjonowanie przyjętej 17 czerwca 1997 r. rezolucji Rady Europy o przyjęciu Paktu Stabilności i Wzrostu. Pakt gwarantować miał obok zapewnienia trwałego wzrostu gospodarczego i wzrostu zatrudnienia, również zadowalający stan finansów publicznych i stabilność finansową. Państwa członkowskie UE w momencie tworzenia regulacji ekonomicznych nie były najwyraźniej gotowe do przyjęcia jakichś wiążących postanowień dotyczących sposobu prowadzenia i koordynacji polityk gospodarczych ani też środków realnie wymuszających na płaszczyźnie narodowej dbałość o ekonomiczne podstawy funkcjonowania wspólnego pieniądza. Cały więc system musiał z konieczności działać w oparciu o mające faktyczny status *lex imperfecta* normy dotyczące dyscypliny finansów publicznych poszczególnych państw członkowskich. Dzisiaj więc fundamentalne znaczenie dla wyjścia z sytuacji kryzysowej i utrzymania stabilnego rozwoju gospodarczego ma w możliwie największym stopniu związanie politycznych decyzji wiążącymi konstrukcjami prawnymi prawa unijnego, zapewniającymi w szczególności ich długoterminowe oddziaływanie. Innymi słowy, polityka fiskalna państw członkowskich opierać się powinna raczej nie na decyzjach podejmowanych w ramach często chaotycznych politycznych reakcji na każdorazowe problemy, ale na podstawie trwałych norm prawa unijnego.

Słowa kluczowe: programy oszczędnościowe, polityka budżetowa, kryzys finansowy

Keywords: austerity, fiscal policy, financial crisis

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MULTIANNUAL BUDGETARY FRAMEWORKS – POLISH EXPERIENCES

1. Introduction

According to the conclusions resulting from the review of the quality of public finances carried out by the OECD[1], the introduction of medium-term perspective in budgetary planning enhances the ability of the government, the Ministry of Finance in particular, to design and maintain a sustainable fiscal path. Activities (public interventions) that are implemented by the public sector are in most cases of a multiannual nature. Strategies and development programs, including public investments and the process to consolidate and restructure public finances, are of multiannual character. The effects of activities and their physical results are often delayed in time from the moment of their planning and rarely close during a single fiscal year.

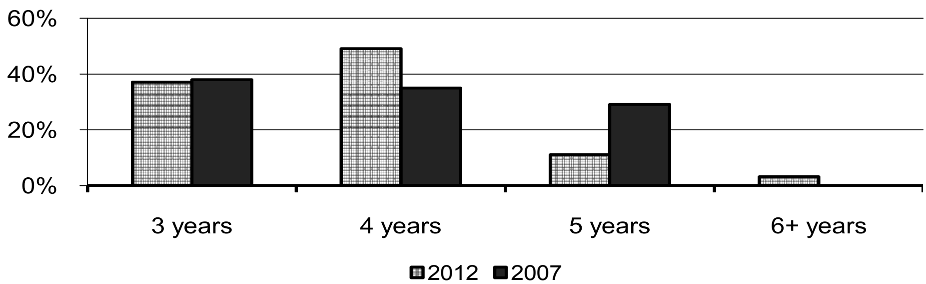
The EU Council Directive on requirements for budgetary frameworks of the Member States (hereinafter: the Directive) imposes an obligation[2] to base budget planning on a credible and effective medium-term budgetary framework with at least a three-year perspective. In compliance to the Directive, the medium-term framework includes multiannual targets for deficit and debt, expenditure and revenue forecasts, description of activities, as well as the assessment of impact of the adopted medium-term framework for multiannual stability of public finances. Every subsequent annual budget law should be consistent with the medium-term budgetary framework. The gist of this approach can be found in the actions taken by individual countries around the world. According to the data available at the end of 2012, some

1 Working Party of Senior Budget Officials, 34th Annual Meeting of OECD Senior Budget Officials, *Strengthening Budget Institutions In OECD Countries Results Of The 2012 OECD Budget Practices And Procedures Survey. Draft.*, Paris, May 2013.

2 Art. 9 of the EU Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary framework of member states, Official Journal of the European Union of 23 November 2011, L 306/41.

27 OECD countries were using the medium-term perspective[3] in their budgetary planning. In 2007, this practice was applied by only 19 countries, which means a significant increase in the use of multiannual planning for financial management. In most countries, the adopted medium-term planning horizon is between 3-4 years (see Figure 1).

Figure 1. Planning Horizon in OECD Countries



Source: Own calculations based on OECD data.

The OECD survey results indicate that the medium-term forecasts and plans are usually updated annually. Only in six countries, are the medium-term plans not updated every year, but rather every 2-3 years. The scope and complexity of medium-term plans in individual countries is each and every time linked to their past experiences in medium-term forecasting. The success and effectiveness of the procedures used are primarily associated with the maintenance of a balance between improving the predictability and the relevant flexibility. In most cases, the key component of the medium-term plan are forecasted expenditures, including the so-called mandatory, or fixed and flexible.

The reasoning behind opting for an annual update of the medium-term plans is the fact that they are used as the foundation for the annual budget law. At the same time, sufficient flexibility is maintained to allow for the possibility of annual adjustment to meet changing internal and external conditions. The annual frequency of updates also allows for an adequate response in case priorities change as a result of parliamentary elections, as well as helping to reduce the negative effects of the so-called budgetary games (e.g. starting up costly investment projects using scarce funding in the current annual budget). All changes to the plans and budgetary forecasts, regardless of their cause, shall be made while maintaining the medium-term perspective.

3 Working Party of Senior Budget Officials, 34th Annual Meeting of OECD Senior Budget Officials, *Strengthening Budget Institutions In OECD Countries Results Of The 2012 OECD Budget Practices And Procedures Survey. Draft.*, Paris, May 2013.

According to the OECD report, this is mostly the job of the executive power in some 27 OECD countries using medium-term planning. Only in 10 countries, are the medium-term plans approved by parliament. The OECD[4] study specified the medium-term budget planning rules that determine the success of these processes. These factors are as follows: conservative planning of expenditures and incomes, providing support to spending cuts, complexity of plan strengthening its credibility, simplicity allowing for the plan to be understood by the citizens and legislative authorities, consistency with development strategies, transparency of annual changes in expenditures in relation to previous plans.

2. Polish experience in multiannual planning

Under the task-based system, which has been introduced by the government administration in Poland since 2007, a multiannual planning perspective is developed in the state budget. As in other countries, the process to implement such planning is complex and lengthy by nature. In 2009, changes were made to the public finances legislation which resulted in the full functionality of the multiannual task-planning system.

To a large extent, it is the aforementioned arguments that the draft budget initiators and the legislator had in mind when introducing in the Public Finance Act[5] of 27 August 2009, detailed solutions for multiannual planning both at the central level – the State Multiannual Financial Plan (SMFP) – and at the local level – Multiannual Financial Forecast (MFF).

The State Multiannual Financial Plan is the foundation of medium-term budgetary planning at the government level. It was introduced following a careful analysis of such tools operating in other countries. The Polish model of multiannual planning is very similar to the model that has for many years been successfully used in Finland.[6]

Creation of SMFP was possible by using the experiences gained in medium-term planning and task-based budgeting methodology which has had largely presentational character so far. The Public Finance Act envisages that SMFP is developed and adopted by the Council of Ministers by resolution. The mode and the rules for drafting SMFP preserve the new quality of multiannual planning in the public administration, associated with the use of the latest methods of public finance management. The fundamental and at the same time pioneering component of the

4 Working Party of Senior Budget Officials, 34th Annual Meeting of OECD Senior Budget Officials, *Strengthening Budget Institutions In OECD Countries Results Of The 2012 OECD Budget Practices And Procedures Survey. Draft.*, Paris, May 2013.

5 Act of 27 August 2009 on public finance, Official Journal of 2009. No. 157, item 1240, as amended.

6 In Finland, a four-year budgetary plan is developed with objectives assigned for individual budget tasks and with resources dedicated to them. The plan, prepared by the Finance Minister, is adopted by the government. The parlament discusses the plan that has been prepared, however, it does not make any binding decisions about it.

plan, is the state budget expenditure forecast that is drawn up in the state functions system, including the definition of objectives and measuring indicators showing the degree of their implementation.

The first State Multiannual Financial Plan for the years 2010-2013 was adopted by the Council of Ministers on August 4th, 2010.[7] In accordance with the Public Finance Act provisions, the SMFP stands for the plan of incomes and expenses as well as revenues and expenditures of the state budget for four years. The SMFP is compiled on a task-basis involving the functions of the state, along with the objectives and indicators measuring the degree of implementation of a given function. The document recognizes the objectives of the medium-term national development strategy, as well as the directions of socio-economic policy in a given period. Thanks to the task-based system, SMFP stimulates higher efficiency of the management and disbursement of public funds, and credibility, transparency and predictability of fiscal policy, in particular by linking state budget expenditure with the medium-term and multiannual priorities of the government. Reporting on the implementation of the State Multiannual Financial Plan includes measuring the effects of activities performed by public institutions, which allows to assess the level up to which assumed objectives have been achieved. SMFP, using the medium-term perspective, helps optimize decisions to allocate total public expenditures and increase the sustainability of public finances. Subsequent SMFP were the basis to work on the budget laws for 2011-2014, especially in terms of the task-based presentation of state budget expenditures and the state budget deficit.

In accordance with the statutory rules, an update of SMFP is prepared annually for the current financial year and the three subsequent financial years. Also, until May 30th of each year, information shall be drawn up about the progress of the SMFP execution as adopted by the government the year before. An analysis of the relevant documents has been presented in the next section of this chapter already on the basis of these three documents relating to the multiannual planning (for the first time during the socio-economic transformation), regulated by legislation.

Appreciating the beneficial nature of multiannual planning, it has also been applied at local government level where relevant tools have been introduced, i.e. the Multiannual Financial Forecast (MFF), which is a tool for multiannual planning for use by local government units. MFF is adopted by resolution of the legislative body and cannot be drawn up for a period of less than one financial year and the three subsequent years. Debt forecast for the entire period of its maturity is part of MFF, i.e. until the final deadline for repayment of liabilities incurred by a given local government unit. MFF is the stepping projection that is supplemented (extended) for

7 Subsequent plans as adopted by the Council of Ministers: SMFP for years 2011–2014 (5 April 2011), SMFP for years 2012–2015 (8 May 2012), SMFP for years 2013–2016 (30 April 2013).

the next financial year, so that it would cover each financial year and at least three consecutive years.

The Multiannual Financial Forecast (MFF) includes a projection of inter alia such parameters of the local government budgetary units as:

- budget incomes in breakdown to incomes and current expenses, including for debt servicing, guarantees and sureties;
- incomes and material expenditures, including incomes from the sale of assets;
- budget result;
- revenues and expenditures of the budget, including debt incurred and planned to be incurred.

MFF also includes the debt amount forecast and the authorizations for an executive body of the local government unit to make commitments under such agreements of which the implementation is essential in the financial year and in the subsequent years, to ensure the continuity of the local government unit operation and the payments that fall in subsequent years. The Appendix to MFF defines the limits of spending and commitments for multiannual undertakings (multiannual programs, projects or tasks). Just as in the case of the budget resolution, the initiative on the preparation and submission for adoption of the draft resolution on the multiannual financial forecast and its amendments, should be addressed only to the management board of the local government unit.

3. Multiannual Planning Activities in Poland in 2012-2013

Despite the implementation of the medium-term planning mechanisms into the Polish legislation system, EU regulations enforce their improvement and consistency of appropriate solutions with other EU countries. The deadline for the enforcement of solutions – called for in the Directive on requirements for budgetary frameworks of the EU Member States – into the national legislation expires at the end of 2013. The actions to be taken by the Member States in this matter shall therefore be performed within a little more than two years. The scope of the required supplementations to the national legislation, related to the multiannual planning horizon, was moderate in the case of Poland. The solutions discussed earlier and included in the Public Finance Act of 2009, although made *ex ante,* largely exhaust the requirements of the Directive in the area discussed hereto.

In December 2012, one year following publication of the Directive, a law was adopted amending certain acts due to the implementation of the budget law[8].

8 Act of 7 December 2012 on amending some laws related to the enforcement of the budgetary law, Official Journal of 2012, item 1456.

Article 8 of this Act, recognized the latest package of amendments to the multiannual budgetary planning. A rule was preserved that the primary way of presenting state budget expenditure in the multiannual plan is to break it down into the functions of the state, along with an indication of objectives and measuring indicators (the additional method of expenditure disaggregation, originally introduced in 2009, was abandoned). In place of a floating date, to be determined by the government, to adopt SMFP (two months after the publication of the Budget Act), a specific deadline was introduced (April 30th of each year). This clarification improves coordination of works to prepare various government documents (e.g. subsequent updates of the convergence programs) in the areas of planning and forecasting the public finances. In addition, the selected date is consistent with the schedule of the European Semester for economic policy coordination[9] introduced in 2011, as part of the update of the EU Stability and Growth Pact. Another amendment, clarifying the scope of forecasts in SMFP, was to include under this plan a consolidated plan of budget spending for the financial year and three consecutive years of state budgetary units, executive agencies, budgetary economic institutions, state target funds, and state legal persons (other state or local government legal entities established on the basis of separate acts to perform public tasks, except for companies, research institutes, banks, and commercial partnerships).

New solutions related to MFF created a system of reliable flow of information on the status and the medium-term financial plans of local government units towards the Finance Minister. Also Important, was a commitment for the Finance Minister to issue the Regulation on MFF specimen and the procedure on the flow of information from these units to Regional Accounting Chambers (RIOs) and thence to the Finance Minister. The purpose of the MFF-related amendments was to ensure:

– openness and transparency of public finances;
– preparation of realistic financial projections of local government units;
– for the Finance Minister to obtain information allowing the level of debt and the deficit of the entire public finance sector to be controlled.

The obligation to include under the SMFP the consolidated financial plans of specified public finance sector entities as well as the system of information flow from the local government subsector to the Finance Minister, improves the quality of monitoring the financial standing in the entire sector of central and local government institutions as well as the credibility of plans, and also forecasts prepared by the sector as a whole. The unified and comprehensive multiannual budgetary planning procedures have thus been extended to the whole sector of central and local

9 Art. 1 section 3 of the Regulation by the EUropean Parliament and the Council (UE) No. 1175/2011 of 16 November 2011 amending the Regulation by the Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Official Journal of the European Union of 23 November 2011, L 306/12.

government institutions. The forecasting data will be obtained in a more realistic and effective way from the local government subsector, which should mitigate the risk of inappropriateness and errors of these forecasts. This solution meets, under Article 13 of the Directive, the postulate of a comprehensive and consistent account of all sub-sectors of the central and local government institutions in the general budget planning.

Item 20 of the preamble to the Directive, clearly states that the basis for planning of the annually adopted budget law should be multiannual budget planning. This provision is in line with the binding in Polish law since 2010, Article 105 section 1, which shows that SMFP is the basis for the preparation of a draft budget law for the next financial year. Analysis of the hitherto scope of the SMFP content, indicates that despite its clear indication as the basis for annual planning, it does not exhaust all provisions of the Directive.

According to the provisions of the Directive, medium-term budgetary framework should include procedures to prepare inter alia such comprehensive and transparent budgetary targets on debt and deficit, and other summary fiscal indicators (especially expenses), forecasts of major expenditures and incomes, courses of action to achieve the medium-term objectives and to assess their impact on the long-term stability of public finances.

A comprehensive overview of the key multiannual budgetary planning documents in Poland (SMFP, MFF, Convergence Program Updates (APK), public debt management strategies) allows to say that recommendations for a medium-term framework have largely been met. Forecasts of incomes and expenditures are prepared, there are analyses and assessments of the consequences of actions to achieve deficit and debt-related objectives, and there are annually updated deficit and debt-related objectives based on realistic macroeconomic assumptions. A deficiency of the current system is, however, a limitation of the basic scope of financial forecasts in SMFP to the state budget, with only point-based inclusion of debt and deficit forecasts for the entire central and local government institutions. Dispersion of information and medium-term forecasts in various documents reduces the transparency of the entire system, although the level of the planning and forecasting coordination already seems to be at least satisfactory.

Although the Directive does not contain a postulate to develop a single comprehensive medium-term planning document, a subsequent package of the proposed amendments (concerning SMFP scope) to the Public Finance Act has been prepared in Poland in 2013. According to the new SMFP law, it will contain a forecast of incomes and expenditures of central and local government as well as macroeconomic forecast, and it is to respect the directions, guidelines, and recommendations issued under the multilateral surveillance procedures framework in the EU. The two main components of SMFP shall constitute a convergence program (or rather its update) and forecast of expenditures by functions of the state and their assigned objectives, together with indicators measuring their achievement level. The prepared draft specifies an obligation to include in the SMFP content specific forecasts for the central and local government institutions sector, namely:

- level of the medium-term budgetary objective;
- priorities of government policy;
- forecasts of the main items of incomes and expenditures;
- planned activities together with an indication of their impact on the level of incomes and expenditures, as well as on the long-term stability of public finances;
- forecasts of the sector result;
- projections of public debt;
- indication of changes in the activities and objectives compared to the previous SMFP.

The scope of the proposed changes to the structure of SMFP is a proper complement to the existing legislation in order to accurately meet all the postulates of the Directive (contained mostly in its Art. 9) with respect to the rules and mode for multiannual budgetary planning in an EU member state.

4. Summary

Since the inception of the European Union, the EU countries have been declaring to conduct a reliable economic policy conducive to achieving stable and sustainable growth for the entire association. The proper functioning of the entire community requires an adequate level of real convergence, involving the leveling of differences in socio-economic development among individual member states, the pursuit of concurrence of business cycles, and so on. The condition of this process is that individual countries should meet nominal convergence criteria of which the important component is the fiscal criterion and the stable well-managed public finances directly associated with it.

The European Union legislation included in the treaties and regulations, and in the Stability and Growth Pact in particular, was to lead to the improvement of real convergence within the group. Analysis of the fiscal criteria of nominal convergence in the years of 1999-2012 indicates that the achievement of the PSiW assumptions and objectives was ineffective. Since 2011, there has been a significant expansion of legislation in this area, including on the so-called excessive deficit procedure. Under the framework of the new organization of multilateral surveillance and economic policy coordination, many components have been changed and the introduction of modern tools for budgetary policy management have been ordered. Some solutions remain voluntary – the key decisions on the form of how to implement individual solutions on the budgetary framework to the national legislation are to be made by authorities of the individual countries. As of today, it is difficult to assess the effects of regulations introduced under the budgetary framework. However, the most important, and which should be achieved thanks to them in the medium-term perspective, is the final result that refers to the level of deficit of the central and local government institutions sector of the individual EU member states.

Marta Postuła

WIELOLETNIE RAMY BUDŻETOWE – POLSKIE DOŚWIADCZENIA

Dyrektywa Rady UE w sprawie wymogów dla ram budżetowych państw członkowskich (zwanej dalej „Dyrektywą") nakłada obowiązek, aby podstawą planowania budżetu były wiarygodne i efektywne średnioterminowe ramy budżetowe z przynajmniej trzyletnią perspektywą. Od 2009 r. w polskiej legislacji są już regulacje dotyczące średnioterminowego planowania finansowego, zarówno na poziomie centralnym, jak i lokalnym. Dzięki temu, w 2012 r. Polska znajdowała się na 5 miejscu pod względem jakości średnioterminowego planowania wśród państw członkowskich OECD. Potrzeba wdrożenia Dyrektywy wymaga wprowadzenia jedynie zmian doprecyzowujących obecnie obowiązujące regulacje średnioterminowego planowania.

Słowa kluczowe: Wieloletni Plan Finansowy Państwa, deficyt budżetowy, średnioterminowe cele budżetowe

Keywords: State Multiannual Financial Plan, budget deficit, medium-term budgetary objective

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THE IMPLEMENTATION IN FRANCE OF COUNCIL DIRECTIVE 2011/85/EU ON REQUIREMENTS FOR BUDGETARY FRAMEWORKS OF THE MEMBER STATES

Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States fits into the process of strengthening European governance aimed at ensuring economic and financial stability of the European Union. The new rules governing the surveillance of national fiscal and economic policies have been adopted in the "Six Pack"[1] along with the "Two Pack"[2] and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)[3].

The Directive states the minimum requirements for budgetary frameworks of the Member States. The budgetary framework is defined as "the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government". Among the components of this framework, the Directive distinguishes between the accounting and the statistics, the forecasts, the numerical fiscal rules, the medium-term budgetary frameworks as well as the transparency and the consistency of the national financial public system as a whole. The aim of the Directive is the establishment of a budgetary framework that is able to respect the commitments subscribed by the states to the European Union, and in particular Protocol No.12 on excessive deficit procedure[4]. This requires rapid consolidation of public finances in a number of states, including France. The strengthening of public financial systems is hereinafter examined.

Preventing a new crisis within the Union requires the respect of European criteria of deficit and debt. The trajectory to return to a balanced budget fits into the framework of multiannual fiscal planning reinforced by Directive 2011/85/

1 The "Six Pack" includes six legislative acts which entered into force on 13 December 2011, five regulations and Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States.
2 The "Two Pack" includes two regulations entered into force on 30 May 2013.
3 The treaty on stability, coordination and governance in the economic and monetary union was signed by the Heads of State and Government on 2 March 2012. It entered into force on 1 January 2013.
4 Protocol No.12 on the excessive deficit procedure annexed to the treaty on European Union and to the treaty on the functioning of the European Union.

UE. To be "realised", this planning must be based on a number of "preconditions" that guarantee the completeness and the reliability of financial information of the entire public financial system.

France had recognised the need to modernise its budgetary framework before the issuing of Directive 2011/85/EU. The modernisation of its framework, even though not perfect, was consistent with the requirements of the Directive's multiannual fiscal planning when it was introduced in 2008 (I). The fiscal planning relies on budgetary and accounting rules that have yet to be brought into compliance with all of the provisions of the Directive (II).

1. A strengthened multiannual fiscal planning

Chapter V of Council Directive 2011/85/UE, imposes the introduction by the Member States of a credible, effective medium-term budgetary framework providing for a planning horizon of at least three years together with the requirement to include a number of pieces of information. If a similar system already existed in France (A), it was completed by the Organic Law of 17 December 2012, which implements provisions of the Directive (B).

1.1. The initial system: the planning law of public finances introduced by the constitutional review of 23 July 2008

The multiannual financial framework of France is formalised by the planning law of public finances. It was introduced in Article 34 of the Constitution by a review of 23 July 2008[5].

The planning law of public finances is the main tool for managing the whole public financial system. Indeed, the perimeter of law of planning integrates central governments, local governments and social security organisations. In this sense, it is consistent with European commitments[6]. However, it must be explained that the laws of planning are not binding. They are not financial laws but ordinary ones. Adopted by Parliament, their introduction in the budgetary process has nevertheless given a solemn character to the commitments of France.

On the basis of Article 34 of the Constitution, three planning laws of public finances have been adopted.

5 Constitutional law No. 2008-724 of modernizing of the Fifth Republic's institutions. A new paragraph has been written: "The multiannual guidelines for public finances are defined by the planning laws. They fit in the goal of balance of general government's accounts."

6 Article 2 of Protocol No.12 on the excessive deficit procedure annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union.

The first planning law was adopted in February 2009 for the period 2009-2011[7]. The fiscal path defined "was rendered null and void by the economic and financial crisis, which led to a rapid and marked deterioration of public finances"[8].

The second planning law, adopted on 28 December 2010, covers the period 2011-2014[9]. It determines the evolution of the funding requirements balance and of government debt. It sets a target of increasing public spending for all general governments and for each sub-sector. However, it should be noted that due to legal considerations, the principle of self-administration of local authorities defined by Article 72 of the Constitution[10], and technical considerations, the control of three sub-sectors,- state, local authorities and social security organisations - must be distinguished. "Numerical fiscal rules"[11], in the sense of Directive 2011/85/EU, are stated. The state spending is stabilised in value, excluding debt burden and pensions of civil servants. Limits by missions of the general budget are also defined. The financial contributions of the state to local governments are stabilised in value. The evolution of expenditures of compulsory basic social security plans, as well as that relating to health insurance, are supervised[12]. A minimum amount of new measures relating to compulsory levies is also defined. Finally, governance rules are specified.

The impact of the planning law of public finances for the period 2011-2014 can only be the object of a partial evaluation, because the parliamentary elections in June 2012 have brought to the government a new political majority. However, in accordance with the planning law, a document mentioning the results of this planning law was sent by the Government to the Senate Committee on Finance, on 10 July 2012[13]. Also according to data taken by the national institute of statistics and economics studies and the report of the Court of Auditors on the situation and the prospects of public finances 2012, it is possible to consider the fiscal planning for 2011-2014 was generally respected the first year. The public deficit is lower than that provided by the planning law, 5,3% of gross domestic product (GDP) instead of 6% GDP. The Court of Auditors concludes that "the path of fiscal consolidation required

7 Law No. 2009-135 of 9 February 2009 of planning of public finances for the years 2009-2012.

8 Fr. "a été rendue caduque par la crise économique et financière, qui a conduit à une dégradation rapide et marquée des finances publiques". Explanatory memorandum of the planning bill of public finances for the years 2011-2014.

9 Law No. 2010-1645 of 28 December 2010 of planning of public finances for the years 2011-2014.

10 The objectives of the planning law have a « programmatic » scope and they are therefore devoid of normativity. See also Cour des comptes, *Rapport sur la situation et les perspectives des finances publiques,* juillet 2012, p. 192.

11 Article 5 of Directive 2011/85/EU.

12 A mechanism of monitoring and alerting is also associated with the national goal of health insurance expenses in accordance with Article 6 of Directive 2011/85/EU.

13 Article 15 of the planning law for the years 2011 to 2014: "The Government must prepare and submit annually to Parliament, before the policy debate of public finances, a report on the implementation of this law". Fr. "Le Gouvernement établit et transmet chaque année au Parlement, avant le débat d'orientation des finances publiques, un bilan de la mise en oeuvre de la présente loi".

by planning law has been observed, as well as standards for public spending and revenue"[14].

The third law of public finances planning was adopted on 31 December 2012, for the years 2012 to 2017[15]. This instrument initially defined from 2009 has been completed.

1.2. The current system: the planning law of public finances enriched by the Organic Law of 17 December 2012

The planning laws of public finances have been greatly enriched by the introduction to the national law of a number of budgetary provisions of TSCG by the Organic Law of 17 December 2012, on the planning and the governance of public finances[16]. Thus, if the main object of the Organic Law is the implementation of Article 3 TSCG[17], which provided an objective of general government's structural balance, "in the alternative, the organic legislator is invited to draw some consequences of the reform of the Stability and Growth Pact occurred in 2011, as the "Six Pack". In particular, the draft organic law tends to complete implementation of the Directive of 8 November 2011"[18].

Chapter 1 of the Organic Law completes the initial instrument in accordance with the commitments of France. Now, "the law sets the planning medium-term objective of public governments (…). It determines (…) the trajectories of structural and effective annual balances (…) as well as the public debt evolution. (…) The planning law of public finances provides a breakdown of annual effective balances by sub-sector."[19] More generally, the first five articles of the Organic Law specify the content of planning laws. They take again the largest share of notified provisions in the previous planning laws, combined with new obligations of Directive 2011/85/EU. For example, Article 5 provides the publication of a report attached to the planning law including in particular "the financial projections at unchanged policies (…) and the description of policies proposed to achieve the medium-term budgetary

14 Fr. "la trajectoire de redressement des finances publiques prévue par la loi de programmation a été respectée, de même que les normes budgétaires applicables aux dépenses et aux recettes publiques". Cour des comptes, *Rapport sur la situation et les perspectives des finances publiques,* juillet 2012*,* p. 47.

15 Law No. 2012 - 1558 of 31 December 2012 of planning of public finances for the years 2012-2017.

16 Organic Law No. 2012-1403 of 17 December 2012 on the planning and the governance of public finances.

17 TSCG ratified by Law No. 2012 - 1171 of 22 October 2012.

18 Fr. "à titre subsidiaire, le législateur organique est invité à tirer certaines conséquences de la réforme du Pacte de stabilité et de croissance intervenue en 2011, sous la forme du "Six Pack". En particulier, le projet de loi organique tend à parachever la transposition de la directive du 8 novembre 2011". Assemblée nationale, *Rapport n°244 fait au nom de la commission spéciale chargée d'examiner le projet de loi organique (n°198), après engagement de la procédure accélérée, relative à la programmation et à la gouvernance des finances publiques*, octobre 2012, pp 23-24.

19 Fr. "la loi de programmation fixe l'objectif à moyen terme des administrations publiques (…). Elle détermine (…) les trajectoires des soldes structurels et effectifs annuels (…) ainsi que l'évolution de la dette publique. (…) La loi de programmation des finances publiques détermine l'effort structurel. (…) La loi de programmation des finances publiques présente la décomposition des soldes effectifs annuels par sous-secteur". Article 1 of Organic Law No. 2012-1403 of 17 December 2012 on the planning and the governance of public finances.

objective with respect to these projections"[20], in accordance with Article 9 of the Directive.

On the basis of article 34 of the Constitution, an enriched planning law has been adopted. Broadly, the effort to reduce the public deficit in planning is continued and completed by the reduction in public spending objectives associated with a tax effort of nearly one percentage point of GDP. New "conduct rules"[21] are introduced, including the transmission of the Stability Program to Parliament. The procedure associated to the correction mechanism prescribed by TSCG, which is activated if there is a deviation from the originally described fiscal path, is defined. The participation of the High Council of Public Finances, an independent body within the meaning of Directive 2011/85/UE, strengthens the respect of Chapter IV, "numerical fiscal rules", and in particular the provisions of Article 6[22].

It is possible to make a number of observations on the implementation of the planning law of 31 December 2012 (the details of current programming are presented in Table No 1). It projected a deficit equal to 3% GDP in 2013. In agreement with the European institutions, this aim has been postponed to 2015. However, the return to structural balance has been kept in 2016. The results for 2013, announcing a public deficit of 4,1% GDP and a structural deficit of 2,6% GDP, will have to be confirmed at the end of March 2014[23]. The Court of Auditors notes that "despite a considerable structural effort, the actual deficit and the structural deficit in 2013, remained at levels significantly higher than those recorded in the planning law and in the initial financial law for 2013"[24]. The Court also mentioned "the uncertain realisation"[25] of the goal of deficit reduction in 2014. In conclusion, the Court notes "a delay relative to the path of planning law"[26]. A review of the planning law of public finances for the years 2012 to 2017 has been announced for autumn 2014.

20 Fr. "les projections de finances publiques à politiques inchangées (…) et la description des politiques envisagées pour réaliser l'objectif à moyen terme au regard de ces projections".

21 Fr. "règles de comportement". G Gaubert "Loi de programmation des finances publiques et intégration budgétaire" *RFFP* n°122, avril 2013 p. 149

22 See *below*.

23 Data of economic, social and financial report annexed to the financial bill for 2014.

24 Fr. "malgré un effort structurel considérable, le déficit effectif et le déficit structurel sont restés en 2013 à des niveaux nettement supérieurs à ceux inscrits dans la loi de programmation et la loi de finances initiale pour 2013". Cour des comptes, *Rapport public annuel 2014*, février 2014, p. 26. The Court of Auditors states that forecasts of both laws are identical.

25 Fr. "la réalisation incertaine". Cour des comptes, *op. cit*., p. 32.

26 Fr. "un retard par rapport à la trajectoire de la loi de programmation". Cour des comptes, *op. cit*., p. 46.

Table No 1: Budgetary planning 2012-2017

	2012	2013	2014	2015	2016	2017
Public actual balance (1 + 2 + 3)	-4,5	-3,0	-2,2	-1,3	-0,6	-0,3
Cyclical balance (1)	-0,8	-1,2	-1,0	-0,8	-0,5	-0,3
Limited and temporary measures (2)	-0,1	-0,2	-0,1	0,0	0,0	0,0
Structural balance (in points of potential GDP) (3)	-3,6	-1,6	-1,1	-0,5	0,0	0,0

Source: Law No. 2012 - 1558 of 31 December 2012 of planning of public finances for the years 2012-2017.

The content of the fiscal planning of France appears broadly consistent with the requirements prescribed by Directive 2011/85/EU, outside nevertheless of an assessment of the impact of public policies on the sustainability of public finances[27]. More problematic is the respect of the fiscal path. One reason is the reviewing of growth prospects during the year. In February 2014, the National Institute of Statistics and Economics Studies estimated economic growth for 2013 at 0,3%. It was estimated at 1,75% in May 2012 and at 0,1% in April 2013. If this exercise of forecast is by definition random, comparison of the data used by the Government to those of international institutions[28] leads to a need for more "prudent" fiscal planning, in accordance with Article 4 of the Directive[29]. In this instance, we have to refer to the budgetary and accounting rules which govern planning.

2. A budgetary framework partially reliable

The respect of the criteria stated in Article 1 of Protocol No. 12, completed by TSCG, requires the prior capacity to have complete and reliable public financial information. Besides, the control of the entire public financial system obliges the coordination of each sub-sector. If the construction of the reliability of budgetary and accounting data is well underway in France (A), the lack of integration of each of the public bodies could decelerate the long-awaited results of Directive 2011/85/EU implementation (B).

2.1. The improvement of accuracy of public financial information

Two components of the budgetary framework are particularly concerned by the reforms in terms of budgetary data reliability, the macroeconomic forecasts on which the budget is built as well as the accounting systems and statistical information.

27 Article 9 of Directive 2011/85/EU.
28 Most data are available in "Les indicateurs de conjoncture hebdomadaire" on the website of the Bank of France.
29 "Budgetary planning shall be based on the most likely macrofiscal scenario or on a more prudent scenario."

Under the terms of the Directive, "biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of fiscal planning and consequently impair commitments to budgetary discipline". Under Article 4, "Member States shall ensure that fiscal planning bases on realistic macroeconomic and budgetary forecasts using the most up-to-date information". Member States shall specify who is responsible for establishing macroeconomic and budgetary data, publish them, set out the methodology underpinning their production and proceed to an ex post evaluation. The economic, social and financial report annexed to the draft financial law contains such information. Article 6, realises the recommendations made in the production of forecasts citing "the effective and timely monitoring of compliance with the rules 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". The opinion of the European Central Bank on the economic governance reform also provides that "the creation of independent fiscal councils should appear as a priority in the Directive"[30]. Their implementation is further reinforced by Article 3 of TSCG[31] and by the regulation of the "Two Pack"[32] on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits in Member States of the euro area.

The interim progress report on the implementation of the Directive[33] could not account for the creation of the High Council of Public Finances by the Organic Law on the planning and the governance of public finances of 17 December 2012. In a report in public finances in the European Union, the Commission however noted that "the Court of Auditors is independent and performs the tasks of an independent fiscal committee, with the exception of macroeconomics forecasts"[34]. Now, the High Council of public finances advises on macroeconomic assumptions underlying financial bills, social security financing bills, planning bills of public finances and Stability Programs. In addition, the High Council appreciates the consistency of the structural balance path with the financial commitments of France. In accordance with the requirements issued by Article 4 of the Directive, an ex post and published evaluation of macroeconomic and budgeting forecasts shall be realised by the High Council. It decides on any discrepancies between the accounts of general

30 European Central Bank, *Opinion on economic governance reform in the European Union,* February 16 2011.

31 Article 3 of TSCG relates to the role of independent institutions in the budgetary correction mechanism. It is supplemented by the common principles for national budgetary correction mechanisms established by the European Commission in a communication of 20 June 2012.

32 Regulation EU No. 473/2013 of European Parliament and Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits in Member States of the euro area.

33 Report from the Commission to the European Parliament and the Council, *Interim Progress Report in the implementation of Council Directive 2011/85/UE on requirements for budgetary frameworks of the Member States,* 14 December 2012.

34 Fr. "la Cour des comptes est indépendante et remplit les missions d'un comité budgétaire indépendant, à l'exception des prévisions macroéconomiques". Cour des comptes, *Rapport sur la situation et les perspectives des finances publiques,* juillet 2012, p. 187.

governments for the previous year and the fiscal path established by planning law. The High Council identifies in particular “significant deviations”[35] that lead the Government to explain and take corrective measures.

Established by a decree of 18 February 2013[36], the High Council of Public Finances pronounced four opinions. In its opinion on the financial bill and the social security financing bill for 2014, the High Council judged the growth forecast used by Government “plausible” despite a macroeconomic scenario, which “has the elements of fragility”. However, it considered that the delay in respect of fiscal path defined by the planning law, and except to change the date of return to equilibrium, will lead to the implementation of the correction mechanism in spring 2014.

The systems of accounting and statistical information have also been subject to a process of reliability. The still imperfect integration of different sub-sectors pleads for the continuation of the approach on the basis of prescriptions of the Directive.

2.2. The insufficient integration of the public financial system

Article 12 of the Directive states that “Member States shall ensure that any measures taken to comply with Chapters II, III and IV are consistent across and comprehensive in coverage of, all sub-sectors of general government”. In this context, limits at the full implementation of the Directive appear.

Accounting rules are distinct in France according to the financial sector. The social and local sectors raise more questions. In a report on local finances, the Court of Auditors notes that “despite progress over the last twenty years in the local financial information, there is still much to do”[37]. Thus, “the development of the budgetary situation executed during the year cannot be conveniently followed in regard to local authorities”[38]. The Court also notes that the requirements set by Article 14 of the Directive, are not satisfactory regarding information on off-balance sheet commitments[39]. Therefore, the Supreme Audit Institution calls “to define a path to upgrade the financial and accounting local system to answer fully the provisions of Council Directive of the European Union of 8 November 2011”[40]. Regarding data

35 Article 3 1.e) of TSCG.

36 Decree No. 2013-144 of 18 February 2013 r.elating to the initial establishment of the High Council of public finances.

37 Fr. “malgré les progrès enregistrés depuis une vingtaine d’années dans l’information financière locale, il reste beaucoup à faire”. Cour des comptes, *Les finances publiques locales,* octobre 2013, p. 148.

38 Fr. “l’évolution de la situation budgétaire en cours d’exécution en cours d’année ne peut être commodément suivie en ce qui concerne les collectivités territoriales”. Cour des comptes, *op. cit*., p. 147. See also Inspection générale des finances et Inspection générale de l’administration, *La transparence financière des collectivités territoriales,* décembre 2012.

39 Cour des comptes, *op. cit*., p. 146.

40 Fr. “définir une trajectoire de mise à niveau du système financier et comptable public local afin de permettre de répondre pleinement aux dispositions prévues par la directive du Conseil de l’Union européenne du 8 novembre 2011”. Cour des comptes, *op. cit*., p. 148.

for social security, most are centralised, individual publications exist but no monthly aggregated situation is published[41].

In respect Article 3 of the Directive, which requires that "Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government" this would require the definition of a common accounting reference or, failing that, a rapprochement of different accounting systems.

A decree of 7 November 2012, generalises the obligation to implement systems of internal control and independent audit. However, this provision does not apply to the local authorities. Concerning the implementation of Article 47-2 of the Constitution[42] by Article L 111-3-1 A of the code of financial jurisdictions, the Court of Auditors considers that it ensures a satisfactory transposition of Directive 2011/85/EU. However, it states that it "currently certifies, or cannot account for the quality because they are certified by others, only a part of the general government accounts"[43].

The imperfect integration of the public financial system is also illustrated by the lack of coordination across the different sub-sectors. According to Article 13 of the Directive, "Members States establish an appropriate mechanism of coordination across sub-sectors of general government to provide for comprehensive and consistent coverage of all sub-sectors of general government". If information on all general governments exist, particularly in the preliminary article of the discharge bill "with an overview table depicting the structural balance and the actual balance of all general governments resulting the performance of the year to which it relates"[44], sub-sectors are not involved in determination of the fiscal path. The Court of Auditors notes that binding fiscal rules cover only 75% of public expenditure. However, "to avoid adjustment and safety margins on only part of the public sphere, the state and the compulsory basic plans of social security, France's commitments must involve all general governments"[45]. Under the coordination mechanisms contained in the working document used in the preparation of the progress report of the Commission on the implementation of Directive 2011/85/EU, Article 108 of the financial law 2012, which included the publication of a report on local finances,

41 Cour des comptes, *Rapport sur la situation et les perspectives des finances publiques,* juillet 2012, p. 190.

42 « The general government accounts are regular and sincere. They give a true picture of their management, their assets and their financial situation. »

43 Fr. "ne certifie actuellement, ou ne peut rendre compte de la qualité parce qu'ils sont certifiés par d'autres, que d'une partie des comptes des administrations publiques". Cour des comptes, *op. cit.*, p. 177. A report on the quality of general government accounts was published in fall 2013.

44 Fr. "présentant un tableau de synthèse retraçant le solde structurel et le solde effectif de l'ensemble des administrations publiques résultant de l'exécution de l'année à laquelle elle se rapporte". Article 8 of Organic Law No. 2012-1403 of 17 December 2012 on the planning and the governance of public finances.

45 Fr. "pour éviter de faire porter l'ajustement et les marges de sécurité nécessaires sur une partie seulement de la sphère publique, l'État et les régimes obligatoires de base de sécurité sociale, les engagements de la France doivent impliquer toutes les administrations publiques". Cour des comptes, *Rapport sur la situation et les perspectives des finances publiques,* juillet 2012, p. 193.

should be repealed by the vote on the bill of development of regional solidarity and local democracy[46].

Under Article 16 of the Directive, the Commission report on the adequacy thereof shall be published before 14 December 2018. An evaluation, which will include a number of provisions similar to those of the Directive, of the compliance with TSCG by the member states must nevertheless take place in autumn 2014. However, it is clear that the governance of all public financial systems must be strengthened from now on, particularly vis-à-vis local finances. The Court of Auditors considers in this way that « a national authority could be the framework of the permanent association of local authorities at the adjustment measures, upstream to the planning laws (…) and downstream in the declination of orientations in a "pact" which would be the framework of solid and mutual commitments of the State and local authorities."[47]. To quote a thesis defended by Professor Michel Bouvier, "it is not only in terms of financial or fiscal techniques, but also on the institutional level, this one of the redrafting of local, national and European financial decision process, that should be decided the essential"[48]. This is the successfulness of public financial integration in the service of European economic governance, which is at stake.

46 Bill of development of regional solidarity and local democracy registered to the Presidency of the Senate April 10 2013. See also Inspection générale des finances et Inspection générale de l'administration, *La transparence financière des collectivités territoriales*, décembre 2012.

47 Fr. "une instance nationale pourrait être le cadre permanent d'association des collectivités territoriales aux mesures de redressement, tant en amont des lois de programmation de finances (…) qu'en aval dans la déclinaison des orientations au sein d'un « pacte » qui soit le cadre des engagements fermes et réciproques de l'État et des collectivités territoriales". Cour des comptes, *Les finances publiques locales*, octobre 2013, p. 53

48 Fr. "ce n'est pas uniquement sur le plan des techniques financières ou fiscales mais aussi sur le terrain institutionnel, celui d'une reformulation du processus de décision financière local, national et européen que devrait se jouer l'essentiel". M. Bouvier, « Autonomie financière locale et fédéralisme financier européen: sortir du quiproquo », *Pouvoirs locaux,* n°99, décembre/janvier 2013-2014, p. 103.

WDROŻENIE WE FRANCJI DYREKTYWY RADY 2011/85/UE W SPRAWIE WYMOGÓW DLA RAM BUDŻETOWYCH PAŃSTW CZŁONKOWSKICH

Dyrektywa Rady 2011/85/UE w sprawie wymogów dla ram budżetowych państw członkowskich wpisuje się w proces wzmacniania europejskiego zarządzania, mającego na celu zapewnienie ekonomicznej i finansowej stabilizacji Unii Europejskiej. Określa ona minimalne wymogi ram budżetowych. Ścieżka budżetowania staje się częścią wieloletniego planowania finansowego wzmocnionego dyrektywą 2011/85/UE. Planowanie to musi opierać się na pewnych „przewidywaniach", które gwarantują kompletność i rzetelność informacji finansowych całego systemu finansów publicznych.

Słowa kluczowe: programowanie, koordynacja, integracja, rzetelność

Keywords: programming, coordination, integration, reliability

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THE INNOVATION OF BUDGETARY FRAMEWORKS OF THE SLOVAK REPUBLIC REFLECTING THE STRENGTHENING OF EUROPEAN REGULATION AND RESPONSIBILITY[1]

The recent sovereign debt crisis has pushed the boundaries of acceptable debt within the eurozone and the EU. Several new legal documents create a strengthened budgetary framework of the member states and thus the EU as a whole. As a part of the Six Pack, Council Directive 2011/85/EU on Requirements for Budgetary Frameworks of the Member States, introduced requirements on accounting, statistics, auditing, independent prognosis, medium-term budgetary frameworks and transparency rules. The Slovak Republic has implemented the document and created an enhanced budgetary framework with new fiscal responsibility rules on the constitutional level, a new constitutional fiscal supervisory body and the very first recognition of the rights of future generations in the Slovak Constitution. However, the numerical rules are implemented insufficiently leaving out the deficit rule, the escape clauses do not leave enough space for countercyclical measures and the framework relies more on procedural aspects than on results. It is a step forward, but some changes in its implementation are needed in order to establish a more solid standard of budget responsibility.

1 This article aims to deliver a report on the implementation of Council Directive 2011/85/EU on Requirements for Budgetary Frameworks of the Member States (further as "Directive") into the Slovak legal system. We hold that some of the rules implemented were already present in the legal system and some correlated with the adoption of the Two Pack. We examine the implementing laws in comparison with the Directive. Furthermore, we analyze the existing binding rules, their suitability and potential for improvement.

In the past 6 years the debt[2] of the Slovak Republic relative to GDP increased almost twofold, from a pre-crisis 27,9% of GDP in 2008 to an estimated 54,3% of GDP in 2013[3].

The debt levels have exceeded the pre-consolidation levels from the early 2000s. Moreover, it is expected to rise slightly more, to converge at around 56,8% of GDP and thereafter to start declining. The Slovak Republic has been under the excessive deficit procedure since 2009. The abrupt change in the debt development of the Slovak Republic lead to a swift and rather unique widely supported legislative action in the Slovak political environment, i.e. fast implementation of fiscal rules. A new Constitutional Act No. 493/2011 Col. on Fiscal Responsibility (further as "Constitutional Act") has been enacted (effective as of March 1, 2012). Along with already existing acts on budget rules for public services and regional self-administration, it has strengthened the budgetary framework of the Slovak Republic.

According to the definition of the budgetary framework as defined in Article 2 of the Directive, the amended budgetary framework of the Slovak Republic has institutional, procedural, rule-based and organizational form. The institutional form is expressed in the existence of the new fiscal surveillance body, the Council for Budget Responsibility (further as "Council"). Procedural form consists of non-compliance procedures described by the Constitutional Act, as well as procedures of composing the annual budgets as expressed by the two major acts on budget rules, the Act No. 523/2004 on Budget Rules of Public Service (further as "act on budget rules of public service") and the Act No. 583/2004 on Budget Rules of the Regional Self-Administration (further as "act on budget rules of the regional self-administration"). The rule-based approach can be seen in numerical fiscal rules, escape clauses, as well as in transparency and data-related rules.

The Directive calls for establishing "a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least three years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective"[4]. Its main parts are multiannual budgetary objectives regarding debt, deficit and other summary fiscal indicators consistent with the numerical fiscal rules, projections of expenditure and revenue items on unchanged policies, description of medium-term policies along with their impact on public finances, and assessment of achieving the long-term sustainability of the public finances.

In its Stability Programme of the Slovak Republic for 2013 to 2016 Report of April 2013,[5] the Ministry of Finance of the Slovak Republic stated that most of the requirements of the Directive had already been implemented. The Directive itself

2 Debt is defined as the Maastricht debt as reported by Eurostat.

3 Eurostat historical data and estimate of the Council for Budget Responsibility. Available online (accessed on March 24 2014): <http://www.rozpoctovarada.sk/svk/rozpocet/200/aktualny-vyvoj-dlhu-sr>.

4 Article 9 1 of the Directive.

5 Available online (accessed on March 23 2014): <https://www.finance.gov.sk/en/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=347&documentId=462>.

consists of several chapters: Chapter II on Accounting and Statistics, Chapter III on Forecasts, Chapter IV on Numerical Fiscal Rules, Chapter V on Medium-term Budgetary Frameworks and Chapter VI on Transparency of General Government Finances and Comprehensive Scope of Budgetary Frameworks. The structure of the Directive logically ties the medium-term budgetary frameworks and rules together, (i) by creating comprehensive and consistent accounting systems along with a timely and regular public availability of fiscal data; (ii) by ensuring that fiscal planning is based on realistic macroeconomic and budgetary forecasts in cooperation with the Commission; (iii) by effectively following the country´s specific numerical fiscal rules and rules for non-compliance; (iv) by creating the core medium-term budgetary frameworks consistent with the numerical fiscal rules and based on the macroeconomic and budgetary forecasts; and (v) by ensuring that any measures taken to comply with Chapters II, III and IV, are consistent, transparent and allow for fiscal accountability and public scrutiny.

The implementation of the Directive to Slovak legal regime concerns three major acts, one of which is of constitutional power. Though the Constitution of the Slovak Republic itself deals with the budgetary legal framework only marginally[6] and basically leaves budgeting to be further adjusted by acts of parliament, the enactment of the Constitutional Act introduced fiscal rules and an independent fiscal surveillance body at the constitutional level. Fiscal rules at the constitutional level present a more suitable option than at regular act level because of their superiority. The Constitutional Act aims to deliver a long-term sustainability of public finances of the Slovak republic. Also, it has the very first constitutional provision in the Slovak legal environment that recognizes the rights of future generations and tries to mitigate the consequences of debt burden on them. However, the mention is only a brief one.

The Constitutional Act can be considered a law containing mixed procedural, institutional and numerical rules. Corbacho and Schwarz recognize four main types of numerical fiscal rules: deficit rules, debt rules, borrowing rules and expenditure rules[7]. The Directive emphasizes the deficit and debt rules according to the Treaty on the Functioning of the European Union (further as "TFEU"). Even though the Constitutional Act contains the numerical rules, it complies with the Directive only partially, because while it sets the debt limit at 50% of GDP[8] it leaves out the deficit rule. The lack of deficit rule is also problematic from the perspective of the

6 The Constitution states in the Article 58 (1) that the financial management of the republic is governed by the state budget in the form of an act of parliament. Budget proposals are submitted to the parliament by the government. The details and budget rules are left to be further adjusted by the acts. The act on budget cannot be the subject of a referendum.

7 Corbacho, Ana, and Gerd Schwartz. Promoting Fiscal Discipline. Ed. Manmohan S. Kumar and Teresa Ter -Minassian. [Washington, D.C.]: International Monetary Fund, 2007. Print, page 60.

8 The limit is currently set at 60% of GDP, but will start to decline by one percentage point a year starting in 2018 until the limit sustains on 50% of GDP, which is to be kept.

preventive and corrective arm of the Stability and Growth Pact criteria (further as "SGP"), which rely not only on the debt limit but also on deficit levels below 3% of GDP. Slovakia has been under the excessive deficit procedure since 2009 and while the debt level remains under the 60%, the deficit levels are not obeyed and continue to be a problem. This deficiency of the Constitutional Act was also remarked by the ECB in the Opinion of the ECB of 5 December 2011.[9] The omission of the deficit rule can be considered as one of the greatest weaknesses of the law.

The debt level set at 50% of GDP is specifically adjusted 10 percentage points downwards from the SGP to suit the Slovak Republic. This is in line with Articles 5 and 6 of the Directive, which create a space for country specific rules. It is claimed that smaller and more open economies should keep their debts within even stricter limits.[10] The act contains the consequences and procedures in the event of non-compliance according to Article 6 1 (c) of the Directive. These are justifications, government proposals and decrease or freeze of the government officials' salaries, expenditure limits and as the most severe of the consequences a vote of confidence, when particular thresholds are breached (40%, 43%, 47% and 50% respectively).

Another weak point of the Constitutional Act is the fact that the debt limit itself only binds the government to a limit-compliant budget proposal, but does not prevent the National Council (further as "parliament") to adjust government budget proposals above the debt limit. While the Directive confers the responsibility to comply with the debt rules on the member state, the Slovak law keeps the responsibility on the government, not on the parliament, which as a sovereign legislative power enacts the final version of the budget. This emphasis on the procedural side and not on the result side of the debt limit might be problematic, especially when the government has a solid majority of votes in the parliament, which might allow it to effectively bypass the debt limit.

The ECB further states that the provisions for the economic cycle are not implemented satisfactorily and should be changed to go beyond the current escape clauses applicable in the severest of circumstances, which concern the GDP drop of 12 percentage points year-to-year, banking crisis and natural disasters costing the public budgets at least 3% of GDP collectively, and affects arising from any acts of war. The GDP drop, as set by the Constitutional Act, does not leave much space for counter-cyclicality and might be too austere. Also, the newly established government can implement its own fiscal policies and priorities and is exempted from the strict budget rules (debt levels from 45% of GDP on) during the first half of its mandate, i.e. for two years, which raises the question of the efficiency and continuity of the debt limit. There is a general lack of business-cycle approach to the numerical fiscal

9 Opinion of the ECB of 5 December 2011 on fiscal responsibility.CON/2011/96, available online (accessed on March 24 2014): <http://www.ecb.europa.eu/ecb/legal/pdf/en_con_2011_96_f_sign.pdf>.

10 As acknowledged in the Explanatory Statement to the Constitutional Act. Available online (accessed on March 24 2014): <http://www.nrsr.sk/web/Default.aspx?sid=zakony/zakon&MasterID=3884>.

rules, which are very narrow and do not reflect cyclicality, deficit and structural deficit issues.

As previously mentioned, the Constitutional Act established a new fiscal surveillance body, the Council for Budget Responsibility, which has several monitoring, evaluating and controlling competencies. The Council, described as an independent body monitoring and evaluating the economy of the Slovak Republic, consists of elected expert professionals. It issues annual reports on the long-term sustainability of public finances and reports on fiscal responsibility and fiscal transparency, ex officio statements to legislative proposals and other surveillance reports. Though the Council's establishment was based primarily on the Two-Pack, the Council's competencies are also implied in Article 6 1 (b) of the Directive. Generally, the main purpose of the fiscal councils is to assess the debt position, its trajectory, and relevant budget measures, since the government forecasts generally appear to be way too optimistic. The optimistic deviations seem to be smaller in countries where independent bodies monitored or produced these data.[11]

The Constitutional Act also constitutionally sets forth a 3-year medium-term budget planning for the state budgets, budgets of public administration and local governments' budgets. The 3-year budget planning has been present in the Slovak budget law since the 1995 Act on Budget Rules, which introduced multiannual budget plans. The 1995 act was later replaced by the 2004 acts on budget rules, which sustained the medium-term budget rule. However a novelized principle of continuity of budgets as embedded within the Constitutional Act, also requires that budgets have to evaluate the actual fulfillment of budgets for the two previous years in preparing the budgets for the following years. This new rule fortifies the continuity of budgeting by creating 5-year budget clusters. Only the budget for the current year has binding power, the budgets for the two following years are indicative, but should serve as grounds for the subsequent preparation of the annual budget.[12] The medium-term budget framework fortifies budgetary objectives for the government by projecting the revenues and expenditures in time. The framework also requires that impacts on the long-term sustainability of the budgeting must be predicted. The 3-year budgeting rule is further emphasized by the two respective acts on budget rules of public service and regional self-administration.

The public budget must contain additional data according to the Constitutional Act; i.e. a consolidated balance sheet of public administration, debt management strategy, tax expenditures, implicit liabilities and conditioned liabilities, exceptional measures and influences, and data on the management of public corporations. To further extend transparency and public scrutiny the annual report of the Slovak

11 The importance and effectiveness of national fiscal frameworks in the EU. ECB Monthly Bulletin February 2013. ECB, 2013. Page 76.

12 Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. Occasional Papers 128. European Commission. February 2013. Page 14.

Republic must contain, on top of regular data, the data on net wealth of the Slovak Republic, balance sheet of the public administration, evaluation of debt management objectives fulfillment, exceptional measures and influences, and data on the management of public corporations.

Solid accounting systems subject to internal control and independent audits must be in place in order to avoid creative accounting. The Directive sets the rules to publish the fiscal data of the government and social security sub-sectors monthly and of the local government sub-sector quarterly, along with the methodology. These rules are implemented to some extent within the acts on budget rules, as well as in the Ministry of Finance Measure.[13] Cash-based fiscal data for state budgets are available online on a regular basis, but monthly data for the whole central government sector and social security funds, as well as the quarterly data of local self-administrations, are seen lacking.[14]

The Directive asks for founding the fiscal planning on realistic macroeconomic and budgetary forecasts. The Commission's own data is used as a benchmark to the data gathered by independent bodies established within the member states. Consequently the Constitutional Act established two advisory bodies to the minister of finance; these are the Tax Revenue Forecasts Committee and the Macroeconomic Forecasting Committee. The committees support transparency and provide analyses and prognoses for the budget making process. These analyses are published by the Ministry of Finance and present an important basis for the budgeting of all public bodies. The Council also plays a crucial role in the process by publishing additional reports and data, as well as methodology standards. The main publications of the Council are the annual Report on the Long-Term Sustainability of Public Finances, aiming at forecasting the debt and its growth under the actual policy, and the Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules, aiming at monitoring and checking the government's fiscal responsibility performance as well as checking whether the transparency rules are obeyed.

Self-Administration Units are included within the public budget framework and their debt is counted in the overall public debt. This ties their budgets to the state budget. They are also touched by the breach of debt levels of 45% and 47% of GDP; in case of breach of the former level units cannot approve a higher budget than the budget for a previous year, and in case of the latter level the units must approve a balanced budget. However, the Constitutional Act forbids any leaks from the debt of self-administration units into the state budget. It clearly separates their finances from those of the state by explicitly affirming that the state does not secure, nor guarantee solvency of the self-administration units. The finances of these units are governed by the "Golden Rule", which imposes a debt limit at 60% of the current revenue. Local

13 Ministry of Finance Measure of 22 November 2012 MF/215513/2012-31.
14 Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. Occasional Papers 128. European Commission. February 2013. Page 79.

authorities are also constrained by the second rule stating that the sum of the annual installments of the loans cannot exceed 25% of the revenue for the previous year. However, there are remarks that local authorities might use different assumptions of macroeconomic projections, because of their independence in the budget making process.[15] Local authorities should use the statistics of the committees associated to the Ministry of Finance. Nonetheless, the act on budget rules of the regional self-administration penalizes the breach of this rule by a fine imposed by the Ministry of Finance. If the state assigns any new functions to the units, it is obliged to arrange for additional funds.

The Directive introduced enhanced budgetary frameworks into member states. The Slovak Republic has implemented the Directive, though with mixed results. The accounting, statistics, data provision and transparency are implemented generally well and do not pose any serious problems. The accounting standards and statistics are available; the forecasts are produced on a regular basis. Even though the Council has only been in existence for two years, it seems to be fulfilling its constitutional duties thoroughly, on a professional and expert basis and its members are highly respected. Their reports are generally independent and impartially critical to the endeavors of the government. Moreover, the Council often issues additional working papers, commentaries on methodology, statements and other reports. The numerical rules, composition of the escape clauses, and procedural emphasis in the budget proposal process, seem to be the weakest points of the transposition. We conclude that as a first step the Constitutional Act introduces many much-needed and important institutions into Slovak law, but cannot be considered a final product and offers room for improvement.

15 Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. Occasional Papers 128. European Commission. February 2013. Page 81.

INNOWACYJNOŚĆ RAM BUDŻETOWYCH REPUBLIKI SŁOWACKIEJ ODZWIERCIEDLAJĄCA WZMOCNIENIE EUROPEJSKIEJ REGULACJI I ODPOWIEDZIALNOŚCI

Artykuł ma na celu przedstawienie raportu z wdrożenia Dyrektywy Rady 2011/85/UE w sprawie wymogów dla ram budżetowych państw członkowskich do słowackiego systemu prawnego. Zdaniem autorów, niektóre z wdrożonych reguł znajdowały się już w systemie prawnym, a niektóre korelowały z przyjęciem „dwupaku". W artykule ocenie poddano przyjęte regulacje w porównaniu z Dyrektywą oraz przeanalizowano obecnie obowiązujące reguły, ich stosowność i możliwości ulepszenia.

Słowa kluczowe: kryzys na rynku obligacji skarbowych, ramy budżetowe, reguły fiskalne, rada fiskalna

Keywords: sovereign debt crisis, budgetary frameworks, fiscal responsibility rules, fiscal responsibility board

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MULTIANNUAL BUDGETARY FRAMEWORKS IN THE RUSSIAN FEDERATION

The basis of multiannual financial planning was laid in the Russian Federation by the Concept of budget process reforming in the Russian Federation (hereinafter 'Concept') in 2004-2006, approved by the Government of the Russian Federation[1].

Earlier, in the post-Soviet period, budget planning had other approaches.

By the beginning of the reform, Russian budget law provided for neither multiannual budget planning or estimation of budget expenditure results, resulting in the following:

– mid-term financial plans were developed for the annual budget cycle only; budget expenditure was planned just for the next year. Budget legislation did not define sums or the structure of budget appropriations allocated to budget administrators;
– budget expenditures were calculated by adjusting (indexing) the recent year expenditures. The Budget Code of the Russian Federation did not prescribe mechanisms of budget resource redistribution. We did not have clear criteria and procedures for the selection of areas to which funds were to be directed in accordance with the priorities of state policy;
– there was no clear formulation of budget expenditure objectives as well as criteria for estimating budget administrator results.

The main purpose of the Concept was the introduction of conditions for achieving the most efficient management of the state (municipal) funds in accordance with the priorities of state policy. The essence of the reform was to shift the budget process from the "management of budgetary resources (expenditures)" to the "management of results"; and to enhance responsibility and expand the independence of budget administrators within the framework of medium-term objectives.

1 The Decision of the Government of the Russian Federation of 22 May 2004 № 249 on measures to increase effectiveness of budget expenditures.

The Russian authorities offered the following directions for the reform:

– to reform the budget classification of the Russian Federation and fiscal accounting procedure in accordance with international financial reporting standards;
– to divide the budget into existing obligations and accepting obligations;
– to improve medium-term financial planning;
– to introduce performance budgeting;
– to streamline procedures for drafting and adopting budget law.

The core of the new organization of the budget process should be the concept of "performance budgeting in the medium-term financial planning" widely used in the world. In other words, the main purpose was to increase the horizon of financial planning and to introduce program-objective methods of budget planning.

Some guidelines of the reform were based on international experience of budget reforms. According to the Russian financial authorities, a number of budgetary and legal institutions were affected by international standards adopted by the International Monetary Fund, the World Bank and the Organization for Economic Co-operation and Development[2]. In relation to the introduction of multi-annual financial planning and performance budgeting the Concept stated that one of the main elements of budget reforms undertaken in the last decade in most developed countries was the transition to medium-term budget planning. A budget cycle begins with a review of the approvals given in the previous budget cycle main parameters of the medium-term financial plan, with analysis of changes in external factors and conditions, with substantiation of changes in the main budget indicators of the planned year as well as updating the budgetary projections for the next years of the forecast period.

The authors of the reform proposed introducing this approach into the Russian practice of budget planning. The budget for the next fiscal year should become a part of the mid-term (three year) plan that was annually updated. On the one hand, this system ensures the continuity of state policy and the predictability of budget allocations; on the other hand, it allows making transparent annual adjustments in accordance with policy objectives and the conditions of their achievements.

The purposes of the reform were to be implemented in stages. Firstly, the Russian authorities initiated transition to the multiannual budget. The Federal budget for 2006 became the first budget formed within the three-year financial plan. It was the basis for the drafting of fiscal policy for the next three-year budget.

Budget legislation provided for the transition to drawing up a three-year budget in 2007, when the Parliament of the Russian Federation amended the Budget Code. The amendments to the Budget Code provided for the annual drafting and adoption of

2 Artukhin R.E. Issues of budget law development, Reforms and law. 2012. № 3. (Артюхин Р.Е. Вопросы развития бюджетного права, Реформы и право. 2012. № 3).

the federal budget for 3 years (the next financial year and two-year planned period). That rule should ensure continuity and predictability of fiscal policy, contribute to the sustainability of the budget system of the Russian Federation, improve the reliability of budget expenditures, and make the state contracts for 3 years or for the whole period of implementation of long-term objective programs (investment projects).

The basis of budget planning consisted of the method of “sliding three-year budgeting”. In such conditions, earlier adopted budget expenditures for second and third years of the three-year period become the basis of the next year budget. Actually, the Russian budget legislation reflected provisions adopted in Art. 9 of the Council of the European Union Directive 2011/85/UE of 8 November 2011 on requirements for the budgetary frameworks of Member States that prescribes providing for the adoption of a fiscal planning horizon of at least 3 years.

Adopting projections for the second and third years of the planned period did not mean a ban on their adjustment in the next budget cycle. However, these changes should not worsen the position of the main budget administrators and recipients of budgetary transfers. These provisions of Russian budget legislation meet Art. 9 (2b) of the Directive 2011/85/UE which prescribes that medium-term budgetary frameworks shall include procedures for establishing projections of each major expenditure and revenue item of the general government - for the budget year and beyond, based on unchanged policies.

Thus, “sliding three-year budgeting” philosophy ensures, on the one hand, the stability and predictability of the budgetary projections and, on the other, the possibility of their amendment in case of changes, restructuring expenditures, or the implementation of new priorities of budget policy.

In order to increase budget sustainability the Budget Code introduced “conditionally adopted expenditures” (5 percent of the total expenditure) that was not distributed among main budget administrators and articles of budget classification for the planned period (second and third years of the three-year period). These rules allowed to create a reserve fund to meet any unexpected decline of income or to be used for making new obligations in the next budget cycle.

The “sliding three-year budgeting” rules were indispensable but apply only to the federal budget. Regional and local authorities of the Russian Federation have the choice between adopting their budgets for 3 years or for just the next financial year (with the drafting of a mid-term financial plan).

The implementation of performance budgeting was more problematic.

Earlier Russian budget legislation provided for line-item budgeting. Financial authorities drafted budgets by indexing the previous year’s budget expenditure. There were no estimations of budget expenditure effects.

To meet the requirements of the reform, the main instruments of budget planning should be federal objective programs and departmental objective programs.

The federal objective programs had an inter-sectoral nature. They should be adopted by the Government of the Russian Federation and should provision for large investment projects (scientific-technical and/or structural) requiring a long period of realization. Departmental objective programs are intra-sectoral and are adopted by special executive authorities.

The Budget Code of the Russian Federation provided for these types of programs. They were used in the budget planning. However, currently, the federal objective program was renamed into the state program of the Russian Federation.

Nowadays, the state programs should, in particular, contain the objectives and priorities of state policy; the list and characteristics of the main activities to achieve state program objectives with timelines for their implementation and expected results; the main measures of the legal regulation aimed at achieving the objectives and/or the expected results of the state program; as well as information on objective indicators of the state program broken down by years of its implementation, information about financial provision of the state program funded by the federal budget (details by the main budget administrators, by federal objective programs and by the years of the state program implementation).

At the present time, the Government of the Russian Federation has adopted the Procedure for development, implementation and estimation of effectiveness for state programs of the Russian Federation[3], the List of state programs of the Russian Federation[4]. The Ministry of Economic development and the Ministry of Finance have approved the methodological recommendations for the development and implementation of state programs of the Russian Federation[5]. In 2012–2013, the Government of the Russian Federation adopted 39 state programs.

The law on federal budget for 2014 and for the planning period of 2015 and 2016 became the first budget approved in the context of state programs. It contains an exhibit that breaks down expenditures by state programs.

Nowadays performance budgeting is implemented at the regional level with methodical support of the Ministry of Finance. By the beginning of 2013, 45 subjects of the Russian Federation adopted statutory legal acts on the procedure of development and implementation of regional state programs.

Despite the gradual implementation of multi-annual financial planning and performance budgeting in Russian budget law the reforms are continuing.

The President of the Russian Federation drew attention to the fact that the planning of socio-economic development and budget planning still remain insufficiently coordinated. The tasks of socio-economic policy and the results of their implementation are still considered separately from the budget policy. There is

3 The Decision of the Government of the Russian Federation of 2 August 2010 № 588.
4 The Decision of the Government of the Russian Federation of 11 November 2010 № 1950-R.
5 The order of the Ministry of economic development of the Russian Federation and the Ministry of Finance of the Russian Federation of 26 December 2012 № 27.

no clear system for estimating budget expenditure effectiveness. The state programs did not become a means for the formulation and implementation of state policy in the long-term. Many programs seek to increase budgetary financing without identifying financial sources. Some programs have been adopted in several variants that differ both on planned results and amounts of funding. The task of transition to long-term budget planning is not solved. The Government of the Russian Federation has not approved long-term budget strategy that should determine the cost framework of state programs in relation to the forecast of main budget parameters[6].

The Program of the Government of the Russian Federation on increase of budgetary expenditure efficiency for the period until 2012,[7] drew attention to the fact that strategic planning remained poorly linked with budget planning. In this regard, one of the main tasks was to draft mechanisms aimed at ensuring better integration of strategic and budget planning as well as monitoring the achievement of stated objectives.

Actually, in the Program Russian authorities took into account the provisions of documents adopted by international organizations. For example, according to Art. 2.1.2 of the Code of Good Practices on Fiscal Transparency (2007)[8] the annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained. In fact these tasks were prescribed by the mentioned Program.

Last year the Government of the Russian Federation adopted the Program for increase of public (state and municipal) finances management efficiency for the period until 2018[9]. The Program shows that some problems remain unsolved in budget planning, including:

- the absence of regulatory procedures for drafting, studying and use of socio-economic development forecasts in the budgetary process and in the drafting of state strategic planning documents;
- despite the program structure of the federal budget for the year 2014 and for the planning periods of 2015 and 2016, the Government of the Russian Federation did not take into account the achievement of state program objectives in the planning of budget appropriations. The issue of state program efficiency is not essential when drafting the federal budget;
- the absence of an integral system of strategic planning and weak linkage between strategic planning and budget planning;

6 The Budget message to the Federal Assembly of the Russian Federation of 13 June 2013 “On budget policy in 2014 - 2016”.
7 The Decision of the Government of the Russian Federation of 30 June 2010 № 1101-R.
8 Approved by The international Monetary Fund in 2007.
9 The Decision of the Government of the Russian Federation of 30 December 2013 № 2593-R.

– an uncertain relationship and lack of coordination between various objective program means;
– the incompleteness of formation and limited practice of state (municipal) programs as the main instrument to achieve the objectives of the public (municipal) policy as well as the basis for budget planning.

The Program suggests the following solutions:

1) to define all directions of the state (municipal) policy but only within the framework of state (municipal) programs. At the same time, strategic planning documents should define the main directions of the policy as well as requirements for the state (municipal) programs;
2) to draft the Budgetary strategy of the Russian Federation for the period until 2030 that should determine budget expenditure for the state programs on the basis of main budget parameter forecasts. The President of the Russian Federation prescribes to the Government of the Russian Federation to complete the development of the budgetary strategy of the Russian Federation for the period up to 2030 within a short timeframe as well as to amend the long-term forecast of socio-economic development if it is necessary[10]. This suggestion meets the requirements of Art. 9(3) of Directive 2011/85/UE which requires that projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts.

Russian scientists express the same opinion. They say that the problems related to performance budgeting are due to the objectives of budget expenditures being formulated outside the budget process in the course of budget administrator activity. In addition, detailed plans of economic and socio-economic development (national economic plans - three years, five years, and others) are not published.

The mechanism of drawing up such plans in the Russian Federation was lost with the dissolution of the USSR and the State Planning Committee of the USSR[11].

By now, the Ministry of Economic development of the Russian Federation has adopted the forecast of long-term socio-economic development for the period up to 2030. Based on this document in accordance with the requirements of the Budget Code, the Ministry of Economic development drafts a forecast of socio-economic development of the Russian Federation for the next financial year and following two-year planning period. In turn, this forecast becomes the economic basis for drafting

10 The Budget message to the Federal Assembly of the Russian Federation of 13 June 2013 “On budget policy in 2014 - 2016”.

11 Komyagin D.L. The Budget Law of the Russian Federation: textbook / edited by A.N. Kozyrin. Moscow: The Institution of public law researches, 2011 (Комягин Д.Л. Бюджетное право России: учебное пособие / под ред. А.Н. Козырина. М.: Институт публично-правовых исследований, 2011).

the budget for the next financial year and its following two-year planning period. In addition, the Government of the Russian Federation has adopted the Concept of long-term socio-economic development of the Russian Federation for the period up to 2020[12].

Thus, in the last decade, the Russian Federation has taken serious steps in the transition to medium-term financial planning on the basis of performance budgeting. The federal budget is adopted for the next financial year and two-year planning period, broken down into state programs. However, there are problems related to correlation between mid-term financial planning and socio-economic planning, to estimation of program implementation. These problems should be solved by continuing reforms in the financial sector.

12 The Decision of the Government of the Russian Federation of 17 November 2008 № 1662-R (amended at 8 August 2009).

WIELOLETNIE RAMY BUDŻETOWE W FEDERACJI ROSYJSKIEJ

W latach 2006-2007 rozpoczęto wprowadzanie w Rosji wieloletniego planowania finansowego. Od 2010 r. wprowadza się natomiast elementy budżetowania zadaniowego. Budżet federalny jest przyjmowany aktualnie na następny rok budżetowy i dwa lata okresu planowania z podziałem na programy państwowe. Jednocześnie nierozwiązane zostały problemy związane z korelacją między średniookresowym planowaniem finansowym i planowaniem społeczno-gospodarczym, do oceny realizacji programu. Te problemy powinny być rozwiązywane przez kontynuację reform w zakresie sektora finansowego.

Słowa kluczowe: budżet zadaniowy, średnioterminowe planowanie finansowe, wydatki budżetowe, program celowy

Keywords: performance budgeting, medium-term financial planning, budget expenditure, objective program

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MULTIANNUAL FINANCIAL FRAMEWORK IN THE CZECH REPUBLIC

1. General characteristics of the situation in field of the multiannual financial framework in 2011. Impact of particular multiannual frameworks on annual budget

There is an almost fourteen year old tradition of multiannual financial framework in the Czech Republic. In 2000, Act No.218/2000 Coll., on budgetary rules and on change of other related legislation (Further "Act on Budgetary Rules") was approved, which, in Article 4, contained regulation on medium-term outlook. The aim of the lawmakers of this Act was to shift to a medium-term horizon for budget procedure, to make it possible to analyse bearing capacity of the impact of approved state policies and particular acts in terms of mid-term sustainability in a balanced development of financial management. Medium-term outlook should serve as the basic document for setting aims and objectives of budgetary policy over a determined period of time.[1] Similar conclusions were claimed by Marková, when she stated that: "by adopting laws governing the budgetary rules of the state and municipalities in 2000, the medium-term outlook in the Czech Republic became the basic document of the aims and objectives of fiscal policy for a longer period".[2]

In 2011 a rule was applied, that medium-term outlook be listed for a two-year period directly following the year for which the state budget was put together.[3] The medium-term outlook should have contained expected revenue and expenditure of the state budget and state funds for those years to which it related. The presumptions and intentions that formed the bases upon which revenue incomes and expenses

1 See Explanatory report on Act No.218/2000 Coll., On Budgetary Rules and on Change of Other Related Legislation.

2 Marková, Hana. Rozpočtový proces. In: Bakeš, Milan. *Finanční právo*. 6. upr. vyd. Praha: C.H. Beck, 2012, p. 128. ISBN 9788074004407.

3 Compare also with Marková, Hana; Boháč, Radim. *Rozpočtové právo*. Praha: C.H. Beck, 2007, p. 188-190. ISBN 9788071795988.

were assumed and planned, should also have been included. The Act also specified the range of medium-term outlook so as it should contain assumptions for the basic indicators of national economy development, mainly: the expected increase or decrease of gross domestic growth and consumer prices; aims and objectives of government concerning income, expenses and balance of the state budget and state funds, intended changes of law and other legislation; amount of medium-term expenditure frameworks and their subdivision according to chapters and state funds; total income and expenses of the state budget; total income and expenses of state funds; income and expenses of particular chapters of the state budget, income and expenses of particular state funds, and expenses on programmes where the amount of state budget participation was approved by the government; expenses on programmes and projects co-financed by the European Union budget according to particular chapters and state funds; obligations of individuals and legal persons guaranteed by the state on behalf of its organizational units, and an overview of state obligations arising from the approved concession contracts. Where the calculation of medium-term outlook results in a state budget deficit, an explanation of the anticipated method of financing should also be included.[4]

Medium-term outlook is elaborated by the Ministry of Finance together with chapter administrators, local government units and state funds, and is put to government together with the state budget proposal. Details of the data to be transmitted for processing medium-term outlook were established by the Decree of the Ministry of Finance No. 415/2008 Coll., which set the range and structure of data used for detailing medium-term outlook of the state budget.

In 2004 the medium-term expenditure framework was adopted as another tool for long-term planning together with medium-term outlook by Act No. 482/2004 Coll., by which Act No. 218/2000 Coll., On Budgetary Rules and on Change of Other Related Legislation, was amended. Contrary to medium-term outlook, which contains a detailed analysis of expected incomes and expenses of the state budget for the particular years it is set for, the medium-term expenditure framework is expressed only by one number for each year representing sum of expenses, or on number for each year it is approved for. This division was essential, because the figures of the medium-term expenditure framework are definite (for government, when it submits the draft law on the state budget for approval or the Chamber of Deputies proposal on resolution of medium-term expenditure framework) whereas medium term outlook figures are not binding.[5] Recently, deadlines for works on elaboration of the state budget proposal, medium-term outlook and medium-term expenditure frameworks, have been established in law.[6]

4 Art. 4 sub. 1 to 3 Act on Budgetary Rules.
5 See Explanatory report on Act No.218/2000 Coll., on Budgetary Rules and on Change of Other Related Legislation.
6 See art. 8b Act on Budgetary Rules.

The medium-term expenditure framework for 2011, was composed of total expenses of the state budget and state funds for each year to which the medium-term outlook applied, e.g. the two following years.[7] Expenses for the realization of state guarantees[8] and repayable financial assistance[9] were excluded from the figures for medium-term expenditure in the framework. The medium-term expenditure framework was set by the Chamber of Deputies in a resolution to the government draft law on state budget. It is necessary to add, that expenses of the state budget in the draft law, are set by the Ministry of Finance in terms of medium-term expenditure framework amount, which is part of the resolution of the Chamber of Deputies to the draft law for the current year. This amount was stated as a figure for the year following the current year and that figure could not be exceeded.[10] For purposes of determining the total amount of expenses of the state budget, the Ministry of Finance had to use the figure stated in the resolution of the Chamber of Deputies, which by that time was one year old.[11]

The predicted expenditure given in the medium-term expenditure framework for the first year of medium-term outlook, had to respect the amount stated in the resolution of the Chamber of Deputies for the previous year. This amount could be adjusted to cover expenses that could not be presumed while setting this figure. This covers expenses caused by a significantly different development of customer prices than expected or incurred by law on the budgetary allocation of taxes, if it resulted in an increase or decrease of expenses in the state budget and if such impacts had not been included into sum during setting it. Furthermore, those were expenses of total amounts of income from the European Union budget and from financial mechanisms, which were counted in different amount while setting the sum, expenses in total amount of 2 per mile to reflect the influences not encountered during the determination of the amount, and last but not least, expenses caused by abnormal situations which could not reasonably have be foreseen.[12]

In the event of a situation arising where the amount of the medium-term expenditure framework for the first year of medium-term outlook differs from that given for the same year stated in the resolution approved by the Chamber of Deputies for the previous year, the government is required to explain justify this difference.

7 For more see Marková, Hana; Boháč, Radim. *Rozpočtové právo*. Praha: C.H. Beck, 2007, p. 190-191. ISBN 9788071795988.

8 If the guarantor contracts, guarantee statements, warranty papers, or laws that set the state's collateral duty became effective 30th April 2004, with the exception of expenditure to meet the guarantor's obligations to creditors state government organizations Railway Infrastructure Administration by Law No. 77/2002 Coll., on Czech Railways, state organization Railway Infrastructure Administration and amending Act No. 266/1994 Sb., the Railways Act, as amended, and Act No. 77/1997 Coll., on State Enterprise, as amended, as amended by Act No. 179/2003 Coll.

9 Art. 8a sub. 1 Act on Budgetary Rules.

10 Art. 8 sub. 1 Act on Budgetary Rules.

11 Explanatory report on Act No. 482/2004 Coll., by which Act No. 218/2000 Coll., On Budgetary Rules and on Change of Other Related Legislation, is amended.

12 Art. 8a sub. 2 Act on Budgetary Rules.

The same applies to the medium-term expenditure framework for the first year approved by the Chamber of Deputies in the previous year. If this amount differs from the total amount of state budget expenses given in the state budget proposal. The justification for changes is presented to the Chamber of Deputies together with the government draft law on state budget for the next year.[13]

Both medium-term outlook and the medium-term expenditure framework have an impact on creating the state budget. The state budget should be based on medium-term outlook, expenses indicators on programmes or on projects co-financed by the European Union budget, are binding for elaboration of the draft law on state budget.[14] The total of expenses incorporated in the state budget should be based on the medium-term expenditure framework.[15]

An instrument for multi-annual budgetary planning at local level is budgetary outlook, which has existed in the Czech Republic since 2004. This instrument is part of core financial law for local governments, which is Act No. 250/2000 Coll., on budgetary rules of regional budgets (further „Law on Budgetary Rules of Regional Budgets"). Even the lawmakers of this Act were awarded of too short period of financial year for the economy financed from local budgets.[16] That is why, they incorporated a rule into the Act, that the financial economy of local governmental units and unions of municipalities respect their annual budget and budgetary outlook[17] and further, that elaboration of the annual budget of local governmental units and union of municipalities be based on budgetary outlook.[18]

Budgetary outlook is an auxiliary tool serving the medium term financial planning of economy development, which can be used by regions, municipalities, and unions of municipalities. It is put together by virtue of concluded contractual relationships and commitments usually for a period of 2 to 5 years, following the year for which the annual budget is set. Financial insight contains a primary data summary on income and costs, mainly in long-term commitments[19] and claims, on financial sources and needs for the realization of long-term objectives.[20] Financial insight enables local government units to create conditions for long-term actions, which exceed the framework of a single financial year.[21]

The regulation of multiannual planning at local government unit level is quite austere. The reason for this is that elaboration of budgetary outlook was not

13 Art. 8 sub. 1 a art. 8a sub. 4 Act on Budgetary Rules.
14 Art. 5 sub. 5 Act on Budgetary Rules.
15 Art. 8 sub. 1 Act on Budgetary Rules.
16 Explanatory report to the Act No. 250/2000 Coll., on budgetary rules of regional budgets.
17 Art 2 sub. 1 Law on Budgetary rules of Regional Budgets.
18 Art. 4 sub. 3 Law on Budgetary rules of Regional Budgets.
19 For long-term liabilities their impacts on the self-governing cell or a union of municipalities throughout the duration of the commitment are stated.
20 Art. 3 Law on Budgetary rules of Regional Budgets.
21 Marková, Hana. Rozpočtový proces. In: Bakeš, Milan. *Finanční právo*. 6. upr. vyd. Praha: C.H. Beck, 2012, p. 129. ISBN 9788074004407.

originally required, it should have only served mainly for local government for better planning of financial resources exceeding more than one year, nevertheless since 2009 its elaboration has been obligatory. Since 2009, the rule has been incorporated into the Act on Budgetary Rules of Regional Budgets, that if a local governmental unit, union of municipalities, town district of the capital Prague or The Regional Council of Cohesion Region does not integrate financial insight, it is considered an administrative offense[22] punishable by a fine of up to 1.000.000 CZK.[23] However, the law does not determine a form for this document, it being left up to each individual local authoritive body to choose which form it will use for budgetary outlook. Budgetary outlook also does not have to be approved with the budget, although from a practical viewpoint this is recommended.

2. Did the former system of multiannual financial planning satisfy the requirements of Council directive 2011/85/EU of 8 November 2011?

The former system of multiannual financial planning (in 2011) was not significantly different from the system applied nowadays. Regarding the basic condition specified in Directive 2011/85/EU on requirements for budgetary frameworks[24] setting out least at three years long fiscal planning horizon, and then the Czech Republic met this condition in the past as it does nowadays. Medium-term outlook is always prepared for two years, following the year for which the state budget is compiled thus creating a financial plan for a three yearperiod. Some problem is to be found in the fact, that medium term outlook is not binding for setting the state budget for the following year. However, the medium term financial framework, which is part of The Chamber of Deputies' resolution, is binding. If the figures relating to both differ, the government will has to provide a detailed explanation of the changes needed and introduce them to the Chamber of Deputies.[25]

The implementation of other provisions of Directive 2011/85/EU on requirements for budgetary frameworks, should have been done through legislation, the bills having been prepared ready to be introduced to the Chamber of Deputies in 2013. This included the following legislation:

– Constitutional law on fiscal responsibility[26];

22 Art. 22a sub. 1 letter a) Law on Budgetary rules of Regional Budgets.
23 Art. 22a sub. 5 Law on Budgetary rules of Regional Budgets.
24 The Council directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.
25 See art. 8a Act on Budgetary Rules.
26 Government proposal of Constitutional law on fiscal responsibility. Available from: http://www.psp.cz/sqw/historie.sqw?T=821&O=6.

– Act on rules of fiscal responsibility[27];
– and The Law on amendment of certain acts in connection with the adoption of the constitutional law on fiscal responsibility and the act on rules of fiscal responsibility[28].

However, because of a political development in the Czech Republic, the approval procedure for the above mentioned legislation was at first prolonged and later delayed as the result of a political crisis which led to dissolution of the Chamber of Deputies and the announcement of early elections. The new Chamber of Deputies was formed following elections in October 2013 but a government majority was not established until January 2014. At that time it was clear that this legislation could not be adopted by the end of 2013 in the form required by Directive 2011/85/EU. Moreover, the future of the proposed legislative changes still remains unclear, as the newly formed government has not so far commented on whether it will pursue approval of the bills as drafted, or whether it will apply completely different solutions. In view of this, much of the proposed legislation will not become effective before 1 January 2015, due to the time required for its activation.[29]

The transitional government of the Czech Republic was informed about weaknesses in the implementation of Directive 2011/85/EU and the possible consequences of incorrect or delayed transposition at the hearing on 30 October 2013[30] and commented on the situation on 6 November 2013.[31]

3. Which steps were taken between 2012-2013 towards implementation of Council Directive 2011/85/EU?

A few partial changes were made in the field of multiannual financial planning in the Czech Republic in 2011-2012. One of the most significant changes was that made in 2012 in connection with the adoption of Act No. 501/2012 Coll., by which Act No. 218/2000 Coll., on budgetary rules and on change of other related legislation (budgetary rules) was amended and some other legislation changed. This amended Act newly sets an obligation, that the state organizational units will gather

27 Government proposal of Act on rules of fiscal responsibility. Available from: http://www.psp.cz/sqw/text/tiskt.sqw?O=6&CT=1097&CT1=0.

28 Government proposal of the Law on amendment of certain acts in connection with the adoption of the constitutional law on fiscal responsibility and the act on rules of fiscal responsibility.

29 Materiály na jednání vlády 30. října 2013 [online]. Ministerstvo financí České republiky [cit. 2.2.2014]. Available from: http://www.mfcr.cz/cs/legislativa/materialy-na-jednani-vlady/2013/materialy-na-jednani-vlady-30-rijna-2013-14978.

30 Information on the progress of the implementation of Council directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States and the possible consequences of a late or incorrect transposition.

31 Resolution of the Government of the Czech Republic of 6 November 2013 nr 841 about Information on the progress of implementation of Council directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States and the possible consequences of a late or incorrect transposition.

data related to fulfilment of terms and obligations when processing medium-term outlook for the financial system.[32] Medium-term outlook will be compiled according to budgetary structure[33], and therefore it is unnecessary to be included in the law's content. Furthermore, there is an approximation of methodological approaches used in the quantification of medium-term expenditure frameworks, focusing primarily on ESA95 methodology. The Ministry of Finance´s obligation to lead works on medium-term outlook compilation was also established in the law.[34]

However, as the authors of this Act stated in the Explanatory Memorandum accompanying the legislation, the adopted amendment does not address the transposition of Directive 2011/85/EU on requirements for budgetary frameworks, since this transposition should be ensured by another law.[35] Concerning changes at local governmental level, so far none have been implemented in the area of multiannual planning.

Decree No. 415/2008 Coll. establishing the scope and structure of the base for development of medium term outlook for the state budget, replacing Decree No. 133/2013 Coll., establishing the scope and structure of data for the preparation of the draft law on the state budget, a draft medium-term budget outlook and the deadline for their submission.

In addition to these changes, which directly relate to multiannual financial planning in the Czech Republic, many more partial changes required by the Directive 2011/85/EU on requirements for budgetary frameworks of the particular legislation.[36]

32 The financial system is an information system of public administration controlled by the Ministry of Finance, where different operations are made and where data necessary for compilation of the state budget and medium- term outlook are gathered.

33 Budget composition means the uniform classification of income and expenditure, which is applied in the budgets of government departments in monitoring implementation of the state budget , while tracking the reserve fund of government departments utilisation, at the movements of the budgets of state funds; at the movements on the accounts of state financial assets, moving on accounts for debt management in a planned and actual movements on the accounts of budgets and other monetary funds, municipalities, counties, regional councils and voluntary associations of municipalities except foreign funds means; fund for pooled funds and fund for business activities. For more see Decree No. 323/2002 Coll., on the budget structure, as amended

34 See Zákon č. 501/2012 Sb., kterým se mění zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů (rozpočtová pravidla), ve znění pozdějších předpisů, a některé další zákony; a dále Důvodová zpráva k zákonu č. 501/2012 Sb., kterým se mění zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů (rozpočtová pravidla), ve znění pozdějších předpisů, a některé další zákony.

35 Concerning above mentioned set of law.

36 For more see Chaloupka, Lubomír. *Upevnění národního fiskálního rámce – postup při implementaci směrnice 2011/85/EU* [online]. Ministerstvo financí České republiky [cit. 2.2.2014]. This is a presentation from a seminar on the topic „Current economic and social issues in Czech Republic and European Union". Available from:http://www.mfcr.cz/cs/o-ministerstvu/vzdelavani/konference-a-seminare/2013/rok-2013-podzimni-seminar-aktualni-ekono-15118.

4. Possible problems with the implementation of the Council Directive 2011/85/EU in the member states

Directive 2011/85/EU will provide a definite benefit to the Czech Republic. It will reinforce the existing system of fiscal responsibility and tighten sanctions for non-compliance with established rules with regard to the budgetary surveillance framework of the European Union to avoid excessive government deficits. Directive 2011/85/EU introduces completely new solutions in many areas for the Czech Republic (fiscal framework for all government institutions, the establishment of an independent fiscal council[37] etc.), and possibly it will determine the implementation of rules towards unification of data within the European Union and the minimum requirements for fiscal frameworks of the member states. The rules in certain member states, not excluding the Czech Republic, have thus far frequently differed.

Concerning problems with implementation of the Directive 2011/85/EU, as stated above, there were many of them, the largest being of a political nature, when in the process of passing laws transposing the Directive, the Chamber of Deputies was dissolved and the work suspended for several months. Another problem can be seen in the fact that the Directive concerns many different areas, legislations and subordinate legal acts and its transposition cannot simply be done through the amendment of several pieces of legislation; in some cases it is necessary to find new solutions, whether in the form of approval of new laws or making major changes to existing laws. It takes time.

On the positive side it could be stated that existing practice, mainly in area of prognosis of the Ministry of Finance, largely corresponds to the qualitative requirements of Directive 2011/85/EU. Many requirements have already been met by the executive power but as yet have not been incorporated into legislation and, moreover, have been executed by the executive power beyond the scope of existing legislation. The crucial problem, however, is their formal enshrining in legislation of the Czech Republic.[38]

One of the main problems to be faced in the immediate future concerns the date of implementation of the Directive 2011/85/EU is the requirement to implement the introduction of changes into the law in the shortest possible time (the deadline date for implementation of 31 December 2013 having already expired), while maintaining a time scale sufficient to enable the individual entities effected by the new rules to be adequately prepared for their introduction. Paradoxically, another big problem may be a change in political representation of the Czech Republic. The existing work

37 See for example Articles. 5–8 of Council directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States.

38 See Cvengroš, František. *Implementace Směrnice Rady EU o požadavcích na rozpočtové rámce, Kapitola III – Prognózy* [online]. Ministerstvo financí České republiky [cit. 2.2.2014]. This is a presentation from a seminar on the topic „Selected macroeconomic and fiscal issues“. Available from: http://www.mfcr.cz/cs/o-ministerstvu/vzdelavani/konference-a-seminare/2012/rok-2012--podzimni-seminar-11762.

on implementation of the Directive has been carried out under the supervision of the previous center-right government[39]. After early elections a majority was gained by parties that were not represented in the previous government and the question remains as to whether the current government will be willing to build on the past work of a previous government composed mainly of political opponents.

39 Aside from the transitional government of the caretaker cabinet, which did not have a mandate strong enough to allow promotion of fundamental changes? The position of this government is also evidenced by the fact that it failed to gain the confidence of the Chamber of Deputies and its legitimacy was then called into question.

WIELOLETNIE RAMY FINANSOWE W REPUBLICE CZESKIEJ

Praca przedstawia wieloletnie ramy finansowe w Republice Czeskiej. Pierwszy rozdział opisuje wieloletnie ramy finansowe w Czechach w 2011 r., a zatem w roku, w którym została zatwierdzona Dyrektywa Rady 2011/85/UE z 8 listopada 2011 r. w sprawie wymogów dla ram budżetowych państw członkowskich na poziomie centralnym jak i lokalnym. Następnie została przeprowadzona analiza stanu wcześniejszego, biorąc pod uwagę wymagania tej dyrektywy. Ostatnie dwa rozdziały dotyczą zadań, które zostały wykonane od 2011 r. w odniesieniu do wdrażania dyrektywy, jak i ustalenia najistotniejszych problemów w tej kwestii.

Słowa kluczowe: Republika Czeska, ramy budżetowe, wieloletnie ramy, średnioterminowa prognoza, średnioterminowe ramy wydatkowania, prognoza budżetowa

Keywords: The Czech Republic, budgetary framework, multiannual framework, medium-term outlook, medium-term expenditure framework, budgetary outlook

Review

Cezary Kosikowski (ed.)

PRZYSZŁOŚĆ UNII EUROPEJSKIEJ W ŚWIETLE JEJ USTROJU WALUTOWEGO I FINANSOWEGO
(THE FUTURE OF THE EUROPEAN UNION IN THE LIGHT ITS CURRENCY AND FINANCIAL REGIME)

Publisher: Temida 2, Białystok 2013 (pp. 350)

The purpose of the publication is to answer the questions of whether, in the light of the laws in force in the EU since 2009 regarding the currency and financial regime, continued functioning and development of the EU is possible and whether the existence of the EU is in danger and the organization requires further reforms (p. 7). Attempts to answer those questions were made by lawyers and economists from numerous Polish academic centers, with the participations of specialists from Slovakia. The specific problems and the structure of the work are indicated by the titles of the individual articles:

- Financial condition of the European Union and its members on the eve of adoption of the new financial framework for the years 2014-2020 (K. Piotrowska-Marczak);
- The condition of Spain's public finances after accession to the Eurozone (J. Marczak);
- The condition of public finances in Slovakia as a Eurozone member state (V. Babčák);
- The condition of public finances in Poland as a country subject to derogation (J. Stankiewicz);
- The problem of limits and forms of EU interventionism in the area of currencies and public finances of member states (C. Kosikowski);
- On non-implemented legislative projects in EU tax law (B. Brzeziński);
- A new approach to the problem of macroeconomic balance, deficit and sovereign debt in EU member states in the light of the modification of the Stability and Growth Pact and the Fiscal Pact (M. Fedorowicz);

– The EU financial framework for the years 2014-2020 and the reform of the EU general budget (T. Nieborak);
– Further possibility for EU member states to use money from European funds and money arising from EU initiatives and to use EU financial instruments and mechanisms (M. Perkowski);
– Prospects for use of European funds by units of territorial self-government and the problem of return of such funds (J. M. Salachna);
– Financial aid from the European Union to member states – European Stability Mechanism (A. Piekutowska);
– Changes to present legal solutions in the area of supervision of the financial markets in the European Union – selected problems (M. Olszak);
– New bodies and institutions for security of the financial market in the European Union (A. Jurkowska-Zeidler);
– The future of the euro as the European currency (T. Machelski).

Although the comments and conclusions presented in the individual articles deserve a more detailed discussion, I would like to only indicate a few general statements made in the conclusion of the work and formulated by its scientific editor. In his opinion, even before the financial crisis, the EU was institutionally and functionally ineffective and its member states had to make their own responses to the economic and financial crisis as the EU's response was late and focused mostly on the Eurozone countries. The new anti-crisis solutions adopted by the EU bring new valuable elements. Nevertheless, the EU continues to focus its activities on the situation in the member states of the Eurozone. As a result, the division of the EU into two groups of states becomes deeper (the so-called "Union of two speeds"). This is why "in the light of the presented evidence, the future of the EU is not so clear and sure. There is more evidence indicating that the EU will be a Union of "two speeds" than evidence indicating that the EU will have no such characteristics and will be full of natural and effective social and economic integration of most countries of Europe" (p. 348). This is certainly a real danger. However, one must emphasize that other scientific research conducted in the Białystok's center of financial law science emphasizes continued integration of financial institutions and procedures in the EU. Of great importance to this integration are methods of both direct and indirect ("soft") influence on the member states. Their effectiveness will only be known in a few years because, on the one hand, they enable solving current problems and, on the other hand, result in new conflicts and problems. The results of this research should be known to representatives of European institutions, so as both to enable optimized decision making and to initiate research in the area in question.

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