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**Abstract**

The current economic crisis has called for huge fiscal efforts to avoid a deflationary spiral. In the context of the crisis, the national fiscal frameworks may play an important role in sustaining budgetary retrenchment. Therefore, the need for a fiscal consolidation, meaning a well-designed fiscal and budgetary policy is a challenge for all EU Member States. Moreover, the importance of strong and resilient fiscal frameworks has been emphasised by the October 2009 Council conclusions on the fiscal exit strategy. On this premise, the paper discusses what elements and considerations should be taken into account more carefully in designing resilient fiscal frameworks so as to support optimal policy-making and to promote the respect of the Stability and Growth Pact provisions. The unit analysis consists on several EU Member States, affected by economic crisis.

Taking into consideration the aim of the paper, the research methodology is based on a case study as research strategy, and uses the triangulation method to obtain confirmation of findings through convergence of different perspective. Regarding the qualitative research, the authors use theoretical framework, legal analyses, systematic and analytical collecting data from official written sources, and macroeconomic indicators for quantitative aspects.

Keywords: budgetary framework, restructuring process, governmental measures and policies;

## 1. Introduction

In the context of which, almost all Member States of European Union have been hit by economic crisis, adopting a medium-term budgetary framework becomes necessary to substantiate any measure of reform, but especially, the state fiscal policy. From European Commission perspective (European Commission, 2010: 73) the fiscal frameworks represents „a set of elements that form national fiscal governance, and comprises the following main elements: (1) numerical fiscal rules, (2) independent public institutions acting in the field of budgetary policies, (3) medium-term budgetary frameworks for multiannual fiscal planning (MTBFs) and (4) budgetary procedures governing the preparation, approval and implementation of the budget. This elements that form domestic fiscal frameworks have been drawing growing attention from

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economists and policy-makers over the last years. Moreover, the Maastricht Treaty and the Stability and Growth Pact (SGP) impose budgetary obligations on Member States.

Taking into account all of this, in the recovery programs nationally adopted by numerous countries, but also in those promoted by international organizations such as the European Commission or the International Monetary Fund or Organisation for Economic Co-operation and Development have been pointed out that medium-term budgetary framework represents a tool for supporting policy-making process to budget, and ensuring a continuous quality improvement of public finances. Thus, in order to ensure the respect of objectives, they also stress the importance of national rules and institutions for budgetary discipline, because the national fiscal rules and medium- term budgetary frameworks can provide credibility, transparency and medium-term orientation to fiscal policy making in times when difficult choices need to be made.

## 2. Medium-term budgetary framework. Theoretical approach

The concept of medium-term budgetary framework (MTDF) has been broadly debated and we find different definitions into the numerous studies signed by the European Commission, OECD, IMF, World Bank and other international institutions. From European Commission perspective, the medium-term budgetary framework is defined „ medium-term budgetary frameworks 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" (EC, 2011). In accordance with the Directive (2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States), the medium-term budgetary framework acts as a procedural manual, providing an overview of the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government. From other view (IFA, 2001: 54) the medium-term budgetary framework represents „ a plan which usually covers a period of about three to five years) containing measurable statements of the objectives of the public sector entity, policies and priorities, strategies for achieving the objectives, and a resource framework to plan for the period (projections of revenues and ceilings). From the above definitions, it can be see that the medium-term budgetary framework is a key of fiscal governance and a sine-qua-non condition for ensuring the success of structural reforms.

In this sense, is obvious that budgeting needs to be closely to policy-making process, because otherwise the policy-making are not constrained by strategic priorities and resource availability (Spackman, 2002: 4). According to this perspective, medium-term budgetary framework (MTBF) was defined by Lundback as „a framework that regulates policymakers' formulation and implementation of medium-term/multiyear fiscal policies". It may or may not include a fiscal policy rule that sets numerical restrictions on key fiscal policy objectives. The purpose is to promote fiscal discipline and address fiscal vulnerabilities through increased transparency, stronger accountability, and a more pronounced medium-term perspective (Lundback, 2008: 3). The medium-term budgetary framework appeared in public finance practice in different countries in order to strengthen fiscal discipline, consistency, accountability, and increase transparency of the budget process. In general, the MTBF has been introduced in all countries with budget deficits, public debt levels, respectively, high or go through periods of crisis (European Institute of Romania, 2009: 25).

Article 9(1) of the Budgetary Frameworks Directive (Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States), which was adopted as part of the „Six-Pack" in 2011 states that „Member States shall 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”

Although the MTDF is defined differently by several authors, the European legislation outlines a series of fundamental elements:

- comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules in force;
- 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.

Despite the country-specific character of these fiscal arrangements, the existing literature on MTBFs provides some guidance on the appropriate design of such frameworks. In this context, we emphasise main types of MTBF, namely (Batusaru, Otetea, Banu, 2014: 272): (1) flexible MTBF, and (2) fixed MTBF.

## 3. Implementing the medium-term budgetary framework: case study

The rethinking of the Stability and Growth Pact in 2005 has placed a special emphasis on the issue of increasing the quality of fiscal governance in Europe. In this context, taking into account the effects of economic crisis, the Stability Pact for Growth and Stability and Convergence Programmes, the European Union Member States made a lot of efforts for developing and implementing medium-term budgetary framework. The studies outlined that countries implementing stronger rules over a larger share of general government finances are found to register better budgetary outcomes (Debrun et al. 2008), whilst effective medium-term budgetary planning appears instrumental in sticking to budgetary plans (European Commission, 2007). Thus, from European Union view the medium-term budgetary frameworks are strictly instrumental in ensuring that budgetary frameworks of the Member States are consistent with the legislation of the Union.

At the time being, the budget is prepared on a MTBF basis in the majority of the EU countries, and MTBF has been introduced in the fiscal practice of national governments. This approach is supported by Council Directive 2011/85/EU’ provisions according to that, the national authorities must carry out a document containing all elements of the medium-term budgetary framework, and also, they need to update it regularly. Considering the quality of public finances in Romania, in June 2008, the European Commission has reaffirmed its recommendations for implementing a budgetary framework on the medium and long term and taking measures for improving the quality of public finances in every respect (European Institute of Romania, 2009). In 2009 through the Convergence Program, Romania undertook as objective the implementation of a medium-term budgetary framework. In Romania the Fiscal Responsibility Law No. 69/2010, adopted prior to the Directive 2011/85/EU, already imposed some of the rules designed to strengthen fiscal discipline, and since 2010 a three-year Fiscal-Budgetary Strategy has been introduced as an additional budgeting stage (Article 18-20 Fiscal Responsibility Law).

Since 2006, the European Commission (DG ECFIN) constructed an index on the quality of medium-term budgetary frameworks and surveyed the existing medium-term budgetary frameworks and current budgetary procedures across EU Member States via several rounds of questionnaires (2006, 2008, 2009, 2010, 2011, 2012 and 2013). The index captures the quality of MTBFs through five criteria (European Commission, 2008: 11):

- Existence of a domestic MTFB.
- Connectedness between the multi-annual budgetary targets and the preparation of the annual budget.
- Involvement of national parliaments in the preparation of the medium-term budgetary plans.
- Existence of coordination mechanisms between general government layers prior to setting the medium-term budgetary targets.
- Monitoring and enforcement mechanisms of multi-annual budgetary targets.

For each dimensions mentioned above, European Commission set up a score between 0 and 2 taking into account the existence and the properties of national MTBF. In this instance, the following scores assigned to characteristics of MTBF (European Commission: 2013):

| | |
|---|---|
| **Dimension 1: Existence of a national MTBF** | |
| 2 | MTBF covers the whole of general government or a large part of it (e.g. central government and social security) |
| 1 | MTBF covers central government |
| 0 | there is no national MTBF |
| **Dimension 2: Connectedness between the multi-annual budgetary targets and the preparation of the annual budget (domestic MTBF or SCP)** | |
| 2 | fixed framework (articulated around a pre-defined path for government expenditure, generally not revised over time) |
| 1 | the medium-term budgetary targets form the basis upon which the budget is prepared, but there can be deviations |
| 0 | flexible framework in which medium-term targets are only indicative (no clear link with the annual budget) |
| **Dimension 3: Involvement of the national parliament in the preparation of the medium term budgetary plans (domestic MTBF or SCP)** | |
| 2 | vote of the parliament on the main medium-term objectives (in the context of a national MTBF or of the SCP) |
| 1 | no vote but formal presentation of the objectives to the national parliament |
| 0 | no formal presentation of the objectives to the national parliament |
| **Dimension 4: Existence of coordination mechanisms prior to setting the medium-term budgetary targets (domestic MTBF or SCP)** | |
| 2 | there is a proper ex ante coordination mechanism between all levels of general government |
| 1 | coordination mechanisms only for some general government sub-sectors |
| 0 | no coordination mechanism |
| **Dimension 5: Monitoring and enforcement of multiannual budgetary targets** | |
| 2 | there are well-defined actions in case of deviations from plans and a regular monitoring of targets (reports, etc.) |
| 1 | some monitoring and enforcement procedures |
| 0 | no clearly defined monitoring and enforcement procedures |

Table 1: Medium-term budgetary frameworks

Figure 1. Index criteria for quality of MTBF
Source: European Commission, Directorate-General for Economic and Financial Affairs, 2013

From the above table it can be remarked that almost all of the EU members have put in place a MTBF, in 2013 only Luxembourg did not implement it, the results differ significantly from one country to another. For Romania, after a favourable economic evolution during the first 9 months of 2008, after the negative effects of economic and financial crisis manifested starting with 2009, the data above show a relatively good results, the index for MTBF being 1.92. The

Based on this index, the last survey of European Commission showed the following results:

| No. | Country | Status in 2013 | C1 - national MTBF exists | C2 - MTBF and annual budget: connectedness | C3 - NP involved in MTBF preparation | C4 - co-ordination before setting MTBF targets | C5 - MTBF targets: monitoring, enforcement | MTBF index: median | MTBF index: 1st percentile | MTBF index: 99th percentile |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AT | New MTBF in 2013 | 2 | 1 | 1 | 2 | 2 | 1.60 | 1.25 | 1.92 |
| 2 | BE | MTBF reformed in 2013 | 2 | 1 | 1 | 2 | 1 | 1.40 | 1.08 | 1.74 |
| 3 | BG | MTBF unchanged in 2013 | 2 | 1 | 0 | 1 | 1 | 1.00 | 0.58 | 1.41 |
| 4 | CY | New MTBF in 2013 | 2 | 1 | 0 | 1 | 1 | 1.00 | 0.58 | 1.41 |
| 5 | CZ | MTBF unchanged in 2013 | 1 | 2 | 2 | 0 | 2 | 1.40 | 0.83 | 1.89 |
| 6 | DE | MTBF unchanged in 2013 | 2 | 1 | 1 | 2 | 2 | 1.60 | 1.25 | 1.92 |
| 7 | DK | MTBF unchanged in 2013 | 2 | 2 | 1 | 2 | 2 | 1.80 | 1.51 | 2.00 |
| 8 | EE | MTBF unchanged in 2013 | 2 | 1 | 1 | 2 | 1 | 1.40 | 1.08 | 1.74 |
| 9 | EL | MTBF unchanged in 2013 | 2 | 2 | 1 | 2 | 2 | 1.80 | 1.51 | 2.00 |
| 10 | ES | MTBF reformed in 2013 | 2 | 2 | 2 | 2 | 2 | 2.00 | 2.00 | 2.00 |
| 11 | FI | MTBF unchanged in 2013 | 1 | 2 | 1 | 2 | 1 | 1.40 | 1.08 | 1.75 |
| 12 | FR | MTBF unchanged in 2013 | 2 | 2 | 2 | 2 | 2 | 2.00 | 2.00 | 2.00 |
| 13 | HR | MTBF unchanged in 2013 | 2 | 1 | 0 | 2 | 0 | 1.00 | 0.40 | 1.61 |
| 14 | HU | MTBF reformed in 2013 | 2 | 2 | 1 | 0 | 1 | 1.20 | 0.69 | 1.69 |
| 15 | IE | MTBF reformed in 2013 | 2 | 1 | 1 | 1 | 1 | 1.20 | 1.01 | 1.48 |
| 16 | IT | MTBF unchanged in 2013 | 2 | 2 | 1 | 2 | 1 | 1.60 | 1.25 | 1.93 |
| 17 | LT | MTBF reformed in 2013 | 2 | 1 | 1 | 2 | 1 | 1.40 | 1.08 | 1.74 |
| 18 | LU | No MTBF in place in 2013 | 0 | 0 | 1 | 1 | 0 | 0.40 | 0.09 | 0.73 |
| 19 | LV | MTBF reformed in 2013 | 2 | 2 | 2 | 2 | 1 | 1.80 | 1.52 | 1.99 |
| 20 | MT | MTBF reformed in 2013 | 2 | 1 | 1 | 2 | 2 | 1.60 | 1.25 | 1.92 |
| 21 | NL | MTBF unchanged in 2013 | 2 | 2 | 2 | 2 | 1 | 1.80 | 1.52 | 1.99 |
| 22 | PL | MTBF reformed in 2013 | 2 | 1 | 0 | 1 | 1 | 1.00 | 0.58 | 1.41 |
| 23 | PT | MTBF reformed in 2013 | 2 | 2 | 2 | 1 | 1 | 1.60 | 1.26 | 1.92 |
| 24 | RO | MTBF unchanged in 2013 | 2 | 1 | 2 | 1 | 2 | 1.60 | 1.25 | 1.92 |
| 25 | SE | MTBF unchanged in 2013 | 2 | 2 | 1 | 1 | 1 | 1.40 | 1.08 | 1.75 |
| 26 | SI | MTBF unchanged in 2013 | 2 | 2 | 1 | 2 | 1 | 1.60 | 1.25 | 1.93 |
| 27 | SK | MTBF unchanged in 2013 | 2 | 2 | 1 | 1 | 1 | 1.40 | 1.08 | 1.75 |
| 28 | UK | MTBF unchanged in 2013 | 2 | 2 | 2 | 0 | 2 | 1.60 | 1.03 | 1.99 |

main weakness are that annual budgets are not correlated with the multi-annual program of the MTBF and the lack of co-ordination before setting MTBF targets. On top of the list with good example of using MTBF are two Member States of European Union which, namely Spain and France with 2.00 points. In Spain, the MTBF was set up by the Budgetary Stability Law, in 2001. MTBF targets fiscal balance over the cycle for the general government, excluding the social security system.

Without doubt MTBF has a series of advantages, setting up in practice such a framework requires passing through an important number of steps, and spending a substantial amount of time, human and monetary resources. Although there is a European methodology for MTBF, the MTBF methodologies adopted by each country depends on the particular national conditions, institutions, culture etc.

## Conclusions

The financial and economic crisis has highlighted the need for governments to develop the capacity to foresee, prevent and respond to complicated, dynamic challenges. A MTBF is a potential tool for taking these challenges and a representative instrument for reflecting the future cost of new policy measures. Various countries, not only EU members introduced in the practice of public finance the MTBF as instrument for improving fiscal governance.

Among the advantages of MTBF identified by specialized literature (European Institute of Romania, 2009) can be mentioned:

- MTBF increases the transparency of the fiscal policies,
- MTBF allows a better analysis of the effects of fiscal policy decisions.
- MTBF ensures the dynamic consistency of the fiscal policy decisions.
- MTBF implies that the fiscal policy authority takes into account the consistency in time of the projected trajectories.

According to Fiscal and Budgetary Strategy for 2015-2017, the priorities of the Romanian Government remain related to the economic re-launch, job creation and the sustainability of public finance. In this sense, one of the Romanian Government Strategy objective is improving budget procedures by implementing multi-annual project and program budgeting. This objective will focus on defining in a careful and thorough manner the policies and priorities to be funded from the budget, improve budget performance by having the outcome/output indicators defined, improve the medium term expenditure framework, improve the predictability and efficiency in public spending (Government of Romania, 2014, Fiscal and Budgetary Strategy for 2015-2017).

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