

Fiscal Council's opinion on the draft law amending the Fiscal Responsibility Law no. 69/2010

On October 29th, 2018, the Fiscal Council (FC) received from the Ministry of Public Finance (MPF) the letter no. 466213/29.10.2018, requesting, the Fiscal Council's opinion on the draft law amending the Fiscal Responsibility Law (no. 69/2010 republished, hereafter referred to as FRL), considering the responsibilities of the Fiscal Council regarding the application of the provisions of this law.

The process of drafting a law amending the FRL aims at correcting the incomplete transposition of the provisions of the *Directive 2011/85/EC on the requirements related to the budgetary frameworks of the Member States* (hereafter referred to as the Directive) as identified by the European Commission following the information requested to the Romanian authorities in the context of the EU Pilot file 8829/16/ECFI, as well as avoiding an action for failure to fulfill the obligations as a Member State.

Brief description of the legislative proposal

The legislative proposal under the Fiscal Council's examination refers to several changes /additions to the provisions of the FRL, as follows:

- Introduction of a provision referring to the comparison of the national budgetary projections with the budgetary forecasts of the European Commission regarding the medium-term budgetary framework, presenting and justifying any differences between the two scenarios, according to art. 4 para. (1) of the Directive;
- Amending and complementing FRL with explicit provisions on the publication of the methodologies, assumptions and of the relevant parameters underpinning the macroeconomic and budgetary forecasts to ensure the full transposition of art. 4 para. (5) of the Directive;
- Complementing the FRL with an explicit provision regarding the consequences of non-compliance with the rule on expenditure growth limitation. Given the close correlation between this rule and the rule on compliance with the medium term objective, the proposed amendment envisages regulating unique consequences for breaches of those two rules, namely by applying in both cases the provisions of art. 14 of the FRL which refers to the correction mechanism. This will ensure the compatibility with the provisions of art. 6 par. (1) lit. (c) of the Directive;
- Complementing the FRL with an express provision regulating the procedures for assessing how changes in fiscal policies over the medium-term have a direct impact on public finances and how they will affect the long-term sustainability of public finances, in accordance with Art. 9 par. (2) (d) of the Directive.

Conclusions and recommendations

The Fiscal Council considers the proposed amendments to the FRL as appropriate, and also appreciates that they are contributing at reinforcing the regulations on the medium-term budgetary framework and as well at strengthening fiscal governance. Moreover, the proposed amendments of this legislative initiative regarding the publication of methodologies, assumptions and relevant parameters underpinning the macroeconomic and budgetary forecasts were mentioned over time as recommendations in the Fiscal Council's opinions and analysis.

Nevertheless, as the Fiscal Council reiterated on several occasions in recent years, the fundamental problem of the fiscal framework based on rules as defined by the FRL is the *de facto* inoperability of the fiscal rules and the ease of circumventing them, despite the fact that they are well structured and consistent with the European Treaties signed by Romania. In this context, the Fiscal Council advocates strengthening the rule-based fiscal framework and ensuring full compliance of the FRL provisions, which it considers promoting the sustainability of the public finances and also a balanced and sustainable economic growth.

The opinions and the recommendations above mentioned by the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Art. 56, para (2) letter d) of the Law no. 69/2010 republished, after being approved by the Council members, through vote, on October 31st, 2018.

October 31st, 2018

Chairman of the Fiscal Council,

IONUȚ DUMITRU