

Enhancing the quality of public finances

Context

EU Member States are faced with **significant long-term pressures** on public finances, most notably the worsening consequences of an ageing population and the need for targeted investment to deliver the green and digital transition. In addition, recent shocks such as Covid-19, the war in Ukraine, the energy crisis, reduced economic growth and inflation have put further **strain on public finances**.

Fiscal policy guidance stresses that **fiscal policies should ensure medium-term debt sustainability**

through gradual consolidation while creating space for growth-enhancing reforms and investments, and targeted energy crisis support.

To achieve these objectives, it is crucial for Member States to improve the quality and effectiveness of public expenditures by reforming their public financial management (PFM) systems and practices. Given the wide-ranging and long-term nature of such reforms, it is essential to take a view across the entire PFM landscape and to consider dependencies and sequencing.

Objectives

To support Member States in strengthening their capacity to design, steer and implement a targeted public financial management reform agenda in a structured and sequenced manner. This would ensure the right

building blocks are in place to support Member States to stimulate sustainable, inclusive growth, deliver key twin-transition investments and ensure medium-term debt sustainability.

Support measures

Member States (i.e. national, regional and local authorities) may choose for technical support under the following [non-exhaustive] list of measures:

Pillar 1 – Expenditure Policy – Spending Reviews

1. Establishment of a Knowledge Hub to facilitate peer exchanges and serving as repository of international best practices on all spending review aspects including (inter alia) methodology, IT systems, review design, links to the budgetary process, monitoring and evaluation of results.
 2. Assessment and gap analysis of Member States existing processes, mandates, governance systems, methodologies, analytical skill, tools, and data sources vis-à-vis best practices with recommendations for further development.
 3. Recommendations and advisory support to integrate spending review processes and results into annual and multi-annual budgetary and legal frameworks.
 4. Implementation support for developing processes and tools to monitor the implementation of spending review results and evaluate their success, supported by tailored training sessions.
 5. Implementation support for piloting a review in specific sectors, including capacity building trainings on suitable analytical tools and IT systems.
2. Implementation support for the development of processes, and modelling tools to support the MTBF.
 3. Assessment and gap analysis of the MTBF in force vis-à-vis best practices. Identification of design features or areas that could be improved in the Member State(s) and challenges to achieve effective medium-term planning;
 4. Recommendations and advisory support on the identified gaps
 5. Guidance for introducing and sequencing new policy priorities

Pillar 3 – Macro-fiscal Frameworks – Debt Sustainability Analysis

1. Training sessions on DG ECFIN's DSA tool for medium-term modelling.
2. Workshops on best practices and tools for long-term DSA modelling (inc. accounting for trends and risks such as ageing populations and climate change adaptation and mitigation)
3. Tailored implementation support for Member States to upgrade and further develop their existing long-term DSA models in accordance with best practices.
4. Peer Exchange and Knowledge Hub for DSA modelling

Pillar 2 – Budget Preparation & Implementation – Medium-Term Budgetary Frameworks

1. Identification of international best practices in medium-term budgeting

