



# Innovative public financial management

## Context

In February 2024, the Council and the European Parliament agreed on a reformed EU economic governance framework, which aims to provide greater clarity and predictability for fiscal policy and debt sustainability, while promoting sustainable and inclusive economic growth via stronger incentives for reforms and investments addressing country-specific challenges and common EU priorities.

After adoption, Member States will need to prepare their first medium-term fiscal structural plans, outlining fiscal, structural, and investment policies for the next 4-5 years. These plans must include a macroeconomic outlook spanning at least 4

years, potentially extending to 7 years based on investment and reform details.

DG REFORM has played a pivotal role in providing Public Financial Management support to Member States, and such efforts need to be sustained and expanded in the future.

Key areas of focus for technical support in budgeting practices have included laying the groundwork; strengthening support aligned with the economic governance framework; establishing performance-oriented budgeting practices; the TSI2024 flagship initiative on the "Quality of Public Finances".

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## Objectives

This flagship project focuses on enhancing the quality of public finances aligned with the new economic governance framework, to stimulate sustainable, inclusive growth, enhance economic and social resilience and deliver the twin-transition while ensuring medium-term debt sustainability.



## Indicative support measures

Below is an indicative, non-exhaustive list of support measures:

- **Medium-term fiscal planning and strengthening fiscal sustainability analysis:** This module would provide methodological support for the design of these frameworks, including building capacity for ageing costs projections for the design of fiscal trajectories, as well as assessing the macroeconomic impact of investments and reforms. The module will address the need to strengthen fiscal sustainability analysis and its integration into medium-term planning, ensuring alignment with national planning requirements.
- **Performance-based budgeting, spending reviews and ex-ante and ex-post impact evaluations/assessment aligned with the new Economic Governance framework and the EU priorities identified therein:** This module would provide methodological support for developing agency-specific budgeting frameworks tailored to the complex relationships between spending and outcomes, including in terms of estimating the economic returns to structural reforms/investments (also with regard to labour market, skills and social policies). It also supports the impact assessment of reforms and investments, with a focus on the policy fields relevant for the EU priorities identified in the new Economic Governance framework.
- **Priority budgeting:** This module would focus on areas such as gender budgeting, green budgeting, and SDG budgeting, where DG REFORM has a wealth of experience from successful past flagship and multi-country projects. This module also aims to broaden and deepen participation at regional/local level in the Green/Gender/SDG-Budgeting initiatives. It could also explore the option of a Regional Budgeting Academy.
- **Budgeting for capital expenditure:** This module would provide methodological support for improving good public investment management practices to support the EU priorities identified, and the emphasis on supporting investment in the revised economic surveillance framework.
- **Fiscal reporting and fiscal risks:** This module would address the growing use of artificial intelligence (AI) by ministries to automate and enhance their fiscal and budgetary reporting processes – automating data collection and processing, analysing data, generating reports, and identifying and mitigating risks. This module would also provide support to Member States aiming to improve their practices for reporting macro-fiscal risks from climate change and its environmental impacts. It would also include developing fiscal risk scenarios or stress tests, conducting fiscal risk assessments, and leveraging AI for identifying and mitigating fiscal risks.
- **Social impact analysis:** This module focuses on the systematic implementation of social impact analysis to properly assess distributional effects of planned policy measures and provide methodological support and recommendations to Member States aiming to improve their practices.
- This Flagship also foresees offering technical support for **accounting and statistics** reforms, and to strengthen **public sector audit functions**.