

Economic governance: common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit in the euro area. 'Two pack'

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The Commission has presented a **review of the various legislative texts known as the “[six-pack](#)” and “[two-pack](#)” to strengthen the economic** governance of the European Union. This review analyses to what extent the new rules introduced have been effective in achieving the objectives of ensuring closer coordination of economic policies.

The legislative packages aim to:

- more closely coordinate economic policies through a strengthening of budgetary surveillance under the Stability and Growth Pact;
- introduce a new procedure in the area of macroeconomic imbalances;
- establish a [framework](#) for dealing with countries experiencing difficulties with financial stability;
- to proceed with codification in legislation, in the form of the European Semester, of integrated economic and budgetary surveillance.

Taking into account the short experience of their operation, with the six-pack entering into force in end-2011 and the two-pack only in mid-2013, **the Commission considers it difficult to draw conclusions on the effectiveness of the regulations.**

Overall, the two main objectives of the six-pack and two-pack reforms in the area of fiscal surveillance were

- to strengthen and deepen budgetary surveillance by making it more continuous and integrated, also via an intensified sanctions mechanism; and
- to provide an additional surveillance for euro area Member States to ensure the correction of excessive deficits and an appropriate integration of EU policy recommendations in the national budgetary preparation.

The preventive arm of the Stability and Growth Pact was reinforced and made more binding. The six-pack introduced the **expenditure benchmark** to provide clearer and more operational guidance to Member States. The **increased involvement and enforcement in the preventive arm** reflects the importance of prudent fiscal policies during good economic times.

The corrective arm was upgraded by operationalising the Treaty's debt criterion and intensifying the sanctions imposed on euro area countries non-compliant with recommendations under the Excessive Deficit Procedure.

Overall, **the Stability and Growth Pact was made more flexible** via the possibility to adapt the pace of fiscal consolidation both in the preventive and corrective arm in justified cases.

Assessment: overall, the Commission considers that **the reformed framework has proven effective** in strengthening budgetary surveillance and thus in guiding Member States in their efforts to consolidate public finances in difficult economic conditions.

- While it has been in operation for a rather short period of time, **the reformed framework has already played a role in the correction of excessive deficits**. The EU-28 average fiscal deficit has fallen from 4.5% of GDP in 2011 to a forecast of around 3% of GDP in 2014. The number of countries subject to an Excessive Deficit Procedure fell from 23 Member States of 27 to 11 on 28.
- **The experience with the debt benchmark is very limited**, not least as the new rules included a transition period for the debt benchmark to fully enter into force. Nevertheless, **the operationalisation of the debt criterion** has increased the awareness of the relevance of debt for fiscal stability and has offered additional incentives to bring debt on a sustainable path.
- **The intermediate nominal and structural deficit targets** under the Excessive Deficit Procedure have enabled more precise and transparent policy advice and monitoring.
- **No sanctions** having been imposed on countries non-compliant with the reformed Stability and Growth Pact rules.

The Two Pack's drive to strengthen the fiscal frameworks of euro area Member States has already produced tangible improvements:

- the scope and quality of annual budgeting and medium-term fiscal planning have been upgraded. These processes are now generally based on independently produced or endorsed macroeconomic forecasts;
- national budgeting processes in the euro area are being aligned with the common milestones set out in the "Two Pack";
- a host of bodies entrusted under national law to independently monitor the respect of national fiscal rules have been established or reinforced across the euro area. Their independence, credibility and effectiveness will have to be confirmed by practice over the coming years;
- the rules have allowed a modulation of the fiscal effort according to economic conditions and sustainability risks in the preventive arm and the extension of deadlines for correcting excessive deficits in the corrective arm;
- a general escape clause exists in both the preventive and corrective arm to deal with exceptional situations constituting threats to the economies of the euro area or the EU as a whole.

The Commission considers that the additional budgetary surveillance elements for euro area Member States introduced by the two-pack seem to have broadly fulfilled their objective to increase at least the pressure to correct excessive deficits. The **European Semester** combines these different tools in an overarching framework for integrated multilateral economic and budgetary surveillance. The streamlining and strengthening of the 2015 exercise will further improve its functioning.

In conclusion, if the review has revealed some strengths, it also shows possible areas for improvement, concerning **transparency and complexity of policy making**, and their impact on growth, imbalances and convergence.

According to the Commission, a proper involvement of **national Parliaments** remains crucial in ensuring the legitimacy of Member States' action. At EU level, **the European Parliament** has a key role to play, notably through “economic dialogues”, which have ensured that institutional actors have been regularly held to account on the main issues related to economic governance.

The Commission plans to discuss these points with the European Parliament and the Council in the coming months.