Strengthening fiscal responsibility and medium-term budgetary orientation in the Member States

2017/0335(CNS) - 06/12/2017 - Legislative proposal

PURPOSE: to strengthen fiscal responsibility and the medium-term budgetary orientation in the Member States to prevent excessive government deficits.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: on 2 March 2012, in order to strengthen the foundations of budgetary discipline throughout the economic cycle, 25 Member States signed and ratified the **intergovernmental treaty on stability, coordination and governance** (TSCG) in the Economic and Monetary Union

Title III of the TSCG, the '**Fiscal Compact**', is binding on the Member States whose currency is the euro and, on a voluntary basis, on Bulgaria, Denmark and Romania; It sets an obligation to enshrine in the national legal order of those Contracting Parties a **balanced-budget rule in structural terms equipped with a correction mechanism** automatically triggered in case of significant deviation and monitored by independent institutions.

The Contracting Parties agreed to **seek integration of the core provisions of the TSCG into Union law** at most within five years of the date of its entry into force, i.e. by 1 January 2018.

The Commission's May 2017 reflection paper on the deepening of the Economic and Monetary Union (EMU) recalled that agreement and referred to the possible integration of the Fiscal Compact into the EU legal framework during the period 2017-2019.

The **European Parliament**, in its resolutions of 12 December 2013 and 24 June 2015, has also repeatedly asked for the substance of the TSCG to be brought under the Treaties, arguing that in order to be truly legitimate and democratic, the governance of a genuine EMU must be within the institutional framework of the Union.

Recognising the particular relevance for the completion of EMU, the proposal responds to the will expressed by the TSCG Contracting Parties, the calls of the European Parliament for integration into the Union framework.

Its purpose is to ensure more **effective and systematic monitoring** of the implementation and enforcement of fiscal rules at both EU and national levels.

CONTENT: the proposal for a Directive aims to **integrate into EU law the main elements of the TSCG**, in order to support sound budgetary frameworks at national level, taking into account the appropriate flexibility built into the SGP and identified by the Commission since January 2015.

The proposal obliges the Member States to put in place a **framework of binding and permanent numerical fiscal rules** which, while being consistent with the fiscal rules laid down in the Union framework, can embody specificities relevant to the Member State concerned.

That framework is intended to:

- **strengthen their responsible conduct of fiscal policy** and promote compliance with the budgetary obligations deriving from the Treaty on the Functioning of the European Union (TFEU);
- ensure convergence of public debt to prudent levels, in particular by means of an anchoring **medium-term objective** in terms of structural balance that is binding on national budgetary authorities in their annual decisions.

Fiscal planning must include a **medium-term path for expenditure net of discretionary revenue measures** and consistent with the medium-term objective or the adjustment path towards it. That path should be set for the whole term of the legislature as established by the domestic constitutional legal order, as soon as a new government takes office. Crucially, that path should be respected by the annual budgets throughout the period that it covers.

A **correction mechanism** would be automatically activated in the event of a significant deviation from the medium-term objective or the adjustment path towards that objective. Such a gap would only be allowed under exceptional circumstances and provided that it does not jeopardise medium-term fiscal sustainability.

The proposal for a Directive contains detailed provisions on specific aspects of the correction mechanism and the necessary features related to the set-up of independent fiscal institutions and their specific tasks stemming from this proposal.

While the proposed Directive does not alter the substantive and procedural rules set out in the Stability and Growth Pact, it increases the effectiveness of those provisions. The proposal applies to all euro area Member States and includes ‘opt-in’ provisions for non-euro area Member States.