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

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OPINION OF THE EUROPEAN CENTRAL BANK on a proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States.

The ECB **welcomes the proposed directive**, which aims to integrate the substance of the Treaty on Stability, Coordination and Governance (TSCG) into the Union legal framework. However, it considers it necessary to make several amendments to the proposed directive in order to further strengthen fiscal responsibility in the Member States, simplify the legal framework and ensure more effective implementation and enforcement of fiscal rules at Union and national level.

Simplification of the legal framework: while welcoming the objectives of the proposed directive, the ECB questions the ability of the proposed directive to achieve these objectives. It raises in particular the following points:

- as regards the TSCG, the proposed directive aims to integrate the fiscal compact into Union law. However the **provisions of the proposed directive deviate substantially from those of the fiscal compact**, which may lead to a weakening of the rules of the fiscal compact and increase uncertainly as a result of the coexistence of multiple fiscal frameworks. In particular, the fiscal compact rules are weakened due to the fact that the proposed directive does not contain any reference to the Member States' obligation under the fiscal compact to have their budgetary position in balance or in surplus, or to keep the structural deficit to an upper limit of 0.5 % of gross domestic product, which can become 1.0 % of gross domestic product in cases where the debt level is significantly below 60 % of gross domestic product and where there are low risks to sustainability. The ECB considers that these obligations need to be clearly reflected in the proposed directive;

- as the TSCG will remain applicable to all Member States except the Czech Republic and the United Kingdom, the proposed Directive **does not seem to diminish the risk of duplication and conflicting actions** inherent in the coexistence of intergovernmental arrangements alongside the mechanisms provided for under Union law;
- given that most Member States which are Contracting Parties to the TSCG have already implemented the provisions of the fiscal compact in their national laws, the ECB suggests **clearly incorporating the obligations of the fiscal compact in the proposed directive** in order to ensure legal clarity and equal treatment throughout the Union;
- the proposed Directive should clarify how its provisions would, in **practice, interact with existing provisions of Union law** (such as those of the six-pack or two-pack) and, if necessary, amend the relevant legal acts to ensure legal clarity.

Medium-term objective: the proposed directive stipulates that Member States should set up a framework of binding and permanent numerical fiscal rules specific to them. The ECB considers that the proposed directive needs to define, in a clear and comprehensive manner, how this new medium-term objective in terms of structural balance is defined, and, how it reflects the upper limit for the structural deficit of 0.5 % of gross domestic product found in the fiscal compact.

The ECB considers that **convergence towards the medium-term objective referred to in the proposed directive should be further specified**, with the rules in the SGP seen as a minimum convergence pace.

The ECB notes that an obligation requiring rapid convergence should be inserted into the proposed directive.

The ECB welcomes the obligation on Member States to include in their fiscal planning a medium-term growth path of government expenditure, which would be net of discretionary revenue measures, and which would be of a binding and permanent character. While such a fixed rule might support fiscal discipline and create additional fiscal space in times of economic expansion, more clarity would be needed on how to enforce this rule over the medium term.

Automatic correction mechanism: the ECB welcomes the introduction of the automatic correction mechanism which goes beyond the procedure for the correction of deviations. This tool will enable Member States to correct deviations from the medium-term objective and the adjustment path towards it, and to compensate for deviations from the government expenditure path.

In particular, the proposed directive states that the correction mechanism would be automatically activated in the event of a '**significant observed deviation'**. The ECB suggests defining the term '**significant observed deviation**' in the proposed directive in order to bring legal clarity to the applicability of the correction mechanism.

Independent bodies: the ECB supports the provisions of the proposed directive, which aim to strengthen the role of independent bodies by assigning them a mandate that goes beyond their existing tasks under Regulation (EU) No 473/2013. It suggested that the proposed directive should, therefore, not duplicate existing provisions of Union law, but rather only expand the tasks attributed to these independent bodies in order to ensure that they are able to cover the scope of the proposed directive.