

Excessive deficit procedure: speeding up and clarifying the implementation

2023/0137(CNS) - 26/04/2023 - Legislative proposal

PURPOSE: to reform the EU economic governance framework.

PROPOSED ACT: Council Regulation.

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

BACKGROUND: this proposal forms part of a package and aims to amend Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (the corrective arm of the Stability and Growth Pact). It is accompanied by:

- a [proposal](#) to replace Council Regulation No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (the preventive arm of the Stability and Growth Pact);
- a [proposal](#) to amend Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

The **review of the EU's economic governance framework** was based on a consultation with a wide range of stakeholders. It revealed that the framework has a number of strengths, but also a series of shortcomings, in particular i) increased complexity, ii) the need to be more effective in reducing high levels of debt and building up buffers for future shocks, as well as (iii) the need to update a number of instruments and procedures to incorporate lessons learned from the response to recent economic shocks, including the interaction between reforms and investments under the Recovery and Resilience Facility.

The strong policy response to the COVID19 pandemic proved effective in mitigating the economic and social damage of the crisis, but resulted in a significant increase in public- and private-sector debt ratios, underscoring the importance of **reducing debt ratios to prudent levels in a gradual, sustained and growth-friendly manner** and addressing macroeconomic imbalances, while paying due attention to employment and social objectives.

The package including this legislative proposal aims at **making the EU governance framework simpler, more transparent and effective**, with greater national ownership and better enforcement, while allowing for reform and investment and reducing high public debt ratios in a realistic, gradual and sustained manner. In this way, in the context of the European Semester, the reformed framework should help build the green, digital and resilient economy of the future, while ensuring the sustainability of public finances in all Member States.

Stronger ex-post enforcement would be the necessary counterpart of a risk-based surveillance framework that provides more leeway to Member States to set their adjustment paths.

CONTENT: the proposal to amend Council Regulation (EC) No 1467/97 (the corrective arm of the Stability and Growth Pact - SGP) provides for a shift to a more risk-based surveillance framework that puts debt sustainability at the centre and, in order to further differentiate between Member States, takes into account their public debt challenges, while respecting a transparent and common EU framework

consistent with the 3% of GDP and 60% of GDP reference values set out in Protocol No 12 on the excessive deficit procedure annexed to the Treaties

Under the proposal, the rules for the opening and closing of an **excessive deficit procedure (EDP) for breaches of the 3% of GDP deficit reference value would remain unchanged**, with some adjustments to ensure consistency with the EDP for breaches of the debt criterion, to recognise the role of independent fiscal institutions and to clarify cases of severe economic downturn in the Union or the euro area as a whole. It is a well-established element of EU fiscal surveillance that has been effective in influencing fiscal behaviour and is well understood by policy makers and the general public, thanks to its simplicity.

The **excessive deficit procedure for breaches of the debt criterion would be strengthened** for both activation and abrogation. It would focus on departures by Member States with debt above 60% of GDP from the fiscal path that the Member State has committed itself to and has been endorsed by the Council under the proposed Regulation replacing the preventive arm of the Stability and Growth Pact (SGP).

A substantial public debt challenge established according to the most recent Debt Sustainability Monitor should be considered a key factor leading to the opening of an EDP as a rule. In case this original path is no longer feasible, due to objective circumstances, the Commission could propose to the Council an **amended path** under the EDP.

More specifically, the proposal:

- changes the operationalisation of the Treaty debt criterion, abandoning the ‘1/20th rule’ and focusing on the respect of the net expenditure path set by the Council under the proposed Regulation replacing the preventive arm of the SGP;
- removes the reference to a quantitative description of a severe economic downturn and refers instead to the proposed Regulation replacing the preventive arm of the SGP;
- streamlines the list of relevant factors to decide on the existence of an excessive deficit;
- provides that, in the event of a severe economic downturn, the Commission and the Council may decide in their assessment not to conclude on the existence of an excessive deficit, in line with the approach followed when the general escape clause was activated during the COVID-19 crisis;
- specifies the requirements of the corrective net expenditure path set out in a Council Recommendation, namely that the government deficit should be brought back to or maintained below the 3% of GDP reference value and that the debt ratio should be placed on a plausible downward path or kept at a prudent level;
- maintains, for the years in which the government deficit is expected to exceed the reference value, a minimum annual adjustment of at least 0.5% of GDP as a benchmark;
- imposes an additional obligation on Member States to include in their report on effective action the opinion of their independent fiscal institution;
- provides that in case of a severe economic downturn in the euro area or the Union as a whole, the Commission and the Council may decide not to conclude on the existence of an excessive deficit.

Lastly, the proposal provides that the missions undertaken by the Commission in Member States allow an exchange also with relevant stakeholders other than the national authorities, including independent fiscal institutions. It also requires the Commission to carry out dedicated surveillance missions to Member States which were given a notice by the Council and provides that, in that context and upon invitation by

the parliament of the Member State concerned, the Commission may present its assessment of the economic and fiscal situation in the Member State concerned.