Effective coordination of economic policies and multilateral budgetary surveillance

2023/0138(COD) - 26/04/2023 - Legislative proposal

PURPOSE: to reform the EU economic governance framework.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: this proposal forms part of a package and aims 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). It is accompanied by:

- a proposal 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);

- 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 legislative package aims at making the EU governance framework simpler (by using a single operational indicator in the form of a net expenditure path and by simplifying reporting requirements in particular through the introduction of a holistic, single, integrated medium-term fiscal-structural plan), more transparent and effective, with greater national ownership and better enforcement, allowing for reform and investment while reducing high public debt ratios in a realistic, gradual and sustained manner.

The central objective of these proposals is to **strengthen the sustainability of public debt** and to promote sustainable and inclusive growth in all Member States through reforms and investments.

CONTENT: the proposed Regulation sets out rules ensuring effective coordination of economic policies of the Member States, thereby supporting the achievement of the Union’s objectives for growth and employment.

Its main elements are as follows:

European Semester

The provisions introduce the EU budgetary framework into the surveillance cycle of the European Semester. They also provide that Member States must take into account the guidance given by the Council, and list the legal instruments in which a failure to do so by Member States could result in

Technical trajectory

For each Member State having a public debt **above the 60% of GDP** reference value or a government deficit above the 3% of GDP reference value, the Commission will put forward, in a report to the Economic and Financial Committee, a technical trajectory for net expenditure covering a minimum adjustment period of 4 years of the national medium-term fiscal-structural plan, and its possible extension by a maximum of 3 years. The **trajectory will ensure that the public debt ratio is put or remains on a plausibly downward path or stays at prudent levels** and that the government deficit is brought and maintained below the 3% of GDP reference value.

For Member States having a government deficit below the 3% of GDP reference value and public debt below the 60% of GDP reference value, the Commission will provide **technical information** regarding the structural primary balance necessary to ensure that the headline deficit is maintained below the 3% of GDP reference value in the medium-term.

These technical paths and technical information will guide Member States in defining the multi-annual expenditure targets they will include in their plans.

National medium-term fiscal and structural plans

The proposal aims to move to a **risk-based EU surveillance framework** that differentiates between Member States taking into account their public debt challenges. National medium-term fiscal and structural plans are the cornerstone of the proposed framework. They will integrate **fiscal policy, reform and investment objectives**, including those to address macroeconomic imbalances where necessary, and to implement the European Social Charter, into a single comprehensive medium-term plan, creating a coherent and streamlined process. Member States will have more room for manoeuvre in setting their net budgetary expenditure path, thereby strengthening national ownership of these budgetary paths.

These plans will be **assessed by the Commission and approved by the Council** on the basis of common EU criteria. The proposal also sets out the conditions under which the Council will be able to ask a Member State to present a revised plan and under which the Council will be able to propose a revision of the net expenditure path that it has itself approved if the Member State does not meet the requirements for presenting a revised plan.

Member States will submit **annual progress reports** and the Commission will monitor the implementation of the net expenditure paths including through the set-up of a control account. This intends to make the annual monitoring by the Commission less burdensome for Member States.

Derogation clauses

On a recommendation from the Commission, the Council may adopt a recommendation allowing a Member States to deviate from their net expenditure path, in the **event of a severe economic downturn** in the euro area or the Union as a whole, provided it does not endanger fiscal sustainability in the medium term. The Council will specify a time-limit for such deviation.

Economic dialogue

The proposed Regulation lays down the conditions under which the economic dialogue takes place between the institutions and Member States, including the necessity to inform the **European Parliament** on the application of the Regulation and the possibility for the European Parliament to have an exchange of views with a Member State where there is a significant risk of deviation from the net expenditure path.

Interaction with Regulation (EU) No 1176/2011

The proposed regulation interacts with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances in that the Council may adopt a recommendation establishing the existence of an excessive imbalance in case a Member State fails to implement the reform and investment commitments included in its medium-term fiscal-structural plan to address the country-specific recommendations that are relevant for the Macroeconomic Imbalances Procedure. Moreover, if a Member State is under an excessive imbalance procedure, it should submit a revised medium-term fiscal-structural plan under the latter regulation.