Excessive deficit procedure: speeding up and clarifying the implementation

2023/0137(CNS) - 30/04/2024 - Final act

PURPOSE: to reform the EU economic governance framework.

LEGISLATIVE ACT: Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

CONTENT: this Regulation is part of a package of measures to reform the EU's economic governance framework and amends Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (corrective arm of the Stability and Growth Pact).

This Regulation lays down the provisions for **speeding up and clarifying the implementation of the excessive deficit procedure**. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with budgetary discipline is examined on the basis of the government deficit and government debt criteria.

Assessment of excessive debt

Under the amended Regulation, the excess of the government deficit over the reference value will be considered **exceptional**, in accordance with Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), if it results from the existence of a severe economic downturn in the euro area or the Union as a whole established by the Council or from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned.

In addition, the excess over the reference value will be considered **temporary** where budgetary forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the severe economic downturn or the abovementioned exceptional circumstances.

The Commission will prepare a report in accordance with Article 126(3) TFEU where the ratio of the government debt to GDP exceeds the reference value, the budgetary position is not close to balance or in surplus and where the deviations recorded in the control account of the Member State exceed: (a) either **0.3 percentage points of GDP annually**, (b) or **0.6 percentage points of GDP cumulatively**.

The Commission, when preparing a report under Article 126(3) TFEU, will take into account all the **relevant factors**, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. This report will reflect, as appropriate:

- the degree of public debt challenges;

- the developments in the medium-term budgetary positions;

- the developments in the medium-term economic position;

- the progress in the implementation of reforms and investments;

- the increase of government investment in defence, where applicable, considering also the time of recording of military equipment expenditure.

Where the Member State faces **substantial public debt challenges**, it will be considered a key aggravating factor.

Procedure

Within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3) TFEU, the Economic and Financial Committee will formulate an opinion. Taking the opinion fully into account, the Commission, if it considers that an excessive deficit exists, will address an opinion and a proposal to the Council and will inform the European Parliament thereof. The Council will decide on the existence of an excessive deficit, as a rule within four months. Where it decides that an excessive deficit exists, the Council will at the same time make recommendations to the Member State concerned. The Council will make its decisions public.

The Council recommendation will establish a maximum deadline of six months for effective action to be taken by the Member State concerned. Where warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation will also establish a deadline for the correction of the excessive deficit.

In its recommendation, the Council will also request that the Member State implements a corrective net expenditure path which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set in the recommendation.

Where the excessive deficit procedure was opened on the basis of the deficit criterion, for the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual structural adjustment of at least 0.5 % of GDP as a benchmark.

Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction will be taken within two months of the Council decision establishing that no effective action has been taken.

Monitoring, dialogue

The Council and the Commission will regularly monitor the implementation of measures taken by the Member State concerned in response to recommendations.

The Commission will ensure a permanent dialogue with the authorities of the Member States. To this end, it will carry out missions to assess the true economic situation of the Member State and to identify any risks or difficulties encountered in achieving the objectives of the Regulation and will allow for an exchange with other relevant stakeholders, including independent national budgetary institutions.

Fines

The amount of the fine shall amount to up to **0.05 %** of the latest estimate of the previous year’s GDP for a six-month period and be paid every six months until the Council assesses that the Member State concerned has taken effective action in response to the notice issued.

ENTRY INTO FORCE: 29.4.2024.