Basic information

2017/0335(CNS) CNS - Consultation procedure Directive	Procedure lapsed or withdrawn
Strengthening fiscal responsibility and medium-term budgetary orientation in the Member States **Subject** 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players

Council of the European Union	
European Commission	Commission DG: Secretariat-General; Commissioner: DOMBROVSKIS Valdis

Key events

Date	Event	Reference	Summary
06/12/2017	Legislative proposal published	COM(2017)0824	Summary
08/02/2018	Committee referral announced in Parliament		
06/05/2024	Proposal withdrawn by Commission		

Technical information

Procedure reference	2017/0335(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Legal basis	Treaty on the Functioning of the European Union TFEU 126-p14-a3
Stage reached in procedure	Procedure lapsed or withdrawn

Documentation gateway

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2017)0824	06/12/2017	Summary

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	IT_SENATE	COM(2017)0824	02/02/2018	
Contribution	IT_CHAMBER	COM(2017)0824	15/02/2018	
Contribution	CZ_CHAMBER	COM(2017)0824	27/02/2018	
Contribution	ES_PARLIAMENT	COM(2017)0824	05/03/2018	
Contribution	RO_SENATE	COM(2017)0824	04/04/2018	
Contribution	DE_BUNDESRAT	COM(2017)0824	13/04/2018	
Contribution	CZ_SENATE	COM(2017)0824	30/04/2018	
Contribution	FR_ASSEMBLY	COM(2017)0824	13/07/2018	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2018/0025 OJ C 261 25.07.2018, p. 0001	11/05/2018	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

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

2017/0335(CNS) - 11/05/2018 - European Central Bank: opinion, guideline, report

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.

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.