The new EU economic governance framework

Next steps in the EU economic governance review – start of the implementation of the new rules

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30 April 2024

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European Semester Group

Outline

1. Adoption process
2. Main features of the reformed framework
3. Implementation timing: preparing the first medium-term plans and the European Semester after the reform
4. Transparency
5. Ongoing technical discussions

1. Adoption process

26 April 2023: *Publication of Commission legislative propos als.*

20 December 2023: *Political agreement in ECOFIN Council.*

17 January 2024: *EP plenary session confirms ECON committee negotiating mandate.*

9-10 February 2024: *Political agreement between co-legislators.*

April 2024: *Adoption by the co-legislators.*

May 2024 (TBC): *entry-into-force*

2. The reformed framework: setting the requirement

1. **Medium term and risk-based approach**, with fiscal requirements **differentiated by country**, reflecting macro-fiscal situations, but based on a **common DSA framework;**

2. Basis for fiscal surveillance: **medium-term fiscal-structural plans** prepared by MSs;

3. Net expenditure path needs to **ensure that debt converges to / remains at prudent levels**, applying the Commission DSA methodology;

4. Possibility to **extend the adjustment period**, provided that the extension is underpinned by **investment and reforms;**

5. **Common numerical safeguards** to ensure minimum annual reduction in debt and deficits ex ante;

2. The reformed framework: monitoring and enforcement of compliance

6. **Net expenditure path will be the single fiscal indicator** for monitoring; with **counter-cyclical** properties;

7. Fiscal surveillance on the basis of **annual progress reports**. Focus on deviation from the net expenditure path;

8. **Deviation from the net expenditure path may lead to opening of debt-based EDP** for MSs with debt-to-GDP ratios above 60%;

9. **Deficit-based EDP** for breaches of 3% of GDP reference value largely unchanged;

10. Clarification on **escape clauses**.

3. Implementation timing: preparing the first medium-term plans

- As of 21 May 2024: (optional) **technical exchange** between Member State and COM on statistical information and economic and fiscal outlook
- By 21 June 2024: COM shares **technical guidance (including reference trajectories)** with Member States.
- Summer 2024: **Technical dialogue** with Member States
- By 20 September 2024: **submission** of medium-term fiscal-structural plans
- Autumn 2024: Commission **assessment** and Council **recommendation** endorsing the plan (or requiring a revised plan)
- 2025: first year of **implementation** of the medium-term plans
- Each year by 30 April: Member State submits **annual progress report**, assessment of annual and cumulative deviations on the basis of control account

3. Implementation timing: European Semester cycle after the reform

June 2024
Spring package: CSRs, CRs, draft Employment Guidelines
EDP Report by COM
Fiscal **reference trajectories**

July 2024
Council discusses **CSRs;**
COM proposes **EDP steps**
Council adopts **Employment Guidelines**

tbd (before or after summer break)
EUCO endorse **CSRs;**
Council adopts **CSRs**

June - September
Technical dialogues
MS/COM

by 20 September
Member States submit **medium-term plans**

November
within 6+(2) weeks
Assessment of plans

Assessment of DBP

+ 6 weeks (Council)
Council Recommendation setting net expenditure; reforms and investments underpinning the extension

April (2025)
MS submits **annual progress report**
(after plan is endorsed, i.e. instead of SCP & NRP)

May (2025)
Spring package:
+ assessment of implementation; next round of EDP & EIP

European Commission

4. Implementation: transparency

Reference trajectories

- Transmitted to EFC and Member State concerned
- Published as part of a Member State’s plan

Debt sustainability analysis

- Replicable, predictable and transparent methodology
- Excel spreadsheets with underlying data and formulas and Stata code to be shared with the Member States and eventually made public at the time of the submission of the plans

Role of the European Parliament

- All information shared with the Council shall also be shared with the Parliament
- At least twice a year economic dialogue, which may include presentation of the DSA methodology

5. Implementation: ongoing technical discussions

- Definition of the **net expenditure aggregate**
- Guidance to Member States on the information requirements for **the medium-term fiscal-structural plans**
- Guidance to Member States on the content of **annual progress reports**
- Requirements for **investments and reforms in the medium-term plans**
- **Working group on DSA** to explore possible methodological improvements, including on underlying assumptions

European Commission

Thank you

Background

European Commission

Fiscal guidance for Member States' plans

By 21 June, **technical guidance** for Member States' first plans:

- **"Reference trajectories"** for Member States with debt > 60% of GDP or deficit > 3% of GDP:
  - **Risk-based (DSA) requirements** to be met by the end of a 4- to 7-year adjustment period (~COM proposal) :
    - **Debt is put or remains on a plausibly downward path**, or stays below 60% of GDP, over the 10 years following the adjustment period, incl. under adverse stress tests and with sufficient probability, in the absence of further budgetary measures.
    - **Deficit is brought or kept below 3% of GDP** and maintained below over the 10 years following the adjustment period, in the absence of further budgetary measures.
  - **Adjustment effort is linear** as a rule over the planning period, and at least proportional to the total effort.
  - **Consistency with the corrective arm** ("deficit benchmark").
  - **Debt sustainability safeguard**: debt to decrease by a minimum average pace of 1 pp. of GDP/year (when debt > 90% of GDP) or 0.5pp. of GDP/year (when debt > 60% of GDP) over the adjustment period (starting year 1 or after EDP abrogation).
  - **Deficit resilience safeguard**: common margin of 1.5% of GDP relative to the 3% of GDP deficit reference value.
- **"Technical information"** at the request of Member State with debt < 60% and deficit < 3% of GDP: SPB level necessary to keep debt and deficit below reference values over the medium term [in absence of further budgetary measures beyond the adjustment period]

Extension of the adjustment period

Draft assessment framework for reforms and investment under discussion with EFC (EPC)

The <u>set</u> of reforms and investments underpinning extension should fulfil the following criteria "as a rule":

- be growth- and resilience-enhancing;
- support fiscal sustainability;
- address common EU priorities (green and digital transition, social and economic resilience and the implementation of the European Pillar of Social Rights, energy security, build-up of defence capabilities where applicable);
- address relevant country-specific recommendations, including under the macro-economic imbalances procedure if applicable;
- ensure that the overall level of nationally financed public investment over the lifetime of the plan is not lower than the medium-term level before the period of the plan.

Non-implementation can lead to shortening of the adjustment period

Annual progress report and Commission monitoring

Each year, Member States need to **report on implementation** of their plan by 30 April

- Implementation of the net expenditure path
- Implementation of reforms and investments under the European Semester
- Implementation of the set of reforms and investments underpinning an extension of the adjustment period
- MS may request national IFI to assess compliance of outturns with the plan and to analyse factors underlying a possible deviation

Commission sets up a **control account** to keep track of deviations from the endorsed net expenditure path

- Recording both positive and negative deviations, in annual and cumulative terms
- Based on outturn data
- Numerical thresholds for deviations from the net expenditure path to trigger a Commission Article 126(3) report and possible opening of debt-based EDP
- No recording when escape clause is active
- Reset after endorsement of a new plan

Enforcement

Article 126(3) report

- Deficit-based EDP: No changes: report triggered by breaches of the 3% of GDP reference value.
- Debt-based EDP (for MS with debt > 60% of GDP): report triggered by deviations from the net expenditure path recorded in the control account:
  - > 0.3 percentage points of GDP annually
  - > 0.6 percentage points of GDP cumulatively
  - Unless budgetary position close to balance (general government deficit < 0.5% of GDP) or in surplus
- Balanced assessment of relevant factors, with substantial public debt challenges a key aggravating factor

EDP Recommendation with corrective net expenditure path

- **Deficit-based EDP:** Minimum annual adjustment of 0.5% of GDP as a benchmark (in structural balance terms). Recital allowing the Commission to adjust the benchmark for the proposed corrective path in 2025-27 to cater for increase in interest expenditure.
- **Debt-based EDP:** Corrective path as demanding as the endorsed net expenditure path, with as a rule a correction of cumulated deviations (i.e., balance of the control account).