European Commission

Legislative proposals for An Economic Governance Framework fit for the Future

Economic and Social Committee Hearing

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Key objectives and principles of the reform

- The key objective of the reform is to strengthen debt sustainability and promote sustainable and inclusive growth through reforms and investment.
- Key principles:
  - **Medium-term approach** bringing together fiscal policy, investments and reform
  - **Gradual and credible debt reduction** thanks to prudent fiscal policy and underpinned by growth enhancing investment and reforms for EU priorities
  - **More national ownership**, based on common EU rules, and better enforcement
  - **Simpler rules** taking account of different fiscal challenges

Content and process of the reform package

1. Proposal for *a new* Regulation on the effective coordination of economic and multilateral budgetary surveillance (repealing EC No1466/97). Ordinary legislative procedure (legislators: European Parliament and Council)

2. Proposal for *amending* the Regulation on speeding up and clarifying the implementation of the excessive deficit procedure (EC No 1467/97). Unanimity in the Council (consultation of the European Parliament)

3. Proposal for *amending* the Council Directive on requirements for budgetary frameworks of the Member States (2011/185/EU) Non-legislative. Qualified majority in the Council (consultation of the European Parliament)

1. Proposal for *a new* Regulation on the effective coordination of economic and multilateral surveillance

- Lays down detailed rules concerning the content, submission, assessment and monitoring of national **medium-term fiscal-structural plans** that cover 4 years (a legislature) and ensures a convergence of debt to prudent levels:
  - Debt at the end of the adjustment period is on a plausibly declining path and stays on that path without further fiscal adjustment or is already at a prudent level;
  - Deficit will be and remain under 3% without further policy adjustment.

- **Fiscal adjustment period can be extended** if underpinned by specific reform and investments.
- **Common and transparent assessment frameworks** for fiscal effort and for reform and investments.
- **Council endorsement** of fiscal path, and reform and investment commitments underpinning extension.
- **Endorsed net expenditure path as the sole monitoring indicator,** ensuring automatic stabilisation (because the cyclical fiscal items are not included in the indicator and can fluctuate freely)
- **General and country-specific escape clauses** that involve the Council and are time bound.

Criteria to set the technical trajectories

Commission will provide technical trajectories for Member States in breach of reference values of 3% and 60% based on a common and transparent methodology. It will be published and be an important input to the dialogue with Member States.

Technical trajectories should ensure that at the end of the adjustment period:

- The public debt ratio is and remains on a plausibly downward path, or stays at prudent levels;
- The government deficit is brought and maintained below the 3% of GDP reference value.

Additional safeguards:

- An annual minimum benchmark adjustment of 0.5% of GDP when deficit exceeds the 3% of GDP reference value;
- The public debt ratio at the end of the plan is below its initial level;
- No backloading of fiscal effort in case of extension;
- (Net) expenditure growth remains below medium-term output growth, on average, as a rule over the horizon of the plan.

Assessment criteria for reforms and investment

The set of reform and investment commitments underpinning an extended adjustment path to fulfill the following criteria:

- Be growth enhancing;
- Support fiscal sustainability;
- Address common EU priorities (i.e., Green Deal, European Pillar of Social Rights, Digital Decade, Strategic Compass for Security and Defence);
- Address relevant country-specific recommendations, including, where applicable, recommendations issued under the Macroeconomic Imbalances Procedure;
- Ensure that the overall level of nationally financed public investment over the lifetime of the plan is higher than the medium-term level before the period of the plan.

2. Proposal for *amending* Regulation on the speeding up and clarifying the excessive deficit procedure

- Existing rules for the opening and closing of **deficit based EDPs to remain unchanged.**

- **Clarifications on opening and abrogation of debt based EDPs:**
  - Opening based on usual 126(3) report triggered by deviations from the endorsed fiscal path;
  - Debt-based EDP “by default” for Member States with substantial debt challenges;
  - Streamline use of relevant factors;
  - Abrogation based on compliance with EDP recommendation over 3 years.

- **Common quantitative benchmark adjustment** of 0.5% GDP annually retained from existing legislation when Member State has a deficit above 3% GDP.

3. Proposal for *amending* the Directive on requirements for budgetary frameworks

- Minimum requirements and new tasks for **Independent Fiscal Institutions** with a view to enhancing national ownership.

- Require, to the extent possible, assessing macro-fiscal risks from **climate hazards and climate mitigation and adaptation policies** and reporting on disaster and climate related contingent liabilities.

- Promote medium-term orientations of national budgets.

- Some amendments also aim at simplification and clarification of concepts and requirements.

Thank you

European Commission