The new EU economic governance

The new legislation, and the European Semester

DG ECFIN, 12 June 2024
The main objectives of the reformed framework are to promote:

- *sustainable and inclusive growth and resilience* through reforms and investments and
- *sound and sustainable public finances*,
- *prevent the occurrence of excessive government deficits*.

From a governance standpoint, the reform promotes *national ownership* within a solid framework.
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.

30 April 2024: the revised legislation reforming the EU economic governance framework came into force.
Key elements of the reformed framework

1. **Medium-term fiscal structural plans** (4-year horizon), proposed by Member States but framed by EU requirements

2. A **country-specific net expenditure path** as the main operational fiscal indicator. Calibrated to ensure that debt converges to prudent levels. It strengthens counter-cyclicality

3. **Extended adjustment period** (up to 7 years) underpinned by a relevant set of reforms and investments

4. **Adjustment pace adapted to the level of risks**

5. **General and country-specific escape clauses** for extraordinary situations

6. **Enhanced enforcement.**
What is a medium-term plan?

Forward-looking (four year) perspective:

• Net expenditure path, underlying macro assumptions, planned fiscal-structural measures.
• Reforms and investments to deliver on CSRs and common Union priorities.
• If applicable: A set of reforms and investments underpinning the extension of the adjustment period.
  o Improving growth potential, supporting fiscal sustainability, addressing CSRs and common Union priorities, safeguarding public investment
  o Sufficiently detailed, front-loaded, time-bound and verifiable

Fiscal: Net expenditure path

Structural: Reforms and investments

Fiscal/structural: Set of reforms and investments underpinning an extension
Investments and Reforms in MTFSPs

General

• The MTFSPs must explain how the Member States will deliver forward-looking investments and reforms that:
  o Respond to the main challenges identified in the context of the European Semester.
  o Contribute to the achievement of the common EU priorities.

Additional for an extension

• MTFSPs with an extension must contain commitments to a relevant set of reforms and investments, that:
  o Address relevant country-specific recommendations.
  o Enhance fiscal sustainability and growth.
EU common priorities in EGR

- Green transition;
- 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.
Social Dimension

- Commission surveillance includes progress in implementing the principles of the *European Pillar of Social Rights* and its headline targets, via the social scoreboard and a framework to identify social convergence risks.

- The Commission assesses risks to upwards social convergence and monitors progress on the *European Pillar of Social Rights* on the basis of the *Social Scoreboard* and the principles of the *Social Convergence Framework* (in recital).
How to set the fiscal path in the plan?

Prior guidance:

• **Reference trajectories** for Member States with deficit above 3% of GDP or debt above 60% of GDP based on a common and transparent methodology (**debt sustainability analysis**)

• **(Technical information)** for MS with deficit and debt below Treaty reference values

• **Technical dialogue** before submission of plans
Debt sustainability analysis-based criteria – risk-based approach

By the end of the adjustment period and without further budgetary measures:

- **Deficit below 3% of GDP** and kept below it over the 10 years following the adjustment period
- **Debt on a plausibly downward path**, or below 60% of GDP 10y beyond the adjustment period
- **Debt declines with probability of at least 70%** 5 years beyond the adjustment period

Or debt and deficit both below the Treaty reference values under all deterministic scenarios
Next steps under EGR

• From May 20 – Commission engages in **technical exchanges with MSs that so wish**. These will focus on the technical parameters underpinning the fiscal trajectories. No policy discussions for the time being.

• On 21 June the Commission shares with Member States **reference trajectories (not published) and adopts the guidance on the content of the MTFSP and the annual progress report**

• Afterwards, all Member States engage in **technical dialogues** with the Commission to ensure that their plans comply with the legislation’s requirements.

• By 20 September – Formal deadline for Member States to **submit medium-term plans**; late submissions can be agreed (until 15 October, that is not problem; beyond that we need to balance several issues).

• **Late November** - Commission **concludes assessment** of the plans, possibly at the same time as the opinion on the draft budgetary plans

• **Then** – Council **endorses the plans**
European Semester cycle: starting the new regime 2024

**June**
- Spring package on 19 June: CSRs, CRs, draft Employment Guidelines
- EDP: Report by COM
- Fiscal reference trajectories (on 21 June)

**July**
- Council discusses CSRs; COM proposes EDP decision(*)
- Council adopts Employment Guidelines

**September**
- EUCO endorse CSRs; Council adopts CSRs
- November within 6+(2) weeks
- Assessment of plans
- Assessment of DBP
- COM proposes

**20 September**
- Member States submit MTFSPs

**20 May**
- Start of technical exchanges with MS/COM on the draft MTFSP

**30 April**
- The legal acts on new fiscal governance enter into force

**May (2025)**
- Spring package: + warnings for MTFSP implementation slippage; triggering new enforcement tool; next round of EDP & EIP
- MSs submits APR (after MTFSP is endorsed, i.e. instead of SCP & NRP)

**April (2025)**
- Council Recommendation setting net expenditure; reforms and investments underpinning the extension

(*) under consideration.
Thank you

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Common Safeguards

• The final text includes common numerical safeguards, in case of a breach of the Treaty reference values (3% and 60% of GDP), notably:

  • **Debt sustainability safeguard**, setting out minimum annual average decreases to the debt-to-GDP ratios for Member States with debt above 60% and 90% of GDP

  • **Deficit resilience safeguard**, setting out a common resilience margin of 1.5% of GDP relative to the 3% of GDP deficit Treaty reference value and annual structural improvements to achieve that margin

• Over the lifetime of the medium-term fiscal-structural plans, the country-specific net expenditure path remains the main operational fiscal indicator
Enforcement

Operationalisation of debt-based EDP

• Numerical threshold for deviation from the net expenditure path (recorded in the control account) to trigger a Commission Article 126(3) report
• The corrective path to be as least as demanding as the endorsed net expenditure path and correct as a rule for cumulated deviations of the control account

No change in deficit-based EDP

• Minimum annual adjustment under a deficit-based EDP of 0.5% of GDP as a benchmark (in structural balance terms)
• The Commission can adjust this minimum for the increase in interest expenditure in 2025-27
European Semester & RRF
Reforms and investments in MTFSPs

Setting out COM services’ understanding of how to comply with the regulation with a view to reaching a common understanding with Member States

• General principles for reforms and investments (whether or not an extension is requested, Art 11 (c) and (d)) – *response to main challenges/CSRs/common Union priorities*

• Requirements for a set of reforms and investments underpinning an extension of the adjustment period (Art 13) – *several criteria, global assessment*

• How to comply with the transitory provisions related to RRP

• How to monitor and assess implementation of the set of reforms and investment underpinning extension
European Semester – Annual Progress Report

Backward-looking, annual progress reports from MS during implementation:

- Progress in the implementation of the net expenditure path.
- Implementation of broader reforms and investments in the European Semester context.
- If applicable, progress in the implementation of the set of reforms and investments underpinning an extension of the adjustment period.
European Semester – role of RRF

• **MTFSP** shall contain information on the *consistency* and where appropriate, *complementarity with cohesion policy funds* and the **RRP**.

• A set of *reforms and investments for extended adjustment* period shall be *consistent with* commitments included in the approved **RRP** during the lifetime of the RRF.

• **RRP commitments** shall be taken into account for an extension of the adjustment period, provided that:
  
  o the RRP contains significant reforms and investments aimed at *improving fiscal sustainability and enhancing the growth potential* of the economy.
  
  o MS commits to **continue the reform effort** over the remainder of the plan, and to **maintain the nationally financed investment** levels realised on average over the RRP period.
Institutional elements

- European Fiscal Board and national Independent Fiscal Institutions
  - The European Fiscal Board is established as a permanent body; Parliament and Council will be consulted by the Commission on the appointment of the Board
  - IFIs will provide, initially upon request by Member States, an opinion on macroeconomic forecasts and the macroeconomic assumptions underpinning the plans
  - Upon request by Member States, IFIs will provide an assessment of compliance of the budgetary outturn data with the net expenditure path
- Inter-institutional Balance
  - Enhanced information exchange with the European Parliament and broadened economic dialogue on the results of surveillance