



The new EU economic governance

The new legislation, and the European Semester

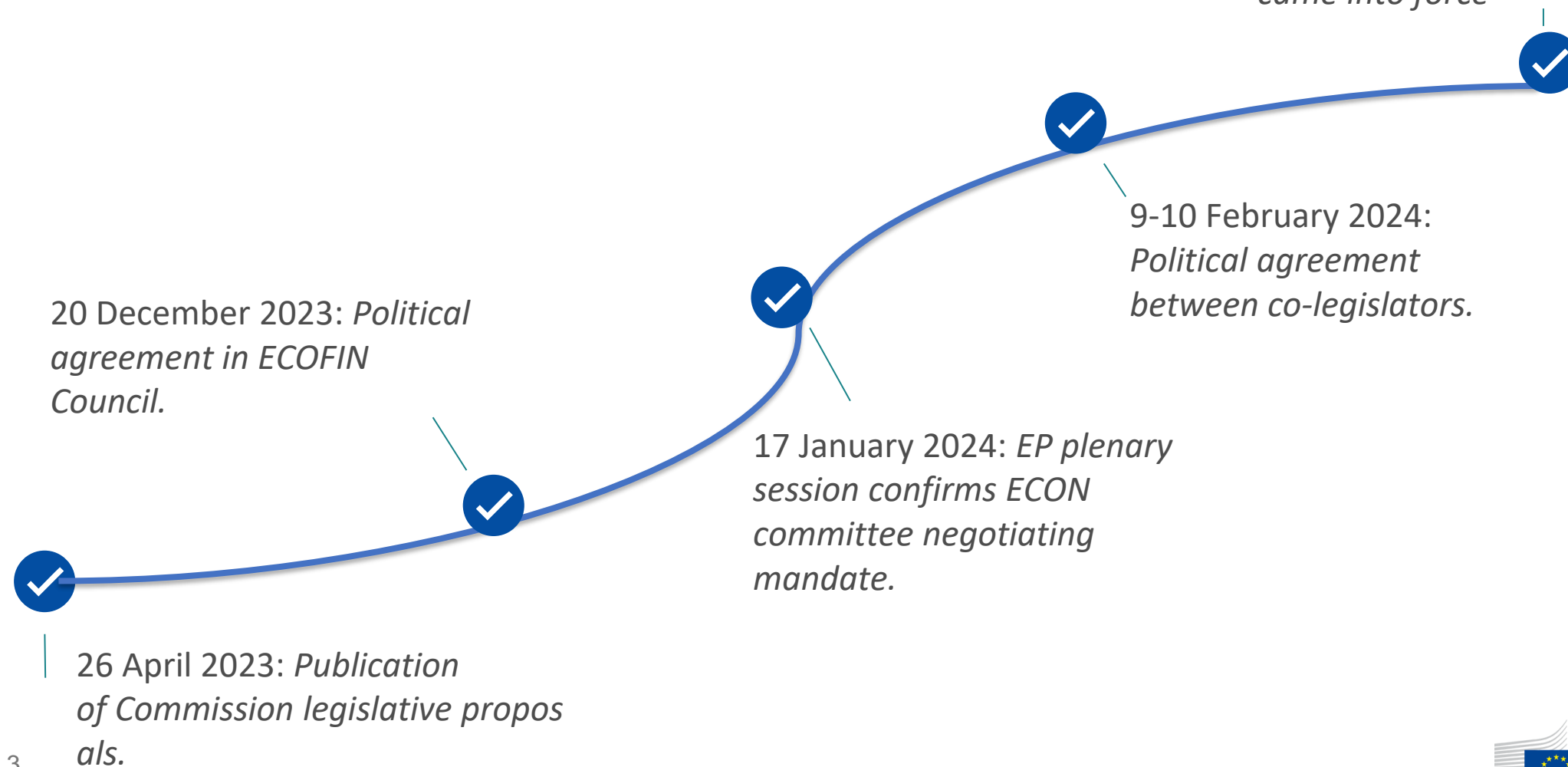
DG ECFIN, 12 June 2024

Economic Governance Review: Context

- 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.

Mileposts

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.
 - Improving growth potential, supporting fiscal sustainability, addressing CSRs and common Union priorities, safeguarding public investment
 - 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:
 - Respond to the main challenges identified in the context of the European Semester.
 - 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:
 - Address relevant country-specific recommendations.
 - 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:

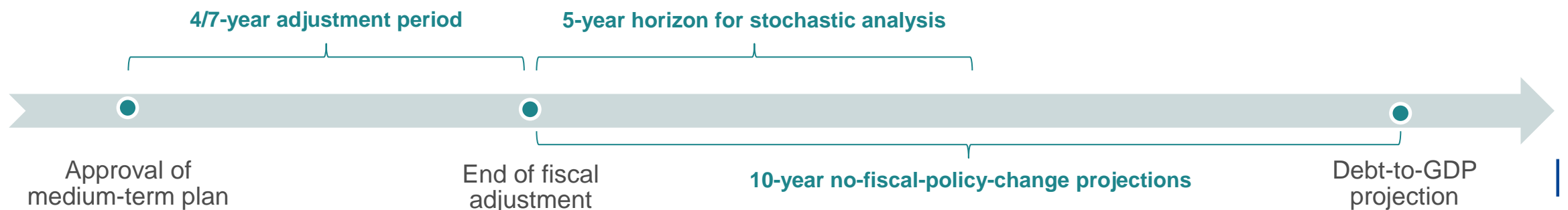
- **Reference trajectories** for Member States with deficit above 3% of GDP or debt above 60% of GDP based on a common and transparent methodology (**debt sustainability analysis**)
- (**Technical information** for MS with deficit and debt below Treaty reference values)
- **Technical dialogue** before 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

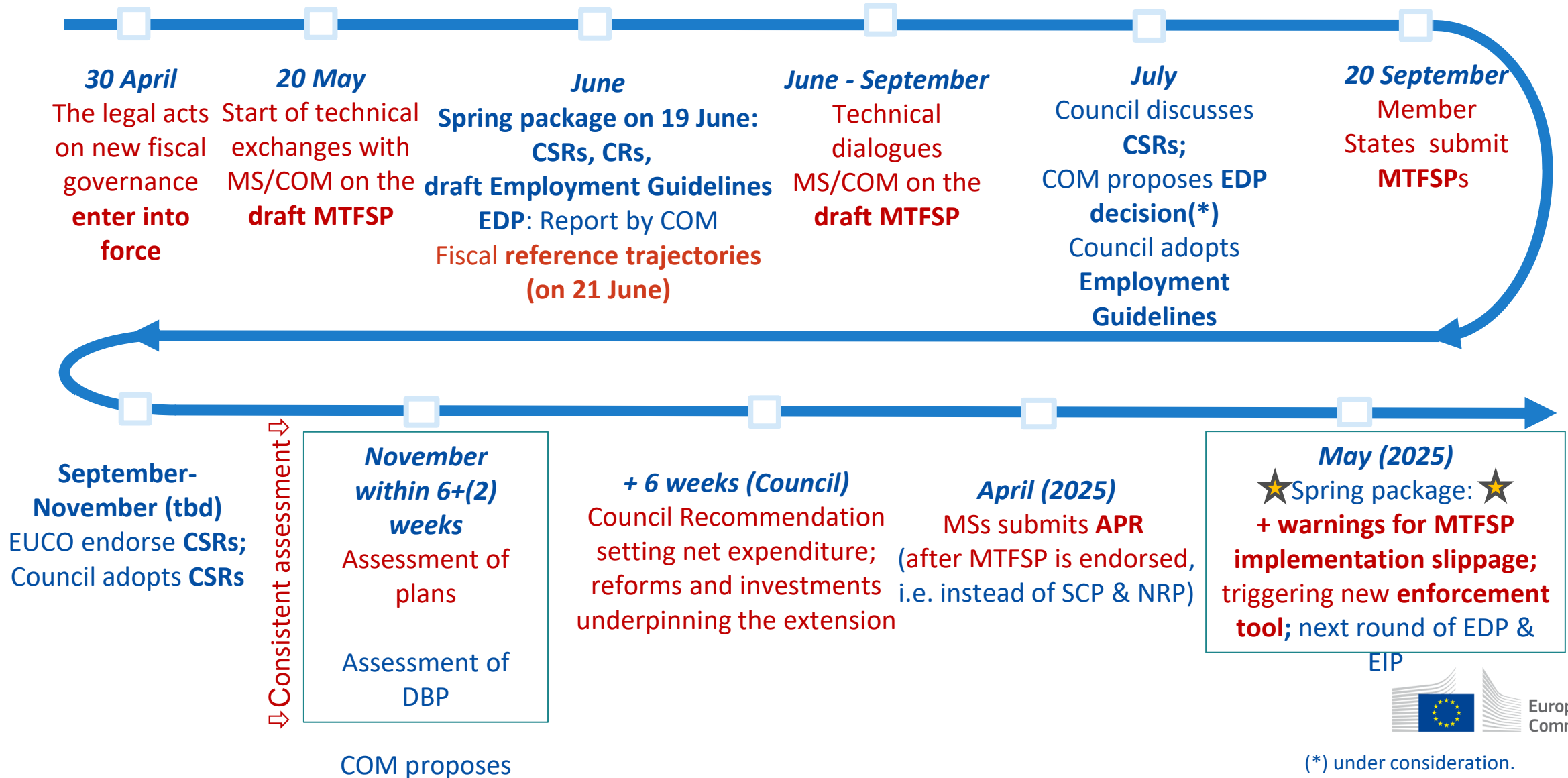
Or debt and deficit both below the Treaty reference values under all deterministic scenarios



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



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

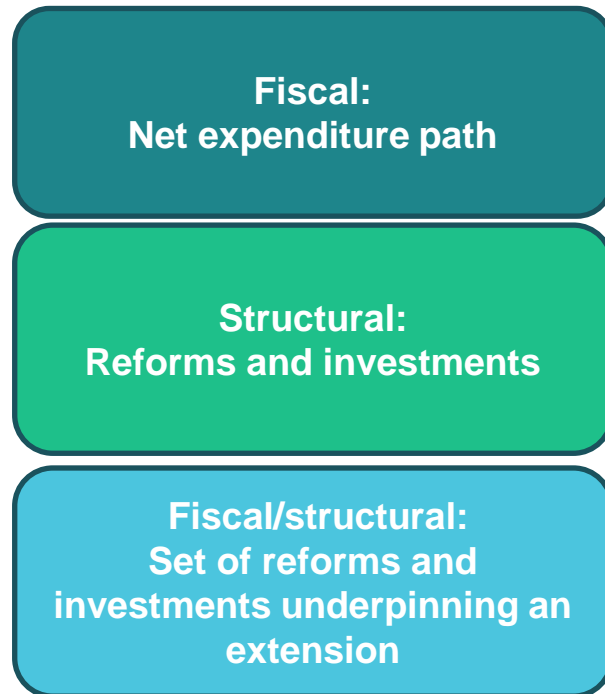
Reforms and investments in MTFSPs

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:
 - the RRP contains significant reforms and investments aimed at **improving fiscal sustainability and enhancing the growth potential** of the economy.
 - 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