



Council of the
European Union

072737/EU XXVI. GP
Eingelangt am 26/07/19

Brussels, 26 July 2019
(OR. en)

11521/19

Interinstitutional File:
2019/0161 (COD)

ECOFIN 747
UEM 262
CODEC 1326
CADREFIN 305

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	25 July 2019
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2019) 354 final
Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area

Delegations will find attached document COM(2019) 354 final.

Encl.: COM(2019) 354 final



Brussels, 24.7.2019
COM(2019) 354 final

2019/0161 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**on a governance framework for the budgetary instrument for convergence and
competitiveness for the euro area**

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

When the global crisis hit the Union and the euro area a decade ago, the Union was soon faced with a rapid worsening of its economic and social situation. A financial crisis quickly became an economic and sovereign debt crisis in the euro area. In response, action has been taken to preserve the stability and integrity of the euro area. These steps have since been complemented and strengthened by various initiatives to address the vulnerabilities in the architecture of the single currency area in the longer term. While significant improvements have been made, in line with recommendations made in the Five Presidents' Report of June 2015 and in the Reflection Paper on the Deepening of the Economic and Monetary Union of 31 May 2017, some important gaps remain. One of the lessons of the crisis is that Member States whose currency is the euro should further enhance the resilience of their economies, through targeted structural reforms and investment, so as to foster convergence and competitiveness of the euro area as a whole.

Against that background, at the Euro Summit of 14 December 2018 (held in inclusive format at 27), the Union Leaders mandated the Eurogroup to work on a number of issues to contribute to the Economic and Monetary Union, and notably on the design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness for the euro area and of the Member States participating in the exchange rate mechanism (ERM II) on a voluntary basis. The instrument will be part of the Union budget and adopted on the basis of the relevant Commission legislative proposal to be amended if necessary. The Euro Summit also indicated that the instrument should be subject to criteria and strategic guidance from the euro-area Member States. Taking stock four years after the Five Presidents' Report, the Commission Communication 'Deepening Europe's Economic and Monetary Union' of 12 June 2019¹ outlined a way forward for the deepening of the Economic and Monetary Union. It notably stressed that a budgetary instrument for convergence and competitiveness would contribute to the resilience of the Economic and Monetary Union by supporting coherent packages of reforms and investment aimed at addressing competitiveness and convergence challenges of the euro-area Member States. The Commission Communication also indicated that it stood ready to propose a new Regulation on the basis of Article 136 of the Treaty on the Functioning of the European Union (TFEU) on the governance framework of such an instrument, while fully respecting the prerogatives of the Commission as regards budget and programme implementation. On 14 June 2019, the Eurogroup agreed a Term Sheet on the key features of the future budgetary instrument for convergence and competitiveness for the euro-area Member States and for the Member States participating in the ERM II on a voluntary basis.² The Leaders, at the Euro Summit of 21 June 2019, welcomed the agreement and stressed the need to work on all pending issues with a view to ensuring the autonomy of decision by the euro-area Member States.³

To that end, the proposed Regulation establishes a governance framework for a new budgetary instrument for convergence and competitiveness for the euro area. The instrument

¹ https://ec.europa.eu/info/sites/info/files/economy-finance/emu_communication_en.pdf

² <https://www.consilium.europa.eu/en/press/press-releases/2019/06/14/term-sheet-on-the-budgetary-instrument-for-convergence-and-competitiveness/>

³ <https://www.consilium.europa.eu/en/press/press-releases/2019/06/21/statement-of-the-euro-summit-21-june-2019/>

will be included in the Reform Support Programme⁴. The governance framework will provide economic policy guidance for reforms and investment to be supported by the new budgetary instrument in line with the overall economic policy coordination framework of the Union.

As part of the Reform Support Programme, the budgetary instrument for convergence and competitiveness aims to promote cohesion within the Union by providing euro-area Member States with financial support for reforms and investment, as set out in coherent packages. The proposed Regulation intends to organise the governance aspect of that budgetary instrument and must be read in conjunction with the Reform Support Programme.

In this context, the Council, with only the euro-area Member States having a voting right, would be entrusted with tasks in respect of: (i) the overall strategy and oversight as regards reforms and investment in the euro area; and (ii) country-specific guidance in relation to the objectives of reforms and investment to be supported by the budgetary instrument. In particular, the proposed Regulation provides for the Council (after discussions in the Eurogroup) to annually set strategic orientations on reforms and investment priorities for the euro area as a whole, as part of the Recommendation on the economic policy of the euro area (hereinafter euro-area recommendation). When setting out the strategic orientations, the Council may seek the views of the Euro Summit. The Council would thereafter adopt a Recommendation with country-specific guidance addressed to all euro-area Member States on the objectives of the reforms and investment to be supported under the budgetary instrument. Under the budgetary instrument for convergence and competitiveness, euro-area Member States can decide to submit proposals for reform and investment packages; both the strategic orientations and the country-specific guidance will have to be taken into account by the euro-area Member States when submitting coherent packages of reforms and investment under the budgetary instrument. With regard to Member States whose currency is not the euro, which participate in ERM II, and which are willing to participate in the budgetary instrument for convergence and competitiveness on a voluntary basis, appropriate arrangements should be developed in a manner consistent with the framework provided for in this Regulation.

The proposed governance framework for the budgetary instrument for convergence and competitiveness for the euro area responds to the need to reinforce the coordination of the economic policies of the euro area and to the need to foster reforms and investment that address the challenges of the euro area as a whole and contribute to its economic and social convergence.

Consistency with existing policy provisions in the policy area

The governance framework for the budgetary instrument for convergence and competitiveness will be consistent with the well-established European Semester process of surveillance and coordination of economic policies of the Union. The implementation of the governance framework set out in this Regulation will also be aligned with the timeline of the European Semester.

The annual strategic orientations will be adopted by the Council as an integral part of the euro-area recommendation, which is endorsed by the European Council before adoption by the Council. As an input to the strategic orientations, the Commission will inform the Council about how the strategic orientations have been followed during the preceding years, thereby strengthening the consistency of the policy guidance.

⁴ COM(2018)391; https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-reform-support-programme-regulation_en.pdf

The country-specific guidance for euro-area Member States will take into account the strategic orientations and will be fully consistent with the country-specific recommendations that are adopted, in parallel, under the European Semester further to discussions, where appropriate, within the relevant Treaty-based committees. In particular, the country-specific guidance will indicate for which particular reform and investment objectives among the ones identified in the country specific recommendations each euro-area Member State may want to submit coherent reform and investment package proposals under the budgetary instrument for convergence and competitiveness. Country-specific guidance for the Member States concerned will therefore not add to the country-specific recommendations but will rather set out priorities among them in terms of support under the budgetary instrument. For reasons of efficiency, this country-specific guidance addressed to all euro-area Member States will be adopted as a single Recommendation. Where relevant, guidance provided under the proposed Regulation will duly take into account any macroeconomic adjustment programme to which a Member State would be subject at the time.

- **Consistency with other Union policies**

The proposed Regulation will provide the governance framework organising economic policy guidance for the reform and investment packages to be submitted under the budgetary instrument for convergence and competitiveness for the euro area. It will also be consistent with and will provide for complementarity and synergies with the proposed Union programmes relevant for investment such as EU cohesion policy funds, the Connecting Europe Facility and InvestEU.

The proposed Regulation builds upon the ideas presented in the Reflection Paper on the Deepening of the Economic and Monetary Union of 31 May 2017,⁵ and is in line with the Commission Communication on Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report of 12 June 2019, which outlined a way forward for the deepening of the Economic and Monetary Union. The budgetary instrument is planned to be part of the Union's budget and its size will be determined in the context of the negotiations on the Multiannual Financial Framework 2021-2027. The proposed Regulation is also coherent with the objectives of that Multiannual Financial Framework.

The proposed Regulation will not impinge on the prerogatives of the Commission as regards budget and programme implementation.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The proposal is based on Article 136(1)(b) in combination with 121(6) of the Treaty on the Functioning of the European Union.

Article 136(1)(b) TFEU provides that, in order to ensure the proper functioning of Economic and Monetary Union, the Council may, in accordance with the relevant procedures referred to in Articles 121 and 126 TFEU, adopt measures specific to those euro-area Member States to set out economic policy guidelines for them, while ensuring that such guidelines are compatible with those adopted for the whole of the Union and are kept under surveillance.

Article 121(6) TFEU provides that the European Parliament and Council may adopt detailed rules for the multilateral surveillance procedure set out in that provision, acting in accordance with the ordinary legislative procedure.

⁵ https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf

In line with Article 136(1)(b) TFEU, the proposed Regulation aims to set out economic policy guidelines of the euro-area Member States by laying down provisions for a governance framework for the future budgetary instrument for convergence and competitiveness within the Reform Support Programme, the beneficiaries of which are euro-area Member States. The procedure referred to in Article 121(6) TFEU constitutes the relevant procedure for the adoption of the proposed Regulation, given the subject matter of the proposal.

- **Subsidiarity (for non-exclusive competence)**

The proposed Regulation respects the principle of subsidiarity, as it only takes actions whose objectives cannot be sufficiently achieved by the Member States alone ('national insufficiency test'), and where the Union intervention can better achieve those objectives compared to actions of Member States alone ('comparative efficiency test').

In that respect, policy guidance, such as strategic orientations for the euro area as a whole and setting targeted individual objectives for reforms and investment, which can also foster the overall convergence and competitiveness of the euro area, are indeed actions that can better be formulated and implemented at the Union level than at Member State level. The Commission is best placed to take the initiative and the Council to decide on such matters in line with their economic policy coordination role enshrined in the Treaties.

Furthermore, enhancing the role of the members of the Council representing the euro-area Member States as regards the framework for governance of the future budgetary instrument for convergence and competitiveness will also increase the collective euro-area ownership of the relevant measures of economic policy coordination adopted under the present Regulation. This reflects well the Treaty principle that coordination of economic policies is a 'matter of common concern'.

The strategic orientations and country-specific guidance to be adopted under this proposal are limited to providing guidance to the euro-area Member States, while the choice of actual reforms and investment remains with the Member State concerned. As a result, the proposed Regulation does not prejudice the right of each Member State to decide what action is necessary or opportune to be undertaken at national, regional or local level; the proposed Regulation respects the principle that the implementation of reforms and investment remains a national competence and the Member States are responsible for it at the appropriate level of government.

- **Proportionality**

The proposal complies with the proportionality principle in that it is a suitable measure for achieving the objective of setting up a governance framework for the budgetary instrument for convergence and competitiveness for the euro area. The proposal does not go beyond what is necessary to achieve that governance framework, in so far as no less restrictive means could be employed to set out economic policy guidelines in respect of the priorities and objectives of Member States' reforms and investment. The strategic orientations and country-specific guidance to be issued under the proposed governance framework are acts without binding force and limit themselves to determining discrete characteristics of reforms and investment, which euro-area Member States can, in turn, at their individual discretion, decide to submit as a package under the budgetary instrument for convergence and competitiveness. The proposed Regulation, furthermore, only establishes the general content, consistency and timing of such strategic orientations and country-specific guidance. Considering these elements of the proposal, the proposed Regulation is a proportionate means for achieving its aim, since it employs only measures that are commensurate with its objectives.

- **Choice of the instrument**

The proposed Union governance framework cannot be achieved by means of directives, or by voluntary instruments. Therefore, the use of a regulation is appropriate here.

3. RESULTS OF STAKEHOLDER CONSULTATIONS

The proposal takes into account the views expressed by the European Parliament and by the Euro Summit.

The European Parliament in its own initiative report set out its views on a roadmap for a budgetary capacity for the Eurozone (Böge/Berès report - 2015/2344(INI), report of 16 February 2017).

The December 2018 Euro Summit mandated the Eurogroup to work on the design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness for the euro area ‘on the basis of the relevant Commission proposal to be amended if necessary’, which was commonly understood as the Reform Support Programme put forward by the Commission in May 2018. In particular, the December 2018 Euro Summit’s statement called for the budgetary instrument for convergence and competitiveness to be subject to criteria and strategic guidance from the euro-area Member States.

The Eurogroup of 14 June 2019 agreed a Term Sheet setting out the general features of the future budgetary instrument for convergence and competitiveness for the euro area, and calling for the arrangements for the governance framework for the euro-area Member States to be codified in an ‘additional act’. Furthermore, the Euro Summit of 21 June 2019 noted that the ‘autonomy of decision’ of the euro-area Member States must be secured in the governance framework for that instrument.

In this regard, only a separate Regulation under Article 136 TFEU could guarantee the autonomy of the governance framework, as set out under the Treaty. Firstly, only a separate Regulation under Article 136 TFEU can establish measures of economic governance, which specify the strategic orientations and the objectives for reforms and investment of euro-area Member States, relevant under the future budgetary instrument for convergence and competitiveness. Secondly, only a Regulation under Article 136 TFEU can provide for mechanisms for the euro-area Member States to exercise decision-making in the field of economic policy coordination.

In addition to ensuring the ‘autonomy of decision’ stipulated by the Euro Summit, a proposal under Article 136 TFEU would codify the euro-area dimension of the governance of the instrument in a way compatible with the prerogatives of the Commission in respect of budget and programme implementation (as regards the future budgetary instrument for convergence and competitiveness).

- **Regulatory fitness and simplification**

The proposal is not linked to the regulatory fitness and simplification exercise and does not have any costs of compliance for small and medium-sized enterprises or any other stakeholders.

- **Fundamental rights**

The proposal will have no direct effect on the respect and protection of Union fundamental rights, since the Regulation merely establishes a framework for economic governance. The strategic orientations and Council measures (recommendations) adopted under the proposed

Regulation have no binding force and are addressed to Member States.

4. BUDGETARY IMPLICATIONS

This proposal will have no budgetary implications for the Union.

5. OTHER ELEMENTS

- **Detailed explanation of the specific provisions of the proposal**

The proposed Regulation establishes a governance framework of the budgetary instrument for convergence and competitiveness for the euro area. In that context, the general subject matter and scope of the proposed Regulation is the framework for governance of the budgetary instrument for convergence and competitiveness for euro-area Member States within the Reform Support Programme. Its scope of application therefore extends to euro-area Member States (Article 1).

The proposed Regulation envisages two distinct kinds of measure that may be adopted by the Council, as made clear in its objectives (Article 3). For the euro area as whole, after discussion within the Eurogroup, the Council may adopt strategic orientations on reforms and investment priorities for the euro area; and, for the individual euro-area Member States, the Council may formulate country-specific guidance setting out the objectives for reforms and investment relevant under the budgetary instrument for convergence and competitiveness, which the Member States concerned may want to submit to the Commission under the budgetary instrument for convergence and competitiveness. The country-specific guidance will be consistent with the strategic orientations for the euro area and with the country-specific recommendations that are adopted under the European Semester of economic policy coordination further to discussions, where appropriate, within the relevant Treaty-based committees.

The proposal makes provision for the strategic orientations of the reform and investment priorities of the euro area to be integrated into the euro-area recommendation (Article 4). Discussion in the Eurogroup will be required before strategic orientations are adopted by the Council as an integral part of the euro-area recommendation, acting by qualified majority on the basis of a recommendation from the Commission. The Euro Summit would also endorse the approach on an annual basis. The proposed Regulation also requires the Commission to inform the Council how previous annual strategic orientations have been followed, which will allow the Council to reflect progress in implementation of the policies in the strategic orientations of the following year.

The framework for governance is also reflected in more specific terms in the provision for a Council Recommendation (Article 5), which gives country-specific guidance to all euro-area Member States. The country-specific guidance should be consistent with the guidance in the country-specific recommendations for the Member State concerned, or it should duly take into account any Council decision approving a macroeconomic adjustment programme. The Council Recommendation with country-specific guidance will be adopted, acting by qualified majority, on the basis of a recommendation from the Commission. The strategic orientations (Article 4) as well as the country-specific guidance could be taken up by Member States under the budgetary instrument for convergence and competitiveness. Both will serve as a basis for Member States for their possible proposals of coherent reform and investment packages under the budgetary instrument for convergence and competitiveness. Ultimately, it is the choice of

the Member State to participate and present eligible reform and investment packages to be supported under the budgetary instrument.

The budgetary instrument may set a minimum national co-financing rate as a percentage of the total cost of the reforms and investment. In this context, Article 6 provides that, on the basis of an assessment by the Commission, the Council will establish which Member States are considered to be experiencing a severe economic downturn, for the purposes of a modulation of the national co-financing rate within the future budgetary instrument for convergence and competitiveness. This provision is without prejudice to the application of Article 2(2) of Council Regulation (EC) 1467/97 as modified by Council Regulation (EC) 1056/2004 and Council Regulation (EU) 1177/2014⁶.

The proposed Regulation reaffirms the voting rule in Article 136(2) TFEU in relation to strategic orientations and Council recommendations: only members of the Council representing euro-area Member States will be entitled to vote (Article 7).

In order to enhance the dialogue between the Union institutions, in particular between the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the proposed Regulation sets out the parameters of an economic dialogue involving the European Parliament, Council and the Eurogroup (Article 8). Under that framework, the competent committee of the European Parliament may host an economic dialogue and invite the President of the Council and the Eurogroup to discuss measures adopted under the Regulation.

In order to review the effectiveness of the proposed Regulation, the Commission is required every four years starting in 2023 to publish and transmit a report to the European Parliament and Council (Article 9).

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31997R1467&from=EN>;
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32005R1056&from=EN>
<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0033:0040:EN:PDF>

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136(1)(b) in combination with Article 121(6),

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments⁷,

Having regard to the opinion of the European Central Bank⁸,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The coordination of the economic policies of the Member States is a matter of common concern. The Member States whose currency is the euro have a particular interest in and a responsibility to conduct economic policies that promote the proper functioning of the Economic and Monetary Union and to avoid policies that jeopardise it in the context of broad guidelines formulated by the Council.
- (2) In order to ensure the proper functioning of the Economic and Monetary Union, Member States whose currency is the euro should take measures to enhance the resilience of their economies through targeted structural reforms and investment. The Euro Summit of December 2018 mandated the Eurogroup to work on the design, modalities of implementation and timing of a budgetary instrument for competitiveness and convergence for the euro area. To ensure that Member States carry out structural reforms and investment in a consistent, coherent and well-coordinated manner, it is necessary to establish a governance framework to enable the Council to provide strategic orientations on reform and investment priorities to be undertaken within the euro area by the Member States. Such a framework would enhance convergence and competitiveness of the euro area. The Council should also provide country-specific guidance on individual reforms and investment objectives of the Member States whose currency is the euro, which can be supported by the budgetary instrument for convergence and competitiveness. Since such a framework is specific to the Member States whose currency is the euro, only members of the Council representing those Member States should take part in votes under this Regulation.

⁷ OJ C , , p.

⁸ OJ C ; ; p.

- (3) At the Union level, the European Semester of economic policy coordination is the framework for the identification of national reform priorities of the Member States and for the monitoring of the implementation of those priorities. This Regulation addresses the need to establish coherence between the reform and investment priorities for the euro area as a whole and the reform and investment objectives of the individual Member States whose currency is the euro, and to ensure their consistency with the European Semester.
- (4) On an annual basis, the Council should set out strategic orientations on the reform and investment priorities for the euro area, as part of the recommendation on the economic policy of the euro area. The strategic orientations should be adopted by the Council acting by qualified majority on a recommendation from the Commission, and after the Eurogroup has discussed the reforms and investment priorities that it considers relevant and appropriate for inclusion therein. The annual Euro Summit will play its role.
- (5) To ensure that strategic orientations reflect the evolving experience of the implementation of the budgetary instrument for convergence and competitiveness, the Commission should, alongside its recommendation on the strategic orientations, as part of its recommendation on the economic policy of the euro area, inform the Council of how the strategic orientations have been followed during the preceding years.
- (6) The Member States whose currency is the euro can decide to submit proposals for reform and investment packages under the budgetary instrument for convergence and competitiveness. To that end, the Council will adopt a Recommendation providing country-specific guidance on the objectives of reforms and investment that can be supported under the budgetary instrument for convergence and competitiveness in Member States whose currency is the euro. This Council Recommendation should be consistent with the strategic orientations adopted under this Regulation, and with the country-specific recommendations that are adopted, in parallel, under the European Semester of economic policy coordination further to discussions, where appropriate, within the relevant Treaty-based committees. The Council Recommendation shall also duly take into account any macroeconomic adjustment programme approved in accordance with the relevant provisions of Regulation (EU) No 472/2013 of the European Parliament and of the Council⁹.
- (7) The Council Recommendation providing country-specific guidance on the objectives of reforms and investment in Member States whose currency is the euro, adopted by qualified majority, should be based on a Commission recommendation. This process should be without prejudice to the voluntary nature of participation of Member States whose currency is the euro in the budgetary instrument for convergence and competitiveness, and without prejudice to the Commission's prerogatives as regards its implementation.
- (8) Within the governance framework set out in this Regulation, the Council should set out the strategic orientations for the euro area as a whole and provide country-specific guidance on the objectives of reform and investment packages of the individual Member States whose currency is the euro. The Commission implements

⁹ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

the Union's budget under Article 317 TFEU, which includes the management of spending programmes. The Commission responsibilities with regard to the budgetary instrument for convergence and competitiveness [within the Reform Support Programme] under Regulation (EU) XXXX/XX should not be affected.

- (9) On the basis of an assessment by the Commission, the Council, shall establish which Member States are experiencing a severe economic downturn for the purpose of a modulation of national co-financing rates provided for in Regulation (EU) XXXX/XX [Reform Support Programme Regulation], and without prejudice to the application of Article 2(2) of Council Regulation (EC) 1467/97 as amended.
- (10) In order to enhance the dialogue between the Union institutions, in particular between the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability in that economic dialogue, the competent committee of the European Parliament can invite the President of the Council, the Commission and, where appropriate, the President of the Eurogroup to appear before the committee to discuss the measures taken pursuant to this Regulation.
- (11) The Commission should report to the European Parliament and the Council, at regular intervals, on the effectiveness of this Regulation.
- (12) Since the objective of this Regulation to contribute to the proper functioning of Europe's Economic and Monetary Union and to the convergence and competitiveness within the euro area by setting out a governance framework for the budgetary instrument for convergence and competitiveness cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale of action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity set out in Article 5 of the Treaty on the European Union. In accordance with the principle of proportionality, as set out in that article, this Regulation does not go beyond what is necessary in order to achieve that objective,

HAVE ADOPTED THIS REGULATION:

CHAPTER I

General provisions

Article 1

Subject matter and scope

1. This Regulation lays down provisions for the governance framework relevant for the budgetary instrument for convergence and competitiveness for the euro area within the Reform Support Programme under Regulation (EU) XXX/XX¹⁰.
2. This Regulation shall apply to the Member States whose currency is the euro.

¹⁰ O.J.C. , , p.

Article 2
Definitions

For the purposes of this Regulation, the following definitions apply:

- (a) ‘country-specific recommendations’ means the Council recommendations addressed to each Member State in accordance with Article 121(2) and Article 148(4) TFEU in the context of the European Semester of economic policy coordination;
- (b) ‘euro-area recommendation’ means the Council recommendation on the economic policy of the euro area in accordance with Article 136 in conjunction with Article 121(2) TFEU.

Article 3
Objectives

This Regulation shall contribute to the convergence and competitiveness of the economies of the Member States whose currency is the euro by defining a governance framework relevant for the budgetary instrument for convergence and competitiveness, which sets out:

- (a) the strategic orientations on the reform and investment priorities of the euro area as a whole;
- (b) country-specific guidance on the objectives of reforms and investment relevant for the budgetary instrument for convergence and competitiveness consistent with the country-specific recommendations.

Article 4
Strategic orientations for the euro area

1. On a recommendation from the Commission and after discussion in the Eurogroup, the Council shall establish, as part of the euro-area recommendation and on an annual basis, the strategic orientations for the reform and investment priorities of the euro area.
2. In parallel to its recommendation referred to in paragraph 1, the Commission shall inform the Council on how the strategic orientations of the preceding years have been followed by the Member States.

Article 5
Country-specific guidance

1. The Council shall, on a recommendation from the Commission, adopt a recommendation addressed to all Member States whose currency is the euro providing, on an annual basis, country-specific guidance on the reform and investment objectives for the purposes of the reform and investment packages, which

Member States may subsequently submit under Regulation (EU) XXXX/XX [Reform Support Programme Regulation].

2. The recommendation referred to in paragraph 1 shall be consistent with the strategic orientations referred to in Article 4 and with the country-specific recommendations for the Member State concerned. In the recommendation referred to in paragraph 1, the Council shall duly take into account any macroeconomic adjustment programme approved in accordance with Article 7(2) of Regulation (EU) No 472/2013.

Article 6

Severe economic downturn

Where relevant, based on an assessment by the Commission, the recommendation referred to in paragraph 1 of Article 5 shall establish whether a Member State is experiencing a severe economic downturn, for the purposes of a modulation of national co-financing rates provided for in Regulation (EU) XXXX/XX [Reform Support Programme Regulation].

This Article shall be without prejudice to the application of Article 2(2) of Council Regulation (EC) 1467/97.

Article 7

Voting in Council

1. As regards the measures referred to in this Regulation, only members of the Council representing Member States whose currency is the euro shall vote.
2. A qualified majority of the members of the Council referred to in paragraph 1 shall be defined in accordance with point (a) of Article 238(3) TFEU.

Article 8

Economic dialogue

In order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the Eurogroup to appear before the committee to discuss the measures taken pursuant to this Regulation.

Article 9

Review

1. By 31 December 2023 and every four years thereafter, the Commission shall publish a report on the application of this Regulation. That report shall assess the effectiveness of this Regulation.
2. The Commission shall send the report to the European Parliament and to the Council.

Article 10
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in the Member States in accordance with the Treaties.

Done at Brussels,

For the European Parliament
The President

For the Council
The President