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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Orientations for a reform of the EU economic governance framework - Draft Council Conclusions

Delegations will find attached the draft Council Conclusions on "Orientations for a reform of the EU economic governance framework" for the ECOFIN Council meeting on 14 March 2023.

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ORIENTATIONS FOR A REFORM OF THE EU ECONOMIC GOVERNANCE FRAMEWORK

DRAFT COUNCIL CONCLUSIONS

THE COUNCIL OF THE EUROPEAN UNION:

1. RECALLS that Member States shall regard their economic and fiscal policies as a matter of common concern and shall coordinate them within the Council, in line with the Treaty. UNDERLINES that the EU economic governance framework is crucial for effective economic policy coordination and surveillance across the EU, ensuring for all Member States, the soundness and sustainability of public finances over the medium- and long term, promoting sustainable economic growth and convergence, and addressing macroeconomic imbalances, supported by growth- and resilience enhancing reforms and investments.

2. ACKNOWLEDGES that the EU economy continued its strong post-pandemic recovery, not least thanks to the swift policy action at national and EU level. However, it faces multiple short- and long-term economic and social challenges resulting from increased geopolitical tensions, high inflation and increased interest rates, climate change, digitalisation, demographic change, the need to support competitiveness and strategic autonomy in an open economy, the importance of ensuring affordable energy and security of supply and the necessary build-up of defence capabilities. Many of these challenges require ambitious reforms and substantial investments. Moreover, the pandemic crisis as well as the consequences of the Russian war against Ukraine have contributed to further increases in already high debt levels, which need to be reduced in a gradual and realistic manner.

3. WELCOMES the publication of the Commission Communication on 9 November 2022 on orientations for a reform of the EU economic governance framework. ACKNOWLEDGES the call from the European Council to the Commission and the Council for swiftly advancing the work on the economic governance review, taking into account the European Council February 2023 Conclusions. RECOGNISES that a review of the existing framework could increase its effectiveness.

4. HIGHLIGHTS that national ownership is an essential element of an effective economic governance framework. ACKNOWLEDGES the benefits of moving towards multi-annual fiscal planning, while maintaining the annual surveillance cycle in the context of the European Semester. RECOGNISES the need to take into account Member States' fiscal starting positions and outlook, as well as economic characteristics in differentiated fiscal paths. STRESSES that simplifying the framework as well as preserving its multilateral character is important. UNDERLINES the importance of equal treatment, transparency and predictability.

5. HIGHLIGHTS the following areas of convergence of views among Member States on a reformed economic governance framework:

a) The Treaty reference values of 3% for the ratio of the planned or actual government deficit to gross domestic product at market prices and 60% for the ratio of government debt to gross domestic product at market prices remain unchanged. The economic governance framework should ensure that these reference values are adhered to in a more effective, efficient and sustainable manner.

b) All Member States should present national medium-term fiscal-structural plans, once a reformed economic governance framework has entered into force. The national plans should cover fiscal policy, reforms, and investments. The plans should set a national fiscal path defined in terms of net primary expenditures as a single operational indicator.

c) Member States should prepare the fiscal path as part of their national plans coherent with the technical fiscal trajectory from the Commission. This will frame the dialogue with the respective Member State, where differences between the plan and the trajectory should be duly justified. The Commission trajectory should be based on a common methodology to be agreed that is replicable, predictable and transparent, and should include an analysis of public debt and economic challenges. It will also be informed by regular technical discussions on projections and forecasts and should be discussed in a multilateral context in the relevant Committees. The Commission technical trajectory should ensure a fiscal effort to put debt on a sufficiently declining path or to maintain it at prudent levels, while preserving the sustainability of public finances and promoting reforms and public investment. To that end, common safeguard provisions to ensure sufficient debt reduction and prevent back-loading of fiscal efforts should be explored.

d) The plans and possible updates should be assessed by the Commission in a fully transparent manner, based on common assessment principles to be agreed, and be subject to multilateral scrutiny and endorsement by the Council. The framework should take due account of the need to allow the democratic process in Member States to shape their economic policies. Therefore, all plans could be aligned, upon request, with the national electoral cycle, revised with the accession of new governments, and updated in objective circumstances, while upholding the ambition of the fiscal adjustment.

e) The fiscal adjustment period could be extended, if a Member State commits to an eligible set of reforms and investments that enhances growth-prospects or resilience, strengthens public finances and thereby their long-term sustainability, and addresses EU strategic priorities, including public investment challenges for the green and digital transition and the build-up of defence capabilities. The adjustment should be appropriately sequenced to prevent back-loading.

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f) For all Member States, the national plans should ensure compliance with the deficit criterion, or sufficient and credible progress towards compliance in line with, if applicable, any Council recommendations to that effect, throughout the plan. The excessive deficit procedure on the basis of a breach of the 3% deficit criterion should remain unchanged, including the assessment of the relevant factors.

g) For Member States with a public debt-to-GDP ratio above 60%, the national medium term plans should ensure that the ratio is sufficiently diminishing. For Member States with a public debt-to-GDP ratio below 60% but with public debt challenges, the national medium-term plan needs to ensure that the ratio remains at prudent levels. The examination of the existence of an excessive deficit on the basis of a breach of the debt criterion should be initiated in cases where a Member State breaches the 60% reference value and a deviation from the agreed fiscal path is observed. In an excessive deficit procedure in case of a breach of the debt-criterion, all relevant factors shall be taken into account. Their use should be clarified where needed. The Commission, in agreement with the Council, should establish the means to account for cumulative deviations, both upward and downward, from the agreed fiscal adjustment path. For Member States with low public debt challenges, the fiscal path in the national plans should ensure that the deficit is kept credibly below 3% on a continued basis or sufficiently declining to that limit, and the debt ratio is kept at a prudent level, considering the need to ensure medium- and long-term sustainability of public finances and to avoid unwarranted build-up of debt.

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h) Enforcement should be made more effective, including through greater transparency. The initial monetary amount of financial sanctions should be reduced to allow for a more realistic application.

i) The general escape clause for major shocks to the euro area or EU as a whole should be specified in order to adapt to exceptional circumstances such that the fiscal adjustment path could not realistically be adhered to and allow for temporary deviations from the medium term plan. A country-specific escape clause should allow for temporary deviations from the fiscal adjustment path in case of exceptional circumstances outside the control of the government with a major impact on the public finances of an individual Member State. Appropriate procedures for activation and prolongation of escape clauses should be established. The Council should play a role in the application of the escape clauses on the basis of a Commission assessment.

j) The current role of national independent fiscal institutions (IFIs) in producing or endorsing macroeconomic projections should be maintained and adapted to the medium-term fiscal-structural plans while minimum standards could be explored. IFIs should not play a role in the design phase of the national plans. A stronger role for the European Fiscal Board in the economic governance framework should be explored.

k) Member States who use the structural balance indicator in their national fiscal frameworks should be able to translate the expenditure path into the structural balance only for national budgetary purposes.

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l) The Macroeconomic Imbalance Procedure remains central for detecting, preventing and correcting imbalances that adversely affect the proper functioning of Member States economies, the Economic and Monetary Union or the European Union economy as a whole. The procedure should become more forward-looking in order to detect emerging risks at an earlier stage. It should also be made more dynamic, by basing the assessment of imbalances more on the evolution of risks and policy implementation, and have clearer criteria for the escalation and de-escalation of the status of Member States under the Macroeconomic Imbalance Procedure. Ownership, predictability, transparency, equal treatment, enforcement and the euro area dimension of the procedure should be enhanced.

6. UNDERLINES that the economic governance framework is a key pillar of the architecture of the Economic and Monetary Union (EMU), supporting the stability of the common currency and the resilience of the euro area economy. STRESSES the importance of the Draft Budgetary Plan exercise in fiscal policy coordination and ensuring that draft budgets of euro area Member States are compliant with EU fiscal rules. AGREES that this exercise should continue under the reformed framework in view of strong fiscal policy coordination within the euro area, supported by the euro area recommendation on fiscal policy and monitoring of the overall budgetary situation in the euro area. ACKNOWLEDGES that the analysis in the Macroeconomic Imbalance Procedure should be developed to enhance the euro area dimension of the procedure. CONCURS that the framework for post-programme surveillance could be streamlined and the intensity of the surveillance could be modulated over time and across Member States depending on economic, fiscal or financial developments. CONSIDERS that the economic governance framework and further steps in deepening the Economic and Monetary Union (EMU) should take into account the lessons learnt from the Union's economic policy responses to previous crises.

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7. CALLS for work swiftly to be continued on the economic governance review, both before and after any legislative proposals. CONCURS that further clarifications and discussions are needed, including when it comes to the definition of the Commission trajectory, the requirements for Member States deemed to have low debt challenges possibly including a fiscal trajectory, the definition of the expenditure aggregate, the appropriateness and design of common quantitative benchmarks to support the reformed framework, the principles for an extension of the fiscal path, the role of the country-specific recommendations, the enforcement of national plans and incentives for reforms and investment.

8. RECALLS that, in accordance with its Article 2, the Treaty on Stability, Coordination and Governance (TSCG) is to be interpreted in conformity and apply insofar as it is compatible with EU law. RECOGNISES that consistency of the TSCG with the revised Stability and Growth Pact should be ensured. CALLS for a reflection to ensure such consistency.

9. CALLS on the Commission, in its forthcoming legislative proposals, to take into account Member States' converging views and areas identified for additional discussions. RESOLVES to process possible next steps in the Council.

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