



Council of the  
European Union

Brussels, 31 March 2020  
(OR. en)

7102/20

ECOFIN 212  
UEM 84

#### COVER NOTE

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From: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 20 March 2020

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of  
the European Union

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No. Cion doc.: COM(2020) 123 final

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Subject: COMMUNICATION FROM THE COMMISSION TO THE COUNCIL on the  
activation of the general escape clause of the Stability and Growth Pact

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Delegations will find attached document COM(2020) 123 final.

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Encl.: COM(2020) 123 final



Brussels, 20.3.2020  
COM(2020) 123 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL**  
**on the activation of the general escape clause of the Stability and Growth Pact**

The COVID-19 pandemic has led to a major economic shock that is already having a significant negative impact in the European Union. The consequences for GDP growth will depend on the duration of both the pandemic and of the measures being taken by national authorities and at European level to slow its spread, protect production capacities and support aggregate demand. In its Communication of 13 March 2020 on the coordinated economic response to the COVID-19 outbreak, based on a scenario analysis, the Commission presented an economic scenario that showed that real GDP could contract by 1% in the EU in 2020. The Communication pointed out that more adverse scenarios, linked to a deeper impact of the pandemic, could not be excluded. Developments since then suggest that such adverse scenarios have become likely. Indeed, assuming an extension of the health crisis up to the beginning of June or beyond, the fall in economic activity in 2020 could be comparable to the contraction of 2009, the worst year of the Economic and Financial Crisis.

Member States have already adopted or are adopting budgetary measures and further measures are being adopted to increase the capacity of health systems and provide relief to those citizens and sectors that are particularly impacted. Significant liquidity support measures and other guarantees are also being adopted, although these do not have an immediate impact on the general government balance.

The Commission is closely monitoring these measures, which together with the fall in economic activity will contribute to substantially higher budgetary deficits. The Commission and the Council have already clarified that the full flexibility available in the Stability and Growth Pact will be applied for the measures linked to the outbreak of COVID-19. Specifically, as the crisis is an event that is outside the control of governments with a major impact on the public finances, the unusual event provision of the Pact applies. This implies that the budgetary impact of the above-mentioned measures will be excluded when the Commission assesses compliance with the Stability and Growth Pact. An assessment will be made, including on the eligible amounts, on the basis of observed data as provided by the Member States.

However, the scale of the fiscal effort needed to protect European citizens and businesses from the consequences of this crisis, and to support the economy following the pandemic, requires the use of more far-reaching flexibility under the Stability and Growth Pact.

The EU must continue to respond quickly, forcefully and in a coordinated manner to this fast-evolving crisis. During the video conference with members of the European Council of 17 March 2020, the President of the Commission announced the imminent activation of the so-called general escape clause. The clause was introduced as part of the ‘Six-Pack’ reform of the Stability and Growth Pact in 2011, which drew the lessons of the economic and financial crisis. Notably, that experience highlighted the need for specific provisions in the EU’s fiscal rules to allow for a coordinated and orderly temporary deviation from the normal requirements for all Member States in a situation of generalised crisis caused by a severe economic downturn of the euro area or the EU as a whole.

The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

The general escape clause allows Member States to undertake budgetary measures to deal adequately with such situation, within the preventive and corrective procedures of the Stability and Growth Pact. Specifically, for the preventive arm, Articles 5(1) and 9(1) of Regulation (EC) 1466/97 state that “*in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term*”. For the corrective arm, Articles 3(5) and 5(2) stipulate that in the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory.

The upcoming assessment of Member States’ stability and convergence programmes, the spring forecast, and the subsequent Commission’s proposal for country-specific recommendations by the Council will provide an opportunity to ensure such necessary coordination and to set the guidance to achieve an appropriate supportive fiscal stance at the national and aggregate level.

Based on the above considerations, and given the expected severe economic downturn, the Commission considers that the conditions to activate the general escape clause are met, for the first time since its inception in 2011, and asks the Council to endorse this conclusion to provide clarity to Member States.

The general escape clause does not suspend the procedures of the Stability and Growth Pact. It will allow the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact, while departing from the budgetary requirements that would normally apply.