Council of the EU

PRESS
EN

PRESS RELEASE
110/24
10/02/2024

Economic governance review: Council and Parliament strike deal on reform of fiscal rules

The Council and European Parliament negotiators today reached a provisional political agreement on the proposed reform of the EU's economic governance framework.

The main objective of the reform is to ensure sound and sustainable public finances, while promoting sustainable and inclusive growth in all member states through reforms and investment.

> The new rules will significantly improve the existing framework and ensure effective and applicable rules for all EU countries. They will safeguard balanced and sustainable public finances, strengthen the focus on structural reforms, and foster investments, growth and job creation throughout the EU. I'm glad that we have found a balanced agreement that will now allow for a swift implementation.
>
> *Vincent Van Peteghem, Belgian Minister of Finance*

Main elements of the provisional agreement

The Council and Parliament **agreed to maintain the reform's overall objective** of reducing debt ratios and deficits in a gradual, realistic, sustained and growth-friendly manner while protecting reforms and investment in strategic areas such as digital, green, social or defence. At the same time, the new framework will provide appropriate room for counter-cyclical policies and address macroeconomic imbalances.

The agreement also maintains the obligation for member states to submit national medium-term fiscal structural plans.

The Commission will submit **a 'reference trajectory'** (previously called 'technical trajectory') to member states where government debt exceeds the 60% of gross domestic product (GDP) or where the government deficit exceeds the 3% of GDP. The provisional agreement provides for an optional and factual pre-dialogue between the member states and the Commission beforehand.

The reference trajectory indicates how member states can ensure that by the end of a **fiscal adjustment period** of four years, government debt is on a plausibly downward trajectory or stays at prudent levels over the medium-term.

The provisional agreement contains two safeguards that the reference trajectory must comply with, the **debt sustainability safeguard**, to ensure a decrease in debt levels and the **deficit resilience safeguard**, to provide a safety margin below the Treaty deficit reference value of 3% of GDP, in order to create fiscal buffers.

Based on the reference trajectory, member states then incorporate the fiscal adjustment path, expressed as **net expenditure paths** into their national medium-term fiscal structural plans. The plans, including the net expenditure paths, consequently need to be endorsed by the Council. The agreement provides that a **control account will record deviations** from the country-specific net expenditure paths.

The new rules will further encourage **structural reforms and public investments** for sustainability and growth. Member states will be allowed to ask for an extension of the four-year fiscal adjustment period to maximum seven years, if they carry out certain reforms and investments that improve resilience and growth potential and support fiscal sustainability and address common priorities of the EU. These include achieving a fair, green and digital transition, ensuring energy security, strengthening social and economic resilience and, where necessary, the build-up of defence capabilities.

Next steps

The provisional political agreement on the preventive arm of the economic governance framework is subject to approval by the Council in the committee of permanent representatives and by the Parliament economic affairs committee before going through a formal vote in both the Council and the Parliament. Once adopted, the text will be published in the EU's official Journal and enter into force the following day.

The regulation on the corrective arm and the directive on requirements for budgetary frameworks of member states only require the European Parliament to be consulted.

The aim is to adopt them in the Council at the same time as the preventive arm.

Background

Economic governance is a key pillar of the architecture of the Economic and Monetary Union, since 1992, aiming to prevent and correct macroeconomic imbalances that could weaken national economies and affect other EU countries through cross-border spill overs.

The EU economy is facing renewed challenges with the recovery from the COVID-19 pandemic and the consequences of Russia's war of aggression against Ukraine. Against the backdrop of higher debt levels, interest rates and new common investment and reform goals, the EU is reforming the stability and growth pact and how the pact's effectiveness could be further improved.

On 26 April 2023, the Commission presented a package of three legislative proposals: two regulations aiming to replace (preventive arm) or amend (corrective arm) the two pillars of the stability and growth pact first adopted in 1997, and an amended directive on requirements for budgetary frameworks of member states.

On 21 December 2023, the Council formally approved a mandate for negotiations with the European Parliament on the preventive arm regulation and an agreement in principle with a view to consulting the European Parliament on the corrective arm regulation and the directive on requirements for national budgetary frameworks.

The European Council has provided political impetus on the reform, most recently at its meeting on 26-27 October 2023.

The Council negotiator was Vincent Van Peteghem, Deputy Prime Minister and Minister of Finance of Belgium. The European Parliament negotiators were co-rapporteurs Esther de Lange and Margarida Marques. The Commission was represented by Executive Vice-President Valdis Dombrovskis.

Press office - General Secretariat of the Council
Rue de la Loi 175 - B-1048 BRUSSELS - Tel.: +32 (0)2 281 6319
press@consilium.europa.eu - www.consilium.europa.eu/press