Press release

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Deal on EU economic governance reform

- The new provisions will promote investments, factor in social convergence, and increase national ownership of plans
- The updated rules set minimum amounts of average deficit and debt reduction a government must observe.
- The period within which the objectives of a national plan should be achieved can be extended, and deviations from the plan would be allowed in exceptional circumstances
- First national plans outlining expenditure, reforms and investments to be prepared by September 2024

EU co-legislators on Saturday provisionally agreed a revamp of EU economic governance making it clearer, investment friendly, more tailored to each country's situation, and more flexible.

The new rules, politically agreed by European Parliament and member state negotiators add clarity and simplicity to the process of fiscal surveillance by focussing on one single parameter, a government's yearly expenditure, to analyse the sustainability of public finances. All countries will provide medium-term plans outlining their expenditure targets and how investments and reforms will be undertaken. Member states with high deficit or debt levels will receive pre-plan guidance on what their expenditure targets should look like. To ensure sustainable expenditure, numerical benchmark safeguards have been introduced, to be followed by countries with excessive debt or deficit. The rules will also add a new focus to the system which will now also actively contribute to fostering public investment in priority areas. Finally, the system will be more tailored to each country's realities rather than applying a one-size-fits-all approach, and will better factor in social concerns.

Quotes of the co-rapporteurs

Esther De Lange (EPP,NL) said, " A new economic governance framework was much needed. We have taken our responsibility by ensuring that the new fiscal rules are sound and credible, while also allowing room for necessary investments."

Margarida Marques (S&D, PT) said, "The new rules will provide more room for investment, flexibility for member states to smooth their adjustments, and will strengthen the social dimension. With a case-by-case and medium-term approach, coupled with increased ownership, member states will be better equipped to prevent austerity policies."

Investments

The rules will specifically oblige member states to ensure that their national plans explain how investments will be made in the EU priority areas of the climate and digital transitions, energy security, and defence.

Already undertaken investments in these areas must be taken into account by the Commission when drawing up its report about a member state's deviations from its expenditure path, thereby giving more room for that member state to argue its case for not being placed under an excessive deficit procedure.

Additionally, national expenditure on the co-financing of EU funded programmes will be excluded from a government's expenditure, creating more incentives to invest.

The plans will also need to provide information on public investment needs, i.e. where investment gaps exist.

Ensuring credibility of the rules - the deficit and debt reduction safeguards

Countries with excessive debt would be subject to safeguard rules requiring them, amongst others, to reduce their debt on average by 1% per year if their debt is above 90% of GDP, and by 0.5% per year on average if their debt is between 60% and 90% of GDP. These provisions are less restrictive than the current requirement that every country should cut debt annually by 1/20 of the excess above 60%.

If a country's deficit is above 3% of GDP, the requirement would be to reduce this during periods of growth to reach a level of 1.5% of GDP, in order to build a spending buffer for difficult economic conditions. Further numerical benchmarks on by how much the deficit should reduce per year would also apply.

A country with excess debt would not be obliged to reduce this to under 60% by the end of the period of years the plan runs for. Rather, by the end of the agreed period, the country should have debt that is considered to be "on a plausible downward trajectory".

Breathing space

The new rules contain various provisions to allow more breathing space. Notably, they give three extra years over the standard four for achieving the objectives of the national plan. This additional time would, ordinarily, only be granted if the investment and reform commitments underpinning an extension fulfil a defined set of criteria.

Upon a member state's request, Council can grant permission to deviate from the country's expenditure path where exceptional circumstances outside its control lead to a major impact on its public finances. A time-limit for such a deviation would be specified but this period can be extended if the exceptional circumstances persist. An extension would be of a maximum of one year and may be granted more than once.

Improving dialogue and ownership

Prior to the submission of a national plan, which all member states must submit, the member state concerned shall meet with the Commission, with the objective of defining a plan that satisfies all requirements. For countries with excessive deficit or debt, up to a month before the Commission transmits its guidance on the expenditure path to a member state, these member states may request a discussion process with the Commission. Both types of meetings provide an opportunity for the member states concerned to state their case. This should ensure a more tailored approach and ownership.

A member state may request the submission of a revised national plan if there are objective circumstances preventing its implementation, including if there is a change in government.

Numerous other provisions were also inserted improving dialogue between the EU institutions and between the member states and the EU institutions, with the aim of allowing more public explanation of decisions taken and justification of the different points of view.

The role of the national independent fiscal institutions, the non-partisan bodies tasked with vetting the suitability of their government's budgets and fiscal projections, is also considerably strengthened, the aim being that this greater role will help build national ownership further.

Better integrating social concerns

The social dimension is strengthened within the European Semester process. Both the implementation of the principles of the European Pillar of Social Rights as well as risks to social convergence will be measured by the Commission. Member states will need to ensure that their national plan also contributes to social objectives.

Moreover, cyclical elements of unemployment benefit expenditure will not be considered when calculating a government's expenditure.

Application

The provisional agreement is now subject to votes both in Council and in Parliament. Once adopted, the rules will enter into force very soon after their publication in the EU's Official Journal. The first national plans will need to be submitted by each member state by 20 September 2024.

Further information

Profile of the rapporteur, Esther De Lange (EPP, NL)
Profile of the rapporteur, Margarida Marques (S&D, PT)
Legislative procedure - Effective coordination of economic policies and multilateral budgetary surveillance (preventive arm of SGP)
Legislative procedure - Excessive deficit procedure: speeding up and clarifying the implementation
(corrective arm of the SGP)
Legislative procedure - Economic governance: requirements for budgetary frameworks of the Member States
Committee on Economic and Monetary Affairs

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