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From:	General Secretariat of the Council
To:	Committee of Permanent Representatives (Part 2)
Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 - Mandate for negotiations with the European Parliament

2023/0138 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

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 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank[1],

Acting in accordance with the ordinary legislative procedure,

Whereas:

[1] OJ C 290, 18.8.2023, p. 17–25.

(1) The coordination of the economic policies of the Member States within the Union, as provided for by the Treaty on the Functioning of the European Union (TFEU), entails compliance with the guiding principles of stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

(2) The Stability and Growth Pact (SGP), which initially consisted of Council Regulation (EC) No 1466/97[2], Council Regulation (EC) No 1467/97 of 7 July 1997[3] and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact[4], is based on the objective of sound and sustainable government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable and inclusive growth and employment.

(3) The fiscal governance framework, which is the subject matter of this Regulation, is a part of the European Semester, which also comprises the coordination and surveillance of broader economic and employment policies of the Member States, in accordance with Articles 121 and 148 TFEU.

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2 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

3 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

4 Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997 (OJ C 236, 2.8.1997, p. 1).

(4) The involvement of national parliaments, social partners, civil society organisations and other relevant stakeholders in the European Semester is key to ensure ownership as well as transparent and inclusive policy-making.

(5) The economic governance framework of the Union should be adapted to better take into account the increased heterogeneity of fiscal positions, public debt and economic challenges and other vulnerabilities across Member States. The strong policy response to the COVID-19 pandemic proved highly effective in mitigating the economic and social consequences of the crisis, but resulted in a significant increase in public- and private-sector debt ratios, underscoring the importance of reducing debt ratios and deficits to prudent levels in a gradual, realistic, sustained and growth-friendly manner ensuring leeway for counter-cyclical policies and addressing macroeconomic imbalances, while paying due attention to employment and social objectives. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union including achieving a fair digital and green transition, including the Climate Law[5], ensuring energy security, supporting open strategic autonomy, addressing demographic change, strengthening social and economic resilience and sustained convergence, and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come.

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[5] The European Climate Law sets a Union-wide climate neutrality objective by 2050 and requires Union institutions and Member States to progress in enhancing adaptive capacity, requiring significant public investment to reduce the negative socio-economic impacts of climate change on the EU and its Member States, including negative impacts on growth and fiscal sustainability.

(6) The economic governance framework of the Union should promote sound and sustainable public finances, sustainable and inclusive growth and therefore differentiate between Member States by taking into account their public debt and economic challenges and allowing multi-annual country-specific fiscal trajectories, while ensuring effective multilateral surveillance and respecting the principle of equal treatment.

(7) The multilateral surveillance procedure set out in Article 121(2), (3) and (4) and Article 148(4) TFEU should monitor in accordance with more detailed rules the full range of economic and employment developments in each of the Member States and in the Union. That includes the detection of macroeconomic imbalances and the prevention and correction of excessive imbalances as set out in Regulations (EU) No 1174/2011[6] and (EU) No 1176/2011[7] of the European Parliament and of the Council. For the monitoring of such economic and employment developments, Member States should present information in the form of medium-term fiscal-structural plans covering a period of 4 years or 5 years, depending on the regular length of the national legislature.

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6 Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8).

7 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

(8) Detailed rules should therefore be laid down regarding the content, submission, assessment, endorsement and monitoring of the national medium-term fiscal-structural plans, in order to promote sound and sustainable public finances and sustainable and inclusive growth in the Member States and prevent the occurrence of excessive government deficits.

(9) National medium-term fiscal-structural plans should bring together the fiscal policy, structural reforms and investments of each Member State and these plans should be the cornerstone of the economic governance framework of the Union. Each Member State should present a medium-term fiscal-structural plan that sets out its fiscal trajectory as well as priority public investments and reforms that together ensure sustained and gradual debt reduction and sustainable and inclusive growth, while avoiding a pro-cyclical fiscal policy. Plans should also include broader reforms and investments, including in relation to common EU priorities, namely the green transition, including the European Green Deal and the transition to climate neutrality by 2050; the digital transition, including the Digital Decade Policy Programme 2030; social and economic resilience and the implementation of the European Pillar of Social Rights, including the related targets on employment, skills and poverty reduction by 2030; and the build-up of defence capabilities where applicable, including the Strategic Compass for Security and Defence. During the lifetime of the Recovery and Resilience Facility[8], commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account.

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[8] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(10) The management of cohesion policy funds is also synchronised with the European Semester process. As the long-term investment policy of the EU budget, cohesion policy investments and reforms should also be duly taken into account in the drawing of the national medium-term fiscal-structural plans.

(11) The submission of the national medium-term fiscal-structural plan should be preceded by a technical dialogue with the Commission to ensure compliance with the provisions of this Regulation. On the basis of a recommendation from the Commission, the Council should adopt a recommendation setting the net expenditure path and, as appropriate, endorse the reforms and investments underpinning the possible extension of the adjustment period.

(12) In order to simplify the Union fiscal framework and increase transparency, a single operational indicator anchored in debt sustainability should serve as a basis for setting the fiscal path and carrying out annual fiscal surveillance for each Member State. That single operational indicator should be based on nationally financed net primary expenditure, that is to say expenditure net of discretionary revenue measures and excluding interest expenditure, cyclical unemployment expenditure as well as expenditure on Union programmes fully matched by revenue from Union funds. In line with the guiding principles that have been used by the European Commission for classifying transactions as one-offs, one-offs and other temporary measures should also be excluded from net expenditure. This indicator, which is not affected by the operation of automatic stabilisers and other expenditure fluctuations outside the direct control of the government, provides leeway for counter-cyclical macro-economic stabilisation.

(13) To frame the dialogue leading to the submission of national medium-term fiscal-structural plans, the Commission shall transmit to Member States with general government debt above the 60% of GDP Treaty reference value or a government deficit exceeding the 3% of GDP Treaty reference value a technical trajectory covering an adjustment period of 4 years and its possible extension by a maximum of 3 years. This technical trajectory should be risk-based, country-specific and anchored in debt sustainability to ensure a more forward-looking approach fit for current and future challenges. At the request of the Member State, the Commission should put forward technical information to Member States with government debt not exceeding the 60% of GDP Treaty reference value and government deficit not exceeding the 3% of GDP Treaty reference value.

(14) The technical trajectory should ensure that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels, even under adverse scenarios. It should also ensure that the general government deficit is brought and maintained below the 3% of GDP Treaty reference value, while taking into account that Member States could face additional costs after the end of the adjustment period such as ageing costs. It shall also ensure consistency with the corrective path under Council Regulation (EC) No 1467/1997 on speeding up and clarifying the implementation of the Excessive Deficit Procedure, where applicable.

(14bis) To improve the predictability in the outcome of the framework and reinforce equal treatment, the technical trajectory should comply ex-ante with a debt sustainability safeguard. This safeguard should ensure in the design phase of the medium-term fiscal-structural plans that the projected government debt ratio decreases by a minimum annual average. This debt sustainability safeguard would act as a floor to the effort underlying the technical trajectory and the net expenditure path. Due to the specific composition of outstanding Greek government debt, a significant amount of deferred interest payments is set to become due in 2033. The related exceptional increase in the general government debt-to-GDP ratio should not be taken into account in the application of the debt sustainability safeguard.

(14ter) Risk-based requirements for the technical trajectory are expected to be sufficient to bring deficit levels well below the 3% Treaty reference value. However, in order to make the framework more robust to uncertain developments of macro-fiscal variables, the technical trajectory should also provide for a common resilience margin relative to the 3% of GDP deficit Treaty reference value or convergence towards it. This common resilience safeguard should ensure the build-up of fiscal buffers for adverse circumstances and shocks, thereby facilitating the conduct of counter-cyclical policies in the Union fiscal framework.

(14quarter) In order to ensure effective implementation and appropriate monitoring of this Regulation and in view of the need for strong Member State involvement and ownership of the assessment outcome, the Council should be given the power to adopt an implementing decision to adopt the methodology to assess plausibility by the Commission. For the first round of plans, the plausibility of public debt declining in the medium term should be based on the methodology described in the Debt Sustainability Monitor 2022. A working group for debt sustainability analysis will explore possible methodological improvements, including on underlying assumptions. Following findings of the working group, the Commission should be able to propose changes to the methodology, which should be adopted by a Council Implementing Decision after consulting the Economic and Financial Committee. Such working group should be composed by national experts, the Commission and the European Central Bank. The European Fiscal Board and the European Stability Mechanism should be invited by the working group as observers.

(15) In order to assess whether further adjustments are required at the end of the four- or five-year implementation period of the national medium-term fiscal-structural plan, the Commission should reassess the situation and put forward a new technical trajectory if the government debt of the Member State is still above the 60% of GDP Treaty reference value and/or its government deficit is higher than the 3% of GDP Treaty reference value.

(16) Each national medium-term fiscal-structural plan should mention its status in the context of national procedures, notably whether the plan was presented to the national parliament and whether there has been parliamentary approval of the plan. The national medium-term fiscal-structural plan should also indicate whether the national parliament had the opportunity to discuss the Council recommendation on the previous plan and, if relevant, any other Council recommendation or decision, or any Commission warning.

(17) When Member States use assumptions in their medium-term fiscal-structural plans that differ from the medium-term debt projection framework, they should explain and duly justify the differences in a transparent manner and based on sound economic arguments.

(17bis) Where the Council considers that the revised medium-term fiscal-structural plan of a Member State does not comply with the requirements laid down in the Regulation, the Council should recommend, as a rule, the original technical trajectory that had been previously issued by the Commission as the net expenditure path. Taking into account the most recent information regarding the economic and financial situation of the Member State concerned, if necessary, the Commission could update the original technical trajectory when delivering its recommendation to the Council for that purpose.

(19) In order to allow for a proper interaction between the common Union framework and national budgetary frameworks, the Commission should base its assessment only on net expenditure developments. Member States should be able to set their national budgetary objectives in terms of a different indicator, such as the structural balance if this is required by their national budgetary framework.

(20) The Commission's assessment of the national medium-term fiscal-structural plans should examine in particular the plausibility of the macroeconomic and fiscal assumptions, to the extent that they differ from those underlying the technical trajectory. In particular, the debt projections at unchanged policy to be included in the plan should be comparable with the Commission projections.

(21) In order to ensure the implementation of the medium-term fiscal-structural plans, the Commission and the Council should monitor the reforms and investments made in these plans under the European Semester, based on the annual progress reports submitted by the Member States, and in accordance with the provisions of Articles 121 and 148 TFEU. To that effect, they should engage in a European Semester dialogue with the European Parliament.

(22) To ensure a more gradual debt reduction, the adjustment period can be extended by a maximum of 3 years if the Member State underpins its medium-term fiscal-structural plan with a set of verifiable and time-bound reforms and investments that, taken altogether, are growth-enhancing; support fiscal sustainability; address the common priorities of the Union; address relevant country-specific recommendations addressed to the Member State under the European Semester, including, where applicable, recommendations issued under the Macroeconomic Imbalances Procedure, as well as the country-specific investment priorities without leading to a reduction in the level of nationally financed public investment over the period of the plan, compared to the medium-term level before the start of the plan.

(23) With a view to ensuring a multilateral, equitable and transparent process, the reforms and investments should be assessed to fulfil, taken altogether, a set of common criteria.

(23bis) Where Recovery and Resilience Plans include ambitious reforms and investments, in particular with regards to economic growth and fiscal sustainability over the medium term, they should be considered to comply with the requirements for the extension of the adjustment period pursuant of Article 13.

(24) The set of reforms and investments put forward in the national medium-term fiscal-structural plans should be aligned with common priorities of the Union, including achieving a fair, green and digital transition, ensuring energy security, strengthening social and economic resilience and, where necessary, the build-up of defence capabilities. That set of reforms and investments should also be consistent with the implementation of the national strategies put forward by the Member State concerned to address the aforementioned Union priorities.

(24bis) With a view to fostering growth-friendly fiscal consolidation strategies, the impact of investments and reforms commitments, once implemented within the medium-term fiscal-structural plans, will be duly taken into account in the design of subsequent plans. Particular attention should be paid to the impact on fiscal sustainability through future public revenues, expenditures and potential growth, as well as the contribution to common priorities, based on sound and data-driven economic evidence.

(25) Where a Member State fails to satisfactorily comply with the time-bound set of reforms and investments underpinning the more gradual net expenditure path within the specified deadline, the Council, on a recommendation from the Commission, can recommend to shorten the extension of the net expenditure path, that is to say to steepen the annual adjustment effort, unless there are objective circumstances preventing implementation by the initially foreseen deadline.

(26) The Commission should set up a control account for each Member State to keep track of annual and cumulative upward and downward deviations of the net expenditure observed from the net expenditure path set by the Council. The control account shall not record deviations while escape clauses remain activated.

(27) Independent fiscal institutions have proven their capacity to foster fiscal discipline and strengthen the credibility of Member States' public finances. In order to enhance national ownership, the role of independent fiscal institutions should be maintained in the reformed economic governance framework of the Union.

(27bis) A permanent and more independent European Fiscal Board should play a stronger advisory role in the economic governance framework of the Union. It should continue to evaluate the implementation of the Stability and Growth Pact, assess the prospective fiscal stance for the euro area as a whole, and provide advice to the Commission and the Council, while respecting the Commission's role and prerogatives established in the Treaties. Its independence and access to information should be improved. The Council should be consulted in the appointment process of the Chair and Members of the Board. The appointments should, to the extent possible, ensure an appropriate geographical and gender balance.

(28) When providing an opinion on the draft budgetary plans submitted pursuant to Article 6 of Regulation (EU) No 473/2013 of the European Parliament and of the Council[9], the Commission should assess if the draft budgetary plans are consistent with the net expenditure paths pursuant to this Regulation.

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[9] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

(30) In case of major shocks to the euro area or the Union as a whole, it is necessary to have a general escape clause to be able to deal with a severe economic downturn in the euro area or the Union as a whole by allowing for a deviation from the net expenditure path provided that it does not endanger fiscal sustainability in the medium term. The triggering and extension of the general escape clause is to be subject to a Council recommendation, which it should endeavour to adopt within four weeks upon a Commission recommendation. At the request of the Council, the European Fiscal Board may deliver an opinion on the extension of general escape clause.

(31) There should also be a country-specific escape clause to allow a deviation from the net expenditure path provided that it does not endanger fiscal sustainability in the medium term in the case of exceptional circumstances, such as unpredictable exogenous events that require counter-cyclical fiscal measures, outside the control of the Member State which have a major impact on the public finances of the Member State. The triggering and extension of country-specific escape clauses is to be subject to a Council recommendation, which it should endeavour to adopt within four weeks upon a Commission recommendation, taking into account a possible request by the Member State concerned. At the request of the Council, the relevant independent fiscal institution may deliver an opinion on the extension.

(32) This Regulation is part of a package together with Council Directive [XXX amending 2011/85/EU] and Council Regulation [XXX amending Council Regulation (EC) No 1467/97]. Together, they establish a reformed Union economic governance framework that incorporates into Union law the substance of Title III 'Fiscal Compact' of the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union[10], in accordance with Article 16 thereof. By building on the experience with the implementation of the TSCG by the Member States, the proposed legislative package retains the Fiscal Compact's medium-term orientation as a tool to achieve budgetary discipline and growth promotion. The package includes a strengthened country-specific dimension aimed at enhancing national ownership, including by maintaining the role of independent fiscal institutions, which draws essentially on the Fiscal Compact's common principles proposed by the Commission[11] in accordance with Article 3(2) of the TSCG. The analysis of expenditure net of discretionary revenue measures for the overall assessment of compliance required by the Fiscal Compact is set out in this Regulation. As in the Fiscal Compact, temporary deviations from the medium-term plan are allowed only in exceptional circumstances in accordance with Articles 24 and 25 in this Regulation and in line with the provisions on the control account. In a similar vein to the Fiscal Compact, in case of significant deviations from the medium-term plan, measures should be implemented to correct the deviations over a defined period of time. The package strengthens fiscal surveillance and enforcement procedures to deliver on the commitment of promoting sound and sustainable public finances and sustainable and inclusive growth. The economic governance framework reform, thus, retains the fundamental objectives of budgetary discipline and debt sustainability set out in the TSCG.

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10 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of 2 March 2012.

11 Communication COM(2012) 342 final of 20 June 2012 from the Commission 'Common principles on national fiscal correction mechanisms.

(33) In order to ensure effective implementation and appropriate monitoring of this Regulation, the information to be provided by Member States in their medium-term fiscal-structural plans and in their annual progress reports will be detailed in a Code of Conduct.

(34) Multilateral surveillance should be based on high quality and independent statistics produced in accordance with the principles laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council[12],

HAVE ADOPTED THIS REGULATION:

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[12] Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164).

CHAPTER I

SUBJECT-MATTER AND DEFINITIONS

Article 1

Subject-matter

This Regulation sets out rules ensuring effective coordination of sound economic policies of the Member States, thereby supporting the achievement of the Union's objectives for inclusive growth and employment.

It lays down detailed rules concerning the content, submission, assessment and monitoring of national medium-term fiscal-structural plans as part of multilateral budgetary surveillance by the Council and the Commission so as to promote sound and sustainable public finances, inclusive growth and resilience through reforms and investments and prevent the occurrence of excessive government deficits.

Article 2

Definitions

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

(1) 'country-specific recommendation' means the guidance annually addressed by the Council to a Member State on economic, budgetary, employment and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU);

(2) ‘net expenditure’ means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures;

(3) ‘technical trajectory’ means the multiannual net expenditure trajectory put forward by the Commission to frame the dialogue with Member States where government debt exceeds the 60% of gross domestic product (GDP) Treaty reference value or where the government deficit exceeds the 3% of GDP Treaty reference value when drawing up their national medium-term fiscal-structural plans;

(3bis) ‘technical information’ means the guidance put forward by the Commission upon request to Member States with government debt not exceeding the 60% of GDP Treaty reference value and government deficit not exceeding the 3% of GDP Treaty reference value before Member States draw up their national medium-term fiscal-structural plans;

(4) ‘net expenditure path’ means the multi-annual trajectory for net expenditure of a Member State as set by the Council;

(5) ‘national medium-term fiscal-structural plan’ means the document containing the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature;

(6) ‘annual progress report’ means the document of a Member State reporting on the implementation of the national medium-term fiscal-structural plan, including the net expenditure path, and on the reforms and investments;

(7) ‘adjustment period’ means the period of time over which the fiscal adjustment of a Member State takes place, covering a period of 4 years or, in the case of an extension, a period of 4 years plus an additional extended period of 3 years at the most;

(8) ‘control account’ means a record of the cumulated upward and downward deviations of the observed net expenditure in a Member State from the net expenditure path set by the Council;

(9) ‘structural balance’ means the cyclically adjusted general government balance net of one-off and other temporary measures;

(10) ‘structural primary balance’ means the structural balance net of interest expenditure.

CHAPTER II

EUROPEAN SEMESTER

Article 3

The European Semester

In order to ensure closer coordination of economic policies and sustained convergence of the Member States, the Council and the Commission shall conduct multilateral surveillance within the European Semester in accordance with the objectives and requirements set out in the TFEU. Multilateral surveillance shall rely on high quality and independent statistics, produced in accordance with the principles laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council.

The European Semester shall include:

(a) the formulation, and the surveillance of the implementation, of the broad guidelines for the economic policies of the Member States and of the Union in accordance with Article 121(2) TFEU, of country-specific recommendations and of the recommendation on the economic policy of the euro area;

(b) the formulation, and the surveillance of the implementation, of the employment guidelines that are to be taken into account by Member States in accordance with Article 148(2) TFEU, also considering the European Pillar of Social Rights, and of the related country-specific recommendations;

(c) the submission, assessment and endorsement of Member States' medium-term fiscal-structural plans, as well as the monitoring of their implementation via the annual progress reports;

(d) the surveillance to prevent and correct macroeconomic imbalances pursuant to Regulation (EU) No 1176/2011.

Article 4

Implementation of the European Semester

1. Following the assessment pursuant to this Regulation of the medium-term fiscal-structural plans and the annual progress reports, and also considering the socio-economic situation of the Member States concerned, the Council shall, on the basis of recommendations from the Commission, address recommendations to those Member States making full use of the legal instruments provided in Articles 121 and 148 TFEU and related secondary legislation.

2. Member States shall take due account of the broad guidelines for the economic policies of the Member States, of the employment guidelines and of the recommendations referred to in Article 3, second paragraph, points (a) and (b) before taking key decisions in the development of their economic, employment and budgetary policies. Progress shall be monitored by the Commission.

3. Failure by a Member State to act upon the guidance received may result in:

(a) further recommendations;

(b) a warning by the Commission or a recommendation by the Council pursuant to Article 121(4) TFEU;

(c) measures under this Regulation, Council Regulation (EC) No 1467/97[13] or Regulation (EU) No 1176/2011.

CHAPTER III

THE TECHNICAL TRAJECTORY

Article 5

Technical trajectory

Where the general government debt is above the 60% of GDP Treaty reference value or the general government deficit exceeds the 3% of GDP Treaty reference value, the Commission shall transmit to the Member State concerned and to the Economic and Financial Committee a technical trajectory for the net expenditure covering an adjustment period of 4 years and its possible extension by a maximum of 3 years pursuant to Article 13.

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13 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

Article 6

Risk-based requirements for the technical trajectory

The technical trajectory shall be risk-based and differentiated for each Member State, ensuring that:

(a) by the end of the adjustment period, at the latest, assuming no further budgetary measures, the projected general government debt ratio is put or remains on a plausibly downward path, or stays at prudent levels below the 60% GDP Treaty reference value over the medium-term;

(b) the projected general government deficit is brought below the 3% of GDP Treaty reference value over the adjustment period and maintained below such reference value over the medium-term assuming no further budgetary measures;

(c) the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan is linear as a rule and at least proportional to the total effort over the entire adjustment period; and

(d) there is consistency with the corrective path referred to in Article [X] of Council Regulation (EC) No 1467/97, where applicable.

Article 6bis

Debt sustainability safeguard

The technical trajectory shall ensure that the projected general government debt-to-GDP ratio decreases by a minimum annual average amount of:

(a) 1 percentage point of GDP as long as the general government debt-to-GDP ratio exceeds 90%;

(b) 0,5 percentage point of GDP as long as the general government debt-to-GDP ratio remains between 60% and 90%.

The average decrease shall be computed from the year before the start of the technical trajectory or the year in which the excessive deficit procedure is projected to be abrogated under Council Regulation (EC) No 1467/97, whichever occurs last, until the end of the adjustment period.

Article 6ter

Deficit resilience safeguard

1. The Commission technical trajectory, referred to in Article 6, shall ensure that fiscal adjustment continues, where needed, until the Member State reaches a deficit level that provides a common resilience margin in structural terms of 1,5% of GDP relative to the 3% of GDP deficit Treaty reference value.

2. The annual improvement in the structural primary balance to achieve the required margin shall be of 0,4% of GDP, which shall be reduced to 0,25% of GDP in case of an extension of the adjustment period in accordance with Article 13.

Article 7

Prior guidance by the Commission

1. At the latest by 15 January of the year in which the Member States have to submit their medium-term fiscal-structural plans pursuant to Article 9 or, within 3 weeks from the request of the Member State to submit a revised plan pursuant to Article 14, the Commission shall transmit to the Member State concerned and to the Economic and Financial Committee:

   (a) the underlying medium-term public debt projection framework and results;

   (b) its macroeconomic forecast and assumptions;

   (c) the technical trajectory, if required under Article 5, or the technical information, if requested under paragraph 2 of this Article, and the corresponding structural primary balance, including template spreadsheets and other relevant information required to ensure its full replicability.

2. For Member States having a general government deficit not exceeding the 3% of GDP Treaty reference value and general government debt not exceeding the 60% of GDP Treaty reference value, the Commission shall provide, at the request of the Member State, technical information regarding the structural primary balance necessary to ensure that the headline deficit is maintained below the 3% of GDP Treaty reference value without any additional policy measures over the medium and long-term and indicating whether this implies fiscal adjustment needs. Technical information shall also be consistent with the deficit resilience safeguard referred in Article 6ter during the Plan.

Article 8

Assessment of plausibility

1. To assess plausibility that the projected general government debt ratio of the Member State concerned is on a downward path or remains at a prudent level, the Commission shall use the methodology adopted by the Council.

1a. The Commission shall submit a proposal to the Council for a methodology. After the Economic and Financial Committee has delivered an opinion on the Commission's proposal, the Council shall adopt the methodology by means of an implementing decision.

1b. The Commission shall make public its analysis of plausibility and the template spreadsheets containing underlying data as well as other relevant information to ensure replicability of results at the time of the submission of the national medium-term fiscal-structural plan in accordance with Article 9.

CHAPTER IV

NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLANS

Article 9

Submission of the national medium-term fiscal-structural plans

Each Member State shall submit to the Council and to the Commission a national medium-term fiscal-structural plan by 30 April of the last year of the plan in force. The Member State concerned and the Commission may agree to extend this deadline by a reasonable period if necessary.

The Member State shall make its national medium-term fiscal-structural plan public.

Article 10

Technical dialogue

Prior to the submission of its national medium-term fiscal-structural plan, the Member State concerned shall hold with the Commission a technical dialogue, with the objective of ensuring that the national medium-term fiscal-structural plan complies with Articles 11 and 14.

Article 11

Content and requirements of the national medium-term fiscal-structural plan

The national medium-term fiscal-structural plan shall:

(a) present a multi-annual net expenditure path, as well as the underlying macroeconomic assumptions and the planned fiscal-structural measures in order to demonstrate compliance with the fiscal requirements of Article 15(2);

(b) include the technical trajectory or the technical information transmitted by the Commission pursuant to Articles 5 and 7(2). Where the national-medium-term fiscal-structural plan includes a higher net expenditure path than in the technical trajectory issued by the Commission pursuant to Article 5, the Member State shall provide in its plan sound and data-driven economic arguments explaining the difference;

(c) explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in particular in the country-specific recommendations, and to the common priorities of the Union including achieving a fair green and digital transition, ensuring energy security, strengthening social and economic resilience and, where necessary, the build-up of defence capabilities;

(d) describe the action of the Member State concerned to address the country-specific recommendations that are relevant for the Macroeconomic Imbalances Procedure, and the warnings by the Commission, where applicable, or the recommendations by the Council, where applicable, made pursuant to Article 121(4) TFEU;

(e) if applicable, explain how it will ensure the delivery of a relevant set of reforms and investments referred to in Article 13, underpinning an extension of the Member State's adjustment period by 3 years at most;

(f) include the impact of investments and reforms already implemented, paying particular attention to the impact on fiscal sustainability through future public revenues, expenditures and potential growth, based on sound and data-driven economic evidence;

(g) contain information related to the main macroeconomic and budgetary assumptions, implicit and contingent liabilities, expected impact of reforms and investments underpinning the extension of the adjustment period, forecasted level of nationally-financed public investment throughout the planning horizon of the national medium-term fiscal-structural plan and information on the consultations of national parliaments and other relevant stakeholders.

Article 13

Conditions for an extension of the adjustment period

1. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in paragraph 2, the adjustment period may be extended by 3 years at most.

2. The set of reforms and investment commitments underpinning an extension of the adjustment period shall fulfil, taken altogether, the following criteria:

   (i) entail, based on credible and prudent assumptions, an improvement of growth potential of the economy of the Member State concerned in a sustainable manner;

   (ii) support fiscal sustainability, with a structural improvement of public finances over the medium-term, such as reducing public expenditure to GDP ratio or increasing the public revenue to GDP ratio;

   (iii) address the common priorities of the Union referred to in point c of Article 11;

   (iv) address relevant country-specific recommendations addressed to the Member State concerned, including, where applicable, recommendations issued under the Macroeconomic Imbalances Procedure;

   (v) ensure that the planned overall level of nationally financed public investment over the lifetime of the national medium-term fiscal-structural plan is higher than the medium-term level before the period of that plan taking into account the scope and scale of the country-specific challenges.

3. Each of the reform and investment commitments underpinning an extension of the adjustment period shall be sufficiently detailed, front-loaded, time-bound and verifiable, and shall respect the following criteria:

(a) the description of the reform and investment commitments shall be clear and allow the Commission to assess the criteria in paragraph 2(i) to (v);

(b) the reforms shall be implemented within the planning horizon of the national medium-term fiscal-structural plan;

(c) significant progress in the implementation of the investments shall be achieved at the latest by the end of the adjustment period;

(d) the description of reforms and investments shall include indicators, where relevant, to allow the assessment of their implementation and monitoring.

Article 14

Revised national medium-term fiscal-structural plan

1. A Member State may request to submit a revised national medium-term fiscal-structural plan to the Commission before the end of the period covered by the national medium-term fiscal-structural plan if there are objective circumstances preventing its implementation. In this case, the revised national medium-term fiscal-structural plan shall cover the period running until the end of the initial term of the plan.

   1a. A newly appointed government of a Member State may submit a revised national medium-term fiscal-structural plan covering a new period of 4 years or 5 years depending on the regular length of the national legislature.

2. Following the request by a Member State in accordance with paragraphs 1 or 1a of this Article, the Commission shall transmit to the Member State concerned and to the Economic and Financial Committee a new technical trajectory or, at the request of the Member State concerned, new technical information.

3. Taking into account the past adjustment of the Member State concerned or the lack thereof, the new technical trajectory shall not allow backloading of the fiscal adjustment effort and shall not lead as a rule to a lower fiscal adjustment effort.

4. If a revised national medium-term fiscal-structural plan is submitted, Articles 10 to 13 and 15 to 19 shall apply.

5. The Commission shall in particular assess, if applicable, whether any extension of the adjustment period is to apply or continue to apply under the revised national medium-term fiscal-structural plan. The Commission's assessment shall take into account the implementation of the set of reform and investment commitments underpinning the extension under the original plan and the changes in terms of public debt challenges under the revised national medium-term fiscal-structural plan.

Article 15

Assessment of national medium-term fiscal-structural plans by the Commission

1. The Commission shall assess each national medium-term fiscal-structural plan within six weeks of its submission. The Member State concerned and the Commission may agree to extend this period for up to two weeks as a rule if necessary.

(1a) When assessing the national medium-term fiscal-structural plan, the Commission shall examine for all Member States that the net expenditure path complies with the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or it remains at prudent levels below 60% of GDP, and it brings and maintains the government deficit below the 3% of GDP reference value over the medium term;

2. When assessing the national medium-term fiscal-structural plan the Commission shall examine for the Member States that have received a technical trajectory that the net expenditure path complies with the requirements laid out in Article 6, Article 6bis and Article 6ter.

3. In addition, the Commission shall examine for the Member State concerned:

   (a) whether the set of reforms and investments underpinning an extension of the adjustment period fulfil the conditions set out in Article 13;

   (b) whether the other reforms and investments contained in the plan comply with the requirements of Article 11.

Article 16

Endorsement of the national medium-term fiscal-structural plan by the Council

The Council, on a recommendation from the Commission, shall adopt a recommendation setting the net expenditure path of the Member State concerned and, if applicable, endorsing the set of reform and investment commitments underpinning an extension of the adjustment period included in its national medium-term fiscal-structural plan within six weeks of the adoption of the Commission recommendation as a rule.

Where the national medium-term fiscal-structural plan serves as the corrective action plan required for the correction of excessive macroeconomic imbalances, as provided for in Article 30, the Council shall also endorse in that recommendation the reforms and investment necessary to correct the imbalances.

Article 17

Council Recommendation for a revised national medium-term fiscal-structural plan

Where it considers that the plan does not comply with the requirements set out in Article 15(2) and (3) point (a) of this Regulation, taking into account the Commission's assessment, the Council shall, on a recommendation from the Commission, recommend that the Member State concerned submits a revised national medium-term fiscal-structural plan.

Article 18

Council Recommendation in case of non-compliance by the Member State

The Council shall, on a recommendation from the Commission, recommend to the Member State concerned that the technical trajectory issued by the Commission be as a rule the net expenditure path of the Member State where:

(a) the Member State concerned fails to submit a revised national medium-term fiscal-structural plan within one month of the recommendation by the Council referred to in Article 17. The Member State concerned and the Commission may agree to extend this deadline by up to three months as a rule;

(b) the Council considers that the revised national medium-term fiscal-structural plan does not comply with the requirements set out in Article 15(2) and (3), point (a);

(c) the Member State fails to submit an initial national medium-term fiscal-structural plan or a new national medium-term fiscal-structural plan in the last year covered by the ongoing national medium-term fiscal-structural plan, in accordance with the first paragraph of Article 9.

Article 19

Non-compliance by a Member State with the investments and reforms underpinning an extension of its adjustment period

Where a Member State has been granted an extension of its adjustment period but fails to satisfactorily comply with its set of reforms and investment commitments underpinning the extension referred to in Article 13(1), the Council may on a recommendation from the Commission recommend a revised net expenditure path with a shorter adjustment period, unless there are objective circumstances preventing implementation by the initially-foreseen deadline.

CHAPTER V

IMPLEMENTATION OF THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLANS

Article 20

Progress report and Commission assessment

1. Each Member State shall submit to the Commission an annual progress report on the implementation of its national medium-term fiscal-structural plan, by 30 April each year at the latest.

2. The annual progress report referred to in paragraph 1 shall contain in particular information about the progress in the implementation of the net expenditure path, the implementation of broader reforms and investments in the European Semester context and, if applicable, in the implementation of the set of reforms and investments underpinning an extension of the adjustment period.

4. Each Member State shall make its annual progress report public.

4a. The Commission shall use the information provided by Member States in annual progress reports, along with other relevant information, for the purpose of delivering assessments referred to in Article 4(1). The assessment of the Commission shall be published.

Article 21

Monitoring by the Commission

The Commission shall monitor the implementation of the national medium-term fiscal-structural plan and, in particular, the net expenditure path.

The Commission shall set up a control account to keep track of cumulative upward and downward deviations of actual net expenditure from the net expenditure path, which shall be reset after the endorsement by the Council of a new medium-term fiscal-structural plan.

(a) The control account shall record a debit when the actual net expenditure in the concerned Member State in a given year is above the net expenditure path set by the Council;

(b) The control account shall record a credit when the actual net expenditure in the concerned Member State in a given year is below the net expenditure path set by the Council;

(c) The cumulated balance of the control account shall be the sum of the yearly debits and credits referred to in points a and b of this paragraph. It shall be expressed in percentage of GDP.

(d) Debits and credits shall be recorded annually on the basis of outturn data.

Where the Council has adopted a recommendation pursuant to Article 24 and 25 of this Regulation, the control account of the Member State concerned shall not record deviations.

Article 22

Role of independent fiscal institutions

Member States may request the relevant national independent fiscal institution referred to in Article 8 of Council Directive […][14] [on the national budgetary frameworks] to provide an assessment of compliance of the budgetary outturns data reported in the progress report referred to in Article 20 with the net expenditure path. Where applicable, Member States may also request the relevant national independent fiscal institution to also analyse the factors underlying a deviation from the net expenditure path. These analyses should be non-binding and additional to those provided by the Commission.

Article 22bis

The European Fiscal Board

1. The independent European Fiscal Board ('the Board') established by Commission Decision (EU) 2015/1937 of 21 October 2015 shall contribute in an advisory capacity to the exercise of the Commission's and Council's functions in the multilateral fiscal surveillance as set out in Articles 121, 126 and 136 TFEU.

2. In the performance of its tasks, the Board shall enjoy full independence in the discharge of its functions, performing its duties impartially and solely in the interest of the Union as a whole. It shall not seek nor take instructions from any government of a Member State, the Union's institutions or bodies or from any other public or private body.

[14] Council Directive […] of […] [amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States] (OJ …., …, p,…)

3. For the purposes of paragraph 1, the tasks of the Board shall include:

(a) Provide a timely ex post evaluation of the implementation of the Union fiscal governance framework;

(b) Advise on the prospective fiscal stance appropriate for the euro area as a whole, as well as on the appropriate national fiscal stances that are consistent with it within the rules of the Stability and Growth Pact;

(c) Upon request of the Commission or the Council, provide advice on the implementation of the Stability and Growth Pact, including on the extension of escape clauses in accordance with Article 24 of this Regulation;

(d) Cooperate closely with national independent fiscal institutions as referred to in Article 8 of Council Directive 2011/85/EU;

(e) Make suggestions for the future evolution of the fiscal framework.

4. The Board shall be comprised of a Chair and four Members.

5. The Chair and the Members of the Board shall be selected and appointed by the Commission, after consultation of the Council, following a transparent process and on the basis of proven analytical experience and competences in the analysis of public finances and macroeconomics. The Chair and the Members of the Board shall be nominated for a period of 3 years with a possibility of one renewal for an additional period of 3 years.

6. The Board shall establish its Rules of Procedure.

7. The Board shall report once a year on its activities to the Commission, the Council and the European Parliament. All reports and advice of the Board will be made public.

Article 24

General escape clause

On a recommendation from the Commission, the Council may adopt within four weeks as a rule a recommendation allowing Member States to deviate from their net expenditure path, in the event of a severe economic downturn in the euro area or the Union as a whole, provided it does not endanger fiscal sustainability in the medium term. The Council shall specify a one-year time-limit for such deviation.

As long as the severe economic downturn in the euro area or the Union as a whole persists, the Commission shall continue to monitor debt sustainability and ensure policy coordination and a consistent policy mix that takes into account the euro area and the Union dimension.

The Council, on a recommendation from the Commission, may extend the period during which Member States may deviate from the net expenditure paths, provided that the severe economic downturn in the euro area or the Union as a whole persists. At request of the Council, the European Fiscal Board may deliver an opinion on the extension of the general escape clause. An extension may be granted more than once. However, each extension shall be for an additional period of one year at most.

Article 25

National escape clauses

Following a request from a Member State and based on a recommendation by the Commission, the Council may adopt within four weeks a recommendation allowing a Member State to deviate from its net expenditure path where exceptional circumstances outside the control of the Member State lead to a major impact on the public finances of the Member State concerned, provided it does not endanger fiscal sustainability in the medium term. The Council shall specify a time-limit for such a deviation.

The Council, on a recommendation from the Commission and upon request from the concerned Member State, may extend the period during which the Member State may deviate from the net expenditure path, provided that the exceptional circumstances persist. At the request of the Council, the relevant independent fiscal institution may deliver an opinion on the extension. An extension may be granted more than once. However, each extension shall be for an additional period of one year at most.

CHAPTER VI

ECONOMIC DIALOGUE

Article 26

European Semester Dialogue

The European Parliament shall be duly involved in the European Semester in order to increase the transparency, the ownership and the accountability for the decisions taken, in particular by means of an economic dialogue. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee shall be consulted within the framework of the European Semester where appropriate. Relevant stakeholders, in particular the national parliaments and social partners, shall be involved within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.

In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure transparency and accountability, the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before it to discuss the policy guidance to Member States issued by the Commission, conclusions drawn by the European Council and the results of multilateral surveillance carried out under this Regulation.

The President of the Council and the Commission in accordance with Article 121 TFEU, and, where appropriate, the President of the Eurogroup, shall report annually to the European Parliament and to the European Council on the results of the multilateral surveillance.

Article 27

Comply or explain rule

The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.

Article 29

Regular information of the European Parliament

1. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation.
2. The Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out pursuant to this Regulation.

CHAPTER VII

INTERACTION WITH REGULATION (EU) No 1176/2011

Article 30

Interaction with the Macro-Economic Imbalance Procedure

1. The implementation of relevant reforms and investments included in the Member State's national medium term fiscal-structural plans that are relevant for macroeconomic imbalances shall be considered (i) by the Commission when undertaking in-depth reviews in accordance with Article 5 (2) of Regulation (EU) No 1176/2011; and (ii) by the Council, and the Commission for its recommendation, when considering whether to establish the existence of an excessive imbalance and recommend that the Member State take corrective action in accordance with Article 7(2) of that Regulation. The Commission shall take into account any information that the Member State considers relevant.

2. The Member State for which an excessive imbalance procedure is opened in accordance with Article 7(2) of Regulation (EU) No 1176/2011, shall submit a revised plan in accordance with Article 14 of this Regulation. The revised plan shall follow the Council recommendation adopted in accordance with Article 7(2) of Regulation (EU) No 1176/2011. The submission of the revised plan shall be subject to the endorsement by the Council in accordance with Articles 16 to 19 of this Regulation. The revised plan shall be assessed in accordance with Article 15 of this Regulation.

3. Where a Member State submits a revised medium-term fiscal-structural plan pursuant to paragraph 2, that revised plan shall serve as the corrective action plan required under Article 8(1) of Regulation (EU) No 1176/2011 and shall set out the specific policy actions the Member State concerned has implemented or intends to implement and shall include a timetable for those actions.

In that case, in accordance with Article 8(2) of Regulation (EU) No 1176/2011, the Council, on the basis of a Commission assessment, shall assess the revised plan within 6 weeks of its submission. The monitoring and assessment of the implementation of the revised plan shall be made in accordance with Article 21 of this Regulation and Articles 9 and 10 of Regulation (EU) No 1176/2011.

CHAPTER VIII

INTERACTION WITH REGULATION (EU) No 472/2013

Article 31

Interaction with the enhanced surveillance procedure

Where a Member State is subject to a macroeconomic adjustment programme and the changes thereto in accordance with Article 7 of Regulation (EU) of the European Parliament and of the Council[15] No 472/2013, it shall not be required to submit a medium-term fiscal-structural plan pursuant to Article 9 of this Regulation and an annual progress report pursuant to Article 20 of this Regulation.

15 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).

CHAPTER X

COMMON PROVISIONS

Article 34

Dialogue with the Member States

The Commission shall ensure a permanent dialogue with Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the socio-economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

Article 36

Report

1. By [31 December 2030] and every 5 years thereafter, the Commission shall prepare a report on the application of this Regulation accompanied, where appropriate, by a proposal to amend this Regulation. The Commission shall make that report public.

2. The report referred to in paragraph 1 shall review:

   (a) the effectiveness of this Regulation in achieving its objectives;

   (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States.

3. The report shall be forwarded to the European Parliament and the Council.

Article 37

Repeal of Regulation (EC) No 1466/97

Regulation (EC) No 1466/97 is repealed.

Article 38

Entry into force

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Article 38bis

Transitory provisions

For the first cohort of medium-term fiscal-structural plans:

(a) By exception to Article 7(1), the Commission shall transmit prior guidance to the Member States concerned at the latest by 15 February 2024, and Member States shall submit their medium-term fiscal-structural plans by 30 April 2024, in accordance with Article 9, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time;

(b) During the lifetime of the Recovery and Resilience Facility, in accordance with Regulation (EU) 2021/241, commitments included in the approved Recovery and Resilience Plan of the Member State concerned shall be taken into account for an extension of the adjustment period in accordance with Article 13, provided the Recovery and Resilience Plan contains significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy, and the Member State concerned commits to continue the reform effort over the remainder of the national medium-term fiscal-structural plan, as well as to maintain the nationally financed investment levels realised on average over the period covered by the Recovery and Resilience Plan.

(c) Projects related to Recovery and Resilience Facility loans as well as national co-financing of EU funds in 2025 and 2026 shall be taken into account whenever a Member State requests an exception to the no-backloading safeguard referred to in Article 6 point c, provided that this does not endanger fiscal sustainability in the medium term;

(d) Acknowledging the exceptional impact of recent economic shocks and current uncertainty on estimates of potential growth, Member States may use more stable series than the ones resulting from the commonly agreed methodology, provided it is duly justified by economic arguments and the cumulated growth over the projection horizon remains broadly in line.

Done at Brussels,

For the European Parliament
The President

For the Council
The President