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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	EGR - Proposal for a regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

Please find attached the Presidency's revised Commission proposal for a regulation on the effective coordination of economic policies and multilateral budgetary surveillance and on repealing Council Regulation (EC) No 1466/97, in view of the Financial Counsellors Working Party meeting on 23 November 2023.

- Original text of the directive.
- **Ammendment proposed by the Council**
- ~~Deletion proposed by the Council~~

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 (footnote)

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (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 1466/97¹, Council Regulation (EC) No 1467/97² of 7 July 1997 and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact³, 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.

¹ 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).

² 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).

³ 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 and transparent and inclusive policy-making.
- (5) The economic governance framework of the Union should be adapted to better take into account the ~~growing~~ **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 ~~damage~~ **consequences** of the crisis, but ~~the crisis~~ 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 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, 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.
- (6) The economic governance framework of the Union should **promote sound and sustainable public finances** ~~put debt sustainability~~, and sustainable and inclusive growth ~~at its core~~ 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 1174/2011⁴ and (EU) No 1176/2011⁵ 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.**
- (8) Detailed rules should therefore be laid down regarding the content, submission, assessment, **adoption** and monitoring of the national medium-term fiscal-structural plans, in order to promote ~~debt sustainability~~, **sound and sustainable public finances** and sustainable and inclusive growth in the Member States and prevent the occurrence of excessive government deficits ~~through medium-term planning.~~
- (9) National medium-term fiscal-structural plans should bring together the fiscal, structural reforms and investment commitments 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 plan that sets out its fiscal trajectory as well as priority public investment and reform commitments that together ensure sustained and gradual debt reduction and sustainable and inclusive growth, **while** avoiding a pro-cyclical fiscal policy. **Plans should also include as well as broader reform and investment commitments, including in relation to the common EU**

4 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).

5 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).

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 Facility⁶, commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account.

- (10) Cohesion policy funds are 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. ~~Each Member State should also explain how its national medium-term fiscal-structural plan will ensure consistency with the expenditure on EU programmes fully matched by EU funds revenue and the relevant national co-financing.~~
- (11) The ~~presentation~~ **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 ~~set~~ **adopt a recommendation setting** the net expenditure path and endorse the reform and investment commitments, including those ~~taken for~~ **underpinning** the possible extension of the adjustment period, as appropriate.
- (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, ~~as well as cyclical unemployment expenditure~~ **as well as** expenditure on Union programmes fully matched by revenue from Union funds. This indicator allows for macro-economic stabilisation as it is not affected by the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government.
- (13) **To frame the dialogue leading to the submission of national medium-term fiscal-structural plans, the Commission shall transmit to Member States with government debt above 60% of GDP or a government deficit exceeding 3% of GDP 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.** ~~To provide guidance to the Member States in the drafting of their medium-term fiscal-structural plan, the Commission should put forward a technical trajectory based on the minimum fiscal adjustment that brings the debt trajectory of the Member State on a plausibly downward path or maintains debt at a prudent level. It should also ensure that the public debt ratio at the end of the planning horizon declines below its level in the year before the start of the technical trajectory. The sustainability of that debt reduction should result from appropriate fiscal policies.~~
- (14) ~~The technical trajectory put forward by the Commission should also ensure that the government deficit is brought and maintained below the 3% of gross domestic product (GDP) reference value.~~

⁶ 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).

- (14) The technical trajectory should ensure that, by the end of the adjustment period, government debt is on a plausibly downward trajectory or stays at prudent levels. It should also ensure that the deficit is brought and maintained below the 3% of GDP reference value, while taking into account that Member States could face additional costs at the end of their medium-term fiscal-structural plan such as ageing costs or an unfavourable interest-growth differential. It shall also ensure consistency with the corrective path under Regulation 1467/1997 on speeding up and clarifying the implementation of the Excessive Deficit Procedure, where applicable.
- (14 bis) 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 at the end of the adjustment period is below that in the year before the start of the technical trajectory or in the year in which the excessive deficit is expected to be corrected under Regulation [corrective], whichever of the two occurs last. It should also ensure that the projected government debt ratio decreases by a minimum annual average of [AA] pp over the 4 years that follow after the adjustment period. This debt sustainability safeguard would act as a floor to the effort underlying the technical trajectory.
- (14 ter) Once a Member State reaches a position that puts debt on a plausibly downward path or stays at prudent levels, it should guarantee a common resilience margin below the 3% of GDP deficit threshold. This common resilience safeguard should apply to all Member States irrespective of their government debt levels, to 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.
- (14 quarter). In order to ensure effective implementation and appropriate monitoring of this Regulation and in view of the need for strong Member States' involvement in 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 will 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 will be able to propose changes to the methodology, which will be adopted by a Council Implementing Decision after consulting the Economic and Financial Committee. Such working group will be composed by national experts, the Commission and the ECB. The European Fiscal Board and the European Stability Mechanism will be invited by the working group as observers.
- (15) In order to assess whether further adjustments are required ~~towards~~ at the end of the four-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 ~~public~~ government debt of the Member State is still above 60% of GDP reference value and/or its government deficit is higher than the 3% of GDP 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 plan that differ from the ~~Commission's standard~~ medium-term debt projection framework, they should explain and duly justify the differences in a transparent manner and based on sound economic arguments.
- (18) ~~Since Member States could face additional costs at the end of their medium-term fiscal-structural plan such as ageing costs or an unfavourable interest-growth differential, they should ensure that the headline balance at the end of the adjustment period will be sufficient to ensure that the deficit durably stays below the 3% of GDP reference value.~~
- (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 ~~nationally-financed~~ net ~~primary~~ 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 ~~depart~~ **differ** from those underlying the technical trajectory. In particular, the debt projections at unchanged policy to be included in the plan should be ~~consistent and~~ 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 reform and investment commitments 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 investment 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** ~~and address 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.~~ ~~cuts in other nationally financed public investment over the adjustment period in order to ensure a macroeconomic impact of investments and avoid crowding out of other investment priorities.~~
- (23) With a view to ensuring an **multilateral**, equitable and transparent process, the reform and investment commitments should be assessed using a common Union framework. ~~During the lifetime of the Recovery and Resilience Facility, commitments in the national Recovery and Resilience Plans can be considered in the assessment of the request for an extension of the adjustment period, where applicable. The set of reforms and investments underpinning an extension of the fiscal adjustment path period should be commensurate with the degree of public debt challenges as established in the most recent update of the Debt Sustainability Monitor and challenges to medium-term growth in the Member State. For Member States where public debt challenges are linked to significant challenges to medium-term growth, the set of reforms and investments is expected to also address bottlenecks to medium-term growth.~~
- (24) The set of reform and investment commitments 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 reform and investment commitments should also be consistent with the implementation of the national strategies put forward by the Member State concerned to address the ~~relevant~~

aforementioned Union priorities. ~~Where relevant, during the lifetime of the Recovery and Resilience Facility, cross references to the Recovery and Resilience Plans should be made to ensure policy consistency.~~

- (24 bis) With a view to fostering growth-friendly fiscal consolidation strategies, the impact of investments and reforms, once adopted 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 verifiable economic evidence.**
- (25) ~~Where~~ **In case of serious deviations from** the verifiable and time-bound set of reform and investment commitments underpinning the more gradual net expenditure path within the specified deadline, the Council, on a recommendation from the Commission, can recommend that adjustment be steepened, that is to say by shortening the extension of the net expenditure path, **unless there are objective circumstances preventing implementation by the initially foreseen deadline.**
- (26) ~~To inform enforcement actions, in particular a report under Article 126(3) TFEU, The Commission should set up a control account for each Member State to keep track of~~ **cumulative upward and downward** deviations of the net expenditure observed in the Member State from the net expenditure path **adopted** set by the Council, ~~summing those deviations over time. 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, ~~traditionally mandated to monitor compliance with the national framework, should be expanded~~ **maintained to in the reformed** economic governance framework of the Union.
- (27 bis) **A permanent and more independent European Fiscal Board should also play a stronger advisory role in the economic governance framework. 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 of the EU should be consulted in the appointment process of the Chair and Members of the Board.**
- (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 Council⁷, the Commission should assess if the draft budgetary plans are consistent with the net expenditure paths pursuant to this Regulation.
- (29) ~~Particular attention should be given to significant risks of divergences of budgetary positions from the net expenditure path set by the Council. Therefore it is appropriate to complement the multilateral surveillance procedure set out in Article 121(3) and (4) TFEU with an early warning system whereby the Commission pursuant to Article 121(4) TFEU alerts a Member State at an early stage about the need to take the necessary budgetary corrective action in order to prevent its government deficit becoming excessive. Moreover, in the event of persistent budgetary slippage the Council should reinforce its recommendation and make it public.~~
- (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

⁷ 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).

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 could not have been prevented and 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. ~~Such major impact should result in an overall size of the shock that exceeds a 'normal' range: for example costs of natural disasters should be factored in in budgetary planning within a certain range.~~ The triggering and extension of ~~general and~~ country-specific escape clauses ~~are~~ **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 Union⁸, 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 means of a stronger role for~~ **of** Independent Fiscal Institutions. 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.
- (33) In order to ensure effective implementation and appropriate monitoring of this Regulation, ~~the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of: the information to be provided by Member States in their medium-term fiscal-structural plans; and the information to be provided by Member States in their annual progress reports, the functioning of the control account, the methodology to assess plausibility by the Commission, drawing up of the list of common Union priorities~~ **will be detailed in a Code of Conduct, and the assessment framework for the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.** It is of particular importance that the Commission carries out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law Making²⁹. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically

⁸ Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of 2 March 2012.

~~have access to meetings of Commission expert groups dealing with the preparation of delegated acts.~~

- (34) The 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 Council⁹.

⁹ 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 ~~debt sustainability and~~ sound and sustainable public finances, and inclusive growth and resilience in the Member States through reforms and investments and prevent the occurrence of excessive government deficits, ~~by medium-term planning~~.

Article 2

Definitions

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

- (1) 'country-specific recommendation' means the ~~annual~~ 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 Union funds revenue and cyclical elements of unemployment benefit expenditure, ~~and other budgetary variables outside the control of the government as set out in Annex II, point (a);~~
- (3) 'technical trajectory' means the multiannual net expenditure trajectory put forward by the Commission, where applicable, ~~to provide guidance to~~ frame the dialogue with those Member States ~~with public debt above the 60% of gross domestic product (GDP) reference value or government deficit above the 3% of GDP reference value when drawing up their national medium-term fiscal-structural plans.~~

(3bis) 'technical information' means the guidance put forward by the Commission to frame the dialogue with those Member States with government debt below the 60% of GDP reference value and government deficit below the 3% of GDP 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 adopted ~~set~~ by the Council;
- (5) 'national medium-term fiscal-structural plan' means the document containing the fiscal, reforms and investments ~~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 ~~of~~

the reforms and investment commitments ~~included in its national medium-term fiscal structural plan~~;

- (7) ‘adjustment period’ means the period of time over which the fiscal adjustment of a Member State takes place, covering a ~~minimum adjustment period of 4 years of the national medium-term fiscal structural plan and its possible~~ **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 ~~actual~~ **observed** net expenditure in a Member State from the net expenditure path **adopted 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 ~~cyclically adjusted general government balance net of temporary measures and~~ **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 economic and social performance~~ 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** ~~including~~ the European Pillar of Social Rights, and of the related country-specific recommendations;
- (c) the submission, assessment and **adoption endorsement**, of Member States’ medium-term fiscal structural plans, as well as their 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;

~~(e) other multilateral surveillance procedures established by the European Parliament and the Council pursuant to Article 121(6) TFEU.~~

Article 4

Implementation of the European Semester

1. ~~Where necessary, if~~ 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 ~~country-specific~~ 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 1467/97¹⁰ or Regulation (EU) No 1176/2011.

CHAPTER III

THE TECHNICAL TRAJECTORY

Article 5

Technical trajectory

~~Where~~ For each Member State having a public government debt is above the 60% of GDP reference value or a the government deficit above exceeds the 3% of GDP reference value, the Commission shall transmit to the Member State concerned put forward, in a report to the Economic and Financial Committee, a technical trajectory for net expenditure covering an minimum adjustment period of 4 years ~~of the national medium-term fiscal-structural plan~~, and its possible extension by a maximum of 3 years pursuant to Article 13. ~~The Commission shall make the report public.~~

Article 6

Requirements for the technical trajectory

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

¹⁰ 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).

- (a) by the end of the adjustment period, at the latest, the projected ~~public~~ government debt ratio is put or remains on a plausibly downward path, or stays at prudent levels;
- (b) by the end of the adjustment period, at the latest, the projected government deficit is brought and maintained below the 3% of GDP reference value
- (c) the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan is linear as a rule and is at least proportional to the total effort over the entire adjustment period. This provision shall also apply in the subsequent plan in case of an extension pursuant to Article 13; and
- (d) ~~the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory;~~ And there is consistency with the corrective path under Regulation 1467/97 on speeding up and clarifying the implementation of the Excessive Deficit Procedure, where applicable.
- (e) ~~national net expenditure growth remains below medium-term output growth, on average, as a rule over the horizon of the plan.~~

The technical trajectories shall be differentiated for each Member State. The criteria for setting the technical trajectories are set out in Annex I

Article 6 bis

Debt Sustainability safeguard

As long as the debt ratio exceeds the 60% reference value, the technical trajectory referred in Article 6 shall also comply with the following debt sustainability safeguard, ensuring that:

- (a) the projected government debt ratio at the end of the adjustment period is below the government debt ratio in the year before the start of the technical trajectory or the year in which the excessive deficit is corrected under Regulation [corrective], whichever of the two occurs last;
- (b) the projected government debt ratio decreases by a minimum annual average of [AA pp of GDP] over 4 years after the end of the adjustment period.

Article 6 ter

Deficit resilience safeguard

1. Once a Member State complies with the requirements laid out in Article 6 and Article 6b, the Commission technical trajectory shall guarantee ex-ante a fiscal adjustment that ensures a common resilience margin relative to the 3% of GDP deficit threshold.
2. The Council shall, by qualified majority, decide on further provisions relating to the implementation of the common resilience margin, which shall be reviewed every four years.

Article 7

Prior guidance by the Commission

1. ~~At the latest b~~By **15 January** [~~1 March~~] of the year [~~xxxx~~] in which the Member States have to submit ~~for the first time~~ their medium-term fiscal-structural plans **pursuant to Article 9** or, as appropriate, within 3 weeks from the request of the Member State to submit a **revised** ~~new~~ plan **pursuant to Article 14**, the Commission shall **transmit to the Member State concerned** ~~publish~~:
 - 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, 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 government deficit below the 3% of GDP reference value and public **government** debt below the 60% of GDP reference value, the Commission shall provide technical information regarding the structural primary balance necessary to ensure that the headline deficit is maintained below the 3% of GDP reference value without any additional policy measures over a 10-year period after the end of the national medium-term fiscal-structural plan. **The technical information shall also ensure compliance with the deficit resilience safeguard referred in Article 6ter.**
3. ~~The Commission shall update the technical trajectories and the quantitative guidance technical information at least once every 4 years in time for the submission of the next cycle of medium-term fiscal structural plans.~~

Article 8

Assessment of plausibility

1. To assess plausibility that the projected public **government** debt ratio of the Member concerned is on a downward path or remains at a prudent level, the Commission shall use the methodology **adopted by the Council,** ~~referred to in Annex V.~~
2. **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.**
3. 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

1. Each Member State shall submit to the Council and to the Commission a national medium-term fiscal-structural plan ~~before end April following the entry into force of this Regulation~~ **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.

2. 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, 12 and 14.

Article 11

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

- ~~1.~~ The national medium-term fiscal-structural plan shall:

~~provide the information listed in Annex II. In particular, it shall present~~

(a) present a net expenditure trajectory **path, as described in article 2(4)** covering a period of at least 4 years, 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)**~~12~~.

~~The national medium-term fiscal-structural plan shall also describe the actions of the Member State concerned to address the country-specific recommendations, including those 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.~~

- ~~2.~~ Where the national medium-term fiscal-structural plan includes a higher net expenditure trajectory than in the technical trajectory issued by the Commission pursuant to Article 5, the Member State shall provide in its plan sound and verifiable economic arguments explaining the difference.

(b) Include the technical trajectory transmitted by the Commission pursuant to article 5. Where the national-medium-term fiscal-structural plan includes a higher net expenditure trajectory than in **path that differs from the** technical trajectory issued by the Commission pursuant to Article 5, the Member State shall provide in its plan sound and verifiable economic arguments explaining the difference.

(c) The national medium-term fiscal-structural plan shall 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, correct the identified macroeconomic imbalances under the Macroeconomic Imbalances Procedure if applicable, and to address 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 [referred to in Annex VI of this Regulation.] the European Green Deal, European Pillar of Social Rights and the Digital Decade while being consistent with the updated National Energy and Climate Plans and the National Digital Decade Roadmaps;

(d) The national medium-term fiscal-structural plan shall also describe the action of the Member State concerned to address the country-specific recommendations, including those 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, the national medium-term fiscal structural plan shall 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 adopted, paying particular attention to the impact on fiscal sustainability through future public revenues, expenditures and potential growth, based on sound and verifiable economic evidence.

(g) contain information related to 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 period and information on the consultations of national parliaments and other relevant stakeholders.

Article 12

Requirements

~~The national medium-term fiscal structural plan shall:~~

- ~~a) ensure the fiscal adjustment necessary to put or keep public debt on a plausibly downward path by the end of the adjustment period at the latest, or remain at prudent levels, and to bring and maintain the government deficit below the 3% of GDP reference value over the medium term;~~
- ~~b) explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in the country specific recommendations, correct the identified macroeconomic imbalances under the Macroeconomic Imbalances Procedure if applicable, and address the common priorities of the Union referred to in Annex VI of this Regulation, including the European Green Deal, European Pillar of Social Rights and the Digital Decade while being consistent with the updated National Energy and Climate Plans and the National Digital Decade Roadmaps;~~
- ~~c) 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;~~
- ~~d) explain how it will ensure consistency with the Recovery and Resilience Plan of the Member State concerned during the period of availability of the Recovery and Resilience Facility in accordance with Regulation (EU) 2021/241.~~

Article 13

Conditions for an extension of the adjustment

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 reform and investment commitments underpinning an extension of the adjustment period, shall be commensurate with the degree of public debt challenges and challenges to medium-term growth in the Member State concerned.~~

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

- i. be growth enhancing. The set of reform and investment commitments is expected to entail, based on credible, well documented and prudent assumptions, a significant boost to the growth potential of the economy of the Member State concerned in a sustainable manner;
- ii. support fiscal sustainability. The set of reform and investment commitments is expected to entail a significant structural improvement of public finances over the medium-term, by structurally reducing public expenditure or increasing public revenue, of the Member State concerned;
- iii. address the common priorities of the Union referred to in point c of Article 11 Annex VI.
- iv. address relevant country-specific recommendations addressed to the Member State concerned, including, where applicable, recommendations issued under the Macroeconomic Imbalances Procedure taking into account the scope and scale of the country-specific challenges.
- 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.

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:

- (a) the description of the reform and investment commitments is clear and sets out the detailed elements of each reform and investment, that allows the Commission to assess the criteria in paragraph 2(i)-(v), including regarding their implementation, and monitoring;
- (b) the reforms will be implemented within the plan period;
- (c) the investments will be implemented at the latest by the end of the adjustment period;
- (d) the national medium-term fiscal-structural plan includes clear and realistic, relevant, and robust indicators allowing to verify progress with effective implementation of the reform and investment commitments.

~~4. 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 can be taken into account for an extension of the adjustment period.~~

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 ~~its adjustment period~~ if there are objective circumstances preventing ~~its the~~ implementation of ~~the original national medium-term fiscal-structural plan~~ or if the submission of ~~a new national medium-term fiscal-structural plan~~ is requested by a new government.

1bis. If requested by a new government, 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. ~~Prior to the submission of the revised national medium-term fiscal-structural plan~~ **Following the request by a Member State in accordance with paragraphs 1 or 1 bis of this Article, the Commission shall put forward, in a report to the Economic and Financial Committee, transmit to the Member State concerned** a new technical trajectory.

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. ~~Where~~ **If** a revised national medium-term fiscal-structural plan is submitted, Articles **10 to 13** ~~12~~ 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** ~~2 months~~ of its submission. The Member State concerned and the Commission may agree to extend **this period for up to two weeks as a rule**, ~~the period of assessment by a reasonable period~~ if necessary.
2. 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 laid out in Article 6, Article 6bis, Article 6ter and Article 7.2.**
 - a. ~~whether the national medium term fiscal structural plan ensures that public debt is put or kept on a plausibly downward path by the end of the adjustment period at the latest, or stays at prudent levels;~~
 - b. ~~whether the government deficit is maintained below the 3% of GDP reference value throughout the duration of the plan or whether the government deficit returns swiftly below the 3% of GDP reference value at the latest by the end of the adjustment period when the deficit is above this reference value at the time of submission of the national medium term fiscal structural plan;~~
 - c. ~~whether the government deficit is maintained below the 3% of GDP reference value in the absence of further budgetary measures over a period of 10 years;~~
 - d. ~~whether the fiscal adjustment effort over the period of the national medium term fiscal structural plan is at least proportional to the total effort over the entire adjustment period;~~
 - e. ~~whether for the years that the Member State concerned is expected to have a deficit above the 3% of GDP reference value, and the excess is not close and temporary, the fiscal adjustment is consistent with the benchmark referred to under Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation [X]; and~~
 - f. ~~whether the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory.~~
3. In addition, the Commission shall examine for the Member State concerned:
 - a. whether the set of reform and investment commitments underpinning an extension of the adjustment period fulfil the conditions set out in Article 13;
 - a. whether the other reform and investment commitments contained in the plan comply with the requirements of Article **12**, ~~letter b~~

Article 16

Adoption 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 ~~four~~ **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

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 this Regulation, taking into account the Commission's assessment referred to** in Article 15 (2) and (3) point (a), 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 failure 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 a reasonable period, if necessary.**
- (b) the Council considers that the revised national medium-term fiscal-structural plan does not comply with the requirements established 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 at the end of the period in the last year** covered by the ~~ongoing previous~~ national medium-term fiscal-structural plan, **in accordance with Article 9.1.**

In its recommendation to the Council, the Commission may update the original technical trajectory.

Article 19

Failure by a Member State to satisfactorily comply with its commitments underpinning an extension of its adjustment period

Where a Member State has been granted an extension of its adjustment period but ~~fails~~ **seriously deviates from** ~~to satisfactorily comply with~~ its set of reform 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

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~~⁴⁵ 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 reform and investment commitments in the European Semester context and, if applicable, in the implementation of the set of reform and investment commitments underpinning an extension of the adjustment period.
3. The annual progress report referred to in paragraph 1 shall also contain the information set out in Annex III.
4. Each Member State shall make its annual progress report public.

Article 21

Monitoring by the Commission

1. The Commission shall monitor the implementation of the national medium-term fiscal-structural plan, and in particular, the net expenditure path.
2. The Commission shall set up a control account **for those Member States which have been transmitted a technical trajectory**, ~~functioning in accordance with Annex IV~~, and shall keep track of cumulative upward and downward deviations of actual net expenditures from the net expenditure path.
 - 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 in a given period shall be the sum of the yearly debits and credits referred to in points a) and b) of this paragraph during that period. It shall be expressed in percentage of GDP.**
 - d. **Debits and credits shall be recorded annually on the basis of outturn data.**
3. **Where the Council has adopted a recommendation pursuant of 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

~~The relevant~~ Each national independent fiscal institution referred to in Article 8 of Council Directive [...] ¹¹ [on the national budgetary frameworks] shall ~~may~~ 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, ~~the relevant~~ Each national independent fiscal institution shall ~~may~~ 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 22 bis

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 their 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.
3. For the purposes of paragraph 1, the Board shall carry out the following tasks:
 - 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. Provide advice on the extension of escape clauses in accordance with Article 24 of this Regulation, upon request of the Council.
 - 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 3 years. In exceptional circumstances, their mandates may be extended by an additional period of up to two years.
6. The Board shall establish its Rules of Procedure.
7. The Board shall be supported by a Secretariat, responsible for the day-to-day business of the Board and providing high-quality analytical and logistical support. The Secretariat shall take instructions only from the Chair and be administratively attached to the Commission. A memorandum of understanding laying down practical modalities regarding the scope and

¹¹ Council Directive [...] of [...] [amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States] (OJ ..., ..., p,...)

means of cooperation, including in particular the access to relevant information, shall be concluded between the Board and relevant Commission services.

8. 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 23

Commission warning and Council recommendation for policy measures

1. ~~In the event of a significant risk of deviation from the net expenditure path or a risk that the government deficit may exceed the 3% of GDP reference value, the Commission may address a warning to the Member State concerned in accordance with Article 121(4) TFEU.~~

2. ~~On the basis of a Commission recommendation, the Council shall, within one month of the Commission warning referred to in paragraph 1, adopt a recommendation to the Member State concerned for the necessary policy measures, in accordance with Article 121(4) TFEU.~~

Article 24

~~Severe economic downturn in the euro area or the Union as a whole~~

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

~~Exceptional circumstances outside the control of the Member State leading to a major impact on the public finances of the Member State concerned~~

National escape clause

On a recommendation from the Commission **taking into account a request from a Member State as a rule**, the Council may adopt **within four weeks** a recommendation allowing **the concerned** 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 one-year time-limit for such deviation.**

~~The Council shall specify a time limit for such a deviation.~~ The Council, on a recommendation from the Commission, 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 and ownership of, 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 **national parliaments and the 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 28

~~Dialogue with a Member State~~

~~Where the Council addresses a recommendation to a Member State pursuant to Article 23(2) in the event of a significant risk of deviation from the net expenditure path, the European Parliament may offer the opportunity to that Member State, to participate in an exchange of views.~~

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 reform and investment commitments 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.**

~~Where a Member State fails to implement the reform and investment commitments included in its national medium-term fiscal-structural plan to address the country-specific recommendations that are relevant for the Macroeconomic Imbalance Procedure established by Regulation (EU) No 1176/2011, and where the Commission considers that the Member State concerned is affected by excessive imbalances in accordance with Article 7(1) of that Regulation, the procedure laid down in Article 7(2) of Regulation (EU) No 1176/2011 shall apply.~~

2. ~~In that case,~~ The Member State for which an excessive imbalance procedure is opened in accordance with Article 7(2) of Regulation (EU) No 1176/2011, it 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** ~~2 months~~ 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 Macro-Economic Imbalance Procedure

~~A Member State subject to enhanced surveillance under Article 2 of Regulation (EU) No 472/2013 of the European Parliament and of the Council³³ shall take into account any recommendations addressed to it under Article 23 of this Regulation when adopting measures aimed at addressing the sources or potential sources of difficulties pursuant to Article 3(1) of that Regulation.~~

Where a Member State is subject to a macroeconomic adjustment programme and the changes thereto in accordance with Article 7 of Regulation (EU) No 472/2013 **of the European Parliament and of the Council³³**, 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.

CHAPTER IX

DELEGATED POWERS

Article 32

Amendment of the annexes

~~The Commission is empowered to adopt delegated acts in accordance with Article 33 to amend Annexes II to VIII to adapt them to take due account of further developments or needs regarding the information in the national medium term fiscal structural plan (Annex II) or in the annual progress reports (Annex III), regarding the functioning of the control account (Annex IV), regarding the methodology for the assessment of plausibility (Annex V), regarding the common priorities of the Union (Annex VI) or regarding the assessment framework (Annex VII).~~

Article 33

Exercise of delegation

- ~~1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.~~
- ~~2. The power to adopt delegated acts referred to in Article 32 shall be conferred for an indeterminate period of time from XXX.~~
- ~~3. The delegations of power referred to in Article 32 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect on the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.~~

- ~~4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law Making.~~
- ~~5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.~~

~~A delegated act adopted pursuant to Article 32 shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of one month of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by one month at the initiative of the European Parliament or of the Council.~~

CHAPTER X

COMMON PROVISIONS

Article 34

Dialogue with 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 35

In-depth surveillance missions

- ~~1. The Commission may undertake in-depth surveillance missions in Member States which are the subject of recommendations issued pursuant to Article 23 for the purposes of on-site monitoring.~~
- ~~2. When the Member State concerned is a Member State whose currency is the euro or a Member State that is participating in ERM2, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.~~

Article 36

1. By [31 December 2030] and every 5 years thereafter, the Commission shall ~~submit to the European Parliament and to the Council~~ **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**, ~~in promoting debt sustainability, sustainable public finances and inclusive growth in Member States and, particularly whether the provisions governing decision making have proved sufficiently efficient in preventing excessive deficits and ensuring a downward path for public debt ratios or maintaining them at prudent levels below 60% of GDP in accordance with the relevant~~

Council recommendations, as well as in promoting counter-cyclical fiscal policies as well as avoiding pro-cyclical fiscal policies.

- (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 [twentieth] day following that of its publication in the Official Journal of the European Union.

Transitory provision

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

- **In year 2024: (i) as an exception to Article 7(1), the deadline for the Commission shall be 15 February; and (ii) Member States shall submit their medium-term fiscal structural plans by 30 April.**
- **The commitments of Recovery and Resilience Plans shall be considered sufficient to fulfil the conditions of the extension, when requested by a Member State pursuant to Article 13.**
- **Projects related to Recovery and Resilience Facility loans as well as national co-financing of EU funds in 2025 and 2026 will be taken into account whenever a Member State requests an exception to the no-backloading safeguard referred to in Article 6(c), provided that this does not endanger fiscal sustainability in the medium term.**
- **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 the cumulated growth over the projection horizon remains broadly in line.**

ANNEXES

ANNEX I

Annex I – Criteria for setting the technical trajectory for Member States having a public debt above 60% of GDP reference value or government deficit above 3% of GDP reference value

For Member States having public debt above the 60% of GDP reference value or government deficit above the 3% of GDP reference value, the technical trajectory shall ensure that:

- (a) by the end of the adjustment period, at the latest, the 10 year debt trajectory in the absence of further budgetary measures is on a plausibly downward path or stays at prudent levels;
- (b) the government deficit is brought and maintained below the 3% of GDP reference value in the absence of further budgetary measures over the same 10 year period;
- (c) for the years that the Member State concerned is expected to have a deficit above the 3% of GDP reference value, and the excess is not close and temporary, the technical trajectory is also consistent with the benchmark referred to under Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation [X];
- (d) the adjustment effort is not postponed towards the final years of the adjustment period, that is to say the fiscal adjustment effort over the period of the national medium term fiscal structural plan is at least proportional to the total effort over the entire adjustment period;
- (e) the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory; and
- (f) national net expenditure growth remains below medium term output growth, on average, as a rule over the horizon of the plan

ANNEX II

Information to be provided in the national medium-term fiscal structural plans

A national medium-term fiscal structural plan shall contain the following information:

- (a) The national net expenditure path referred to in Article 11. The other budgetary variables outside the control of the government that are part of the definition of net expenditure referred to in Article 2 consist in expenditure on programmes of the Union fully matched by Union funds revenue and cyclical elements of unemployment benefit expenditure.
 - (b) The projected growth path of government revenue at unchanged policy.
 - (c) The projected path of the public debt ratio.
 - (d) Information on implicit liabilities related to ageing, and contingent liabilities with a potentially large impact on government budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof, potential expenses and obligations arising from court cases and, to the extent possible, information on disaster and climate contingent liabilities.
 - (e) The main assumptions about expected economic developments and main economic variables which are relevant for ensuring consistency with the convergence of the public debt towards prudent levels and maintaining the government deficit below the 3% of GDP reference value.
 - (f) In case the Member State makes use of assumptions referred to under point (e) that differ from the Commission's assumptions over the adjustment period of the national medium-term fiscal structural plan and the subsequent 10-year period in the absence of further budgetary measures due explanations and justifications based on sound economic arguments of these differences.
 - (g) An analysis of how changes in the main economic assumptions would affect the budgetary and debt position of the Member State.
 - (h) If applicable, the duly substantiated reasons (with relevant sound and verifiable economic arguments) for deviating from the technical trajectory put forward by the Commission.
 - (i) Reform and investment priorities to respond to the main challenges as identified in the country-specific recommendations, taking into account the state of play of implementation of those country-specific recommendations.
 - (j) Total public investment expenditure, as well as reforms and public investment expenditure addressing the common priorities of the Union referred to in Annex VI.
 - (k) If applicable, information on a specific, time-bound and verifiable set of reform and investment commitments underpinning an extension of the adjustment period pursuant to Article 13, a timeline for its implementation, as well as sound economic arguments that this set of reform and investment commitments fulfil the criteria under Article 13 taking into account the assessment criteria in Annex VII.
 - (l) A quantification, as much as possible, of the expected impacts of reforms and investment referred to under point (k) on fiscal sustainability, growth and employment, where applicable in line with.
 - (m) The medium-term budgetary and potential medium-term growth impact of those reform and investment commitments referred to under point (k) where possible.
 - (n) If applicable, reforms and investment to correct the identified macroeconomic imbalances under the Macroeconomic Imbalance Procedure
 - (o) The planned overall level of nationally financed public investment covering the period of the national medium-term fiscal structural plan.
 - (p) For Member States with low public debt challenges but large implicit liabilities due to population ageing, the national net expenditure trajectory and the reforms in the national medium-term fiscal structural plans should take due consideration of long-term fiscal sustainability challenges of public finances.
- Information on the consultations of social partners, civil society organisations and other relevant stakeholders in view of the preparation of the plan.

ANNEX III

Information to be provided by Member States in the Annual Progress Reports

~~In their annual progress report, the Member States shall submit the following information:~~

- ~~(a) A comparison between the planned net expenditure based on the net expenditure path set by the Council and the net expenditure based on outturn data.~~
- ~~(b) A comparison from the beginning of the national medium term fiscal structural plan between the projections of the main economic variables submitted in that plan and the outturn data for these variables, as well as the implications for compliance with the net expenditure path adopted by the Council and the implications on the projected path of the public debt ratio reported in that plan.~~
- ~~(c) An analysis of the implementation in the previous year of the discretionary revenue measures.~~
- ~~(d) Progress and the planned implementation for the following year of the commitments to reforms and investment given in the national medium term fiscal structural plan~~
- ~~(e) Information for the following year on how the Member State intends to address the country-specific recommendations of the previous year, including, where applicable, the recommendation on the economic policy of the euro area.~~
- ~~(f) During the lifetime of the Recovery and Resilience Facility, information on the progress of implementation of the Recovery and Resilience Plan, to comply with the bi-annual reporting requirements in the context of the European Semester set out in Article 27 of Regulation (EU) 2021/241.~~
- ~~(g) Information on the evolution of contingent liabilities reported in the national medium term fiscal structural plan and referred to in Annex II, point (d), as well as of the implicit liabilities related to ageing, where relevant, and information on the contingent liabilities and the implicit liabilities for the following year.~~
- ~~(h) The main assumptions about expected economic developments and main economic variables for the remaining years of the adjustment period, including the public debt ratio.~~
- ~~(i) The projections at unchanged policies for the following years of the adjustment period for government expenditure and revenue and their main components, including public investment expenditure.~~
- ~~(j) The planned government expenditure and revenue as a percentage of GDP and their main components for the remaining years of the adjustment period, taking into account the net expenditure path adopted by the Council.~~
- ~~(k) A preliminary description and quantification of the expenditure and revenue measures to be implemented to bridge the gap between the projections at unchanged policies for expenditure and revenue referred to in point (i) and the planned expenditure and revenue referred to in point (j).~~
- ~~(l) An analysis of the evolution of the macroeconomic imbalances identified under the Macroeconomic Imbalance Procedure and of the impact on them of the implementation of the relevant reforms and investment reported in the national medium term fiscal structural plan in accordance with Annex II, point (n), where applicable.~~
- ~~(m) Information on the implementation of a warning by the Commission or a recommendation by the Council pursuant to Article 121(4) TFEU, where applicable.~~
- ~~(n) Information on labour market, skills and social policy developments, and on the implementation of policy measures taken in relation to progress on the national targets on employment, skills and poverty reduction by 2030, in line with the principles of the European Pillar of Social Rights and the Employment Guidelines under Article 148 TFEU.~~

ANNEX IV

Functioning of the Control Account

The control account for each Member State referred to in Article 21 will record a debit when the actual net expenditure in the Member State in a given year is above the net expenditure path set by the Council.

The control account will record a credit when the actual net expenditure in the Member State in a given year is below the net expenditure path set by the Council.

The cumulated balance of the control account in a given period is the sum of the yearly debits and credits registered during that period.

ANNEX V

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~~Methodology to assess plausibility by the Commission~~

~~The methodology for the assessment of plausibility pursuant to Article 8 is based on the following conditions:~~

- ~~— public debt ratio should be declining, or stay at prudent levels, under the deterministic scenarios of the Commission's medium-term public debt projection framework described in the Debt Sustainability Monitor 2022;~~
- ~~— the risk of the public debt ratio not decreasing in the 5 years following the adjustment period of the national medium-term fiscal structural plan is sufficiently low. The risk is assessed with the help of the Commission's stochastic analysis.~~

~~ANNEX VI~~

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~~Common priorities of the Union~~

~~The common priorities of the Union referred to in Article 12, point (b), are:~~

- ~~(a) The European Green Deal , including the transition to climate neutrality by 2050² and the translation at national level through the National Energy and Climate Plans;~~
- ~~(b) The European Pillar of Social Rights including the related targets on employment, skills and poverty reduction by 2030;~~
- ~~(c) The Digital Decade Policy Programme 2030 , and reflected at national level through the National Digital Decade Strategic Roadmaps;~~
- ~~(d) A Strategic Compass for Security and Defence – For a European Union that protects its citizens, values and interests and contributes to international peace and security.⁵~~

ANNEX VII

Assessment framework for the set of reform and investment commitments underpinning an extension of the adjustment period

1. Scope

The purposes of this assessment framework is to serve:

- as a basis for the Commission to assess whether the set of reforms and investment commitments included in the national medium term fiscal structural plans underpinning an extension of their adjustment period meet the criteria set out in Article 13(2). This assessment framework represents thus the basis for the application of the assessment criteria as referred to in Article 13(2) with a view to ensuring an equitable and transparent process;
- as a basis to assess whether each of those reform and investment commitments fulfil the conditions set out in Article 13(3). This assessment framework represents thus also the basis for the application of the conditions as referred to in Article 13(3), for the same purpose.

2. Assessment criteria

In accordance with Article 13(2), the set of reforms and investment commitments included in the national medium term fiscal structural plans underpinning an extension of the adjustment period shall be commensurate with the degree of public debt challenges as established in the most recent update of the Debt Sustainability Monitor and challenges to medium-term growth in the Member State. For Member States where public debt challenges are linked to significant challenges to medium-term growth, the set of reforms and investments is expected to also address bottlenecks to medium-term growth.

The set of reforms and investment commitments shall fulfil, taken altogether, the following criteria:

2.1 The set of reform and investment commitments are growth-enhancing:

- The set of reform and investment commitments are expected to entail, based on credible, well documented and prudent assumptions, a significant boost to the growth potential of the economy of the Member State concerned in a sustainable manner;

2.2 The set of reform and investment commitments support fiscal sustainability;

- The set of reform and investment commitments are expected to entail a significant structural improvement of public finances over the medium term, by structurally reducing public expenditure or increasing public revenue, of the Member State concerned.

2.3 The set of reform and investment commitments address priorities of the Union referred to in Annex VI;

- The set of reform and investment commitments contribute significantly to at least one of the priorities of the Union referred to in Annex VI;

2.4 The set of reform and investment commitments, taken altogether, addresses relevant country specific recommendations, including, where applicable, recommendations issued under the Macroeconomic Imbalance Procedure;

The set of relevant reform and investment commitments underpinning the extension of the adjustment period, taken altogether is expected to address challenges identified in the relevant country specific

recommendations, including the recommendations issued under the Macroeconomic Imbalance Procedure where applicable, taking into account the scope and scale of the country specific challenges and the commitments made under the Recovery and Resilience Plans, where relevant;

2.5. The set of reform and investment commitments ensure that the 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

Whether the planned level of nationally financed public investment over the lifetime of the plan is higher than the medium-term level before the period of the plan.

In addition, each of the reform and investment commitments made by Member States underpinning an extension of the adjustment period should be sufficiently detailed, frontloaded, time bound, and verifiable.

the description of the reform and investment commitments is clear and sets out the detailed elements of each reform and investment, that allows the Commission to assess the criteria in points 2.1-2.5, including regarding their implementation, and monitoring;

the reforms will be implemented within the plan period;

the investments will be implemented at the latest by the end of the adjustment period;

the national medium-term fiscal structural plan includes clear and realistic, relevant, and robust indicators allowing to verify progress with effective implementation of the reform and investment commitments.

