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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	EGR -Note by the Presidency on changes to compromise proposals for the preventive arm, the corrective arm regulations and the directive

Delegations will find attached the Presidency's note on the changes to compromise legislative texts for the preventive arm and the corrective arm regulations

CHANGES TO COMPROMISE PROPOSAL

1. PREVENTIVE ARM REGULATION

A. Debt sustainability safeguard

Article 6bis
Debt sustainability safeguard

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

(a) 1 percentage point of GDP as long as the general government debt-to-GDP ratio exceeds 90%.
(b) 0,5 percentage point of GDP as long as the general government debt-to-GDP ratio remains between 60% and 90%.

The average decrease shall be computed from the year before the start of the technical trajectory or the year in which the excessive deficit procedure is projected to be abrogated under Regulation [XXX corrective arm of the SGP], whichever occurs last, until the end of the adjustment period.

Recital 14bis

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

B. Deficit resilience safeguard

Article 6ter

Deficit resilience safeguard

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

manoeuvre, considering in particular the need for public investment and reforms. The margin shall amount to:

(a) 1,5% of GDP as long as the general government debt-to-GDP ratio exceeds 90%
(b) At least 1% of GDP as long as the general government debt-to-GDP ratio remains below 90%

2. The annual improvement in the structural primary balance to achieve the required margin shall be of ~~[~~0,3~~-0,4]~~ % of GDP, which shall be reduced to ~~[~~0,2~~-0,25]~~% of GDP in case of an extension of the adjustment period in accordance with Article 13.

Recital 14ter

Risk-based requirements for the technical trajectory are expected to be sufficient to bring deficits levels well below the 3% Treaty reference value. However, in order to make the framework more robust to uncertain developments of macro-fiscal variables, the technical trajectory should also provide for a common resilience margin relative to the 3% of GDP deficit Treaty reference value or convergence towards it. This common resilience safeguard should 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.

Article 7.2
Technical information

For Member States having a general government deficit below the 3% of GDP Treaty reference value and general government debt below the 60% of GDP Treaty reference value, the Commission shall provide, at the request of the Member State, technical information regarding the structural primary balance necessary to ensure that the headline deficit is maintained below the 3% of GDP Treaty reference value without any additional policy measures over the medium and long-term and indicating whether this implies fiscal adjustment needs. Technical information shall also be consistent with the deficit resilience safeguard referred in Article 6ter during the Plan

C. Transitory provision

Transitory Provision
Extension of the adjustment period linked to RRF commitments

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

[…]

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

(c) Projects related to Recovery and Resilience Facility loans as well as national co-financing of EU funds in 2025 and 2026 ~~will~~ shall be taken into account whenever a Member State requests an exception to the no-backloading safeguard referred to in Article 6 point c, provided that this does not endanger fiscal sustainability in the medium term;
(d) Acknowledging the exceptional impact of recent economic shocks and current uncertainty on estimates of potential growth, Member States may use more stable series than the ones resulting from the commonly agreed methodology, provided it is duly justified by economic arguments and the cumulated growth over the projection horizon remains broadly in line.

Recital 23 bis

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

D. European Fiscal Board

Article 22bis
European Fiscal Board

3. For the purposes of paragraph 1, the tasks of the Board shall include~~ 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) Upon request of the Commission or the Council, ~~P~~provide advice on the implementation of the Stability and Growth Pact, including on the extension of escape clauses in accordance with Article 24 of this Regulation~~, 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.

2. CORRECTIVE ARM REGULATION

A. Control account

Article 2.1(a)
Control account threshold

[…] The Commission shall prepare a report in accordance with Article 126(3) TFEU when the ratio of the government debt to GDP exceeds the reference value, the headline ~~balance~~ deficit is not close to balance ~~in deficit~~ and when the deviations recorded in the control account of the Member State either exceed:

a) ~~[0,25 –~~ 0,5 percentage points of GDP~~]~~ annually, or
b) ~~[0,5 –~~ 0,75 percentage points of GDP~~]~~, cumulatively

B. Benchmark adjustment

Article 3.4
Structural Balance & Corrective Path

[…] Where the excessive deficit procedure was opened on the basis of the deficit criterion, for the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual structural adjustment of at least 0,5% of GDP as a benchmark. […]

Transitory Provision (at the end of the legal text)

The benchmark referred to in Article 3(4) can be adjusted for the first medium-term fiscal-structural plan between 2025 and 2027, taking into account the increase in interest payments, when a Member State commits to a relevant set of reforms and investments.

Recital

Whereas the rules of the Excessive Deficit Procedure remain unchanged with a minimum annual improvement of at least 0.5% in structural terms as a benchmark, against the backdrop of the significantly changed interest rate environment and the far-reaching investment challenges in the context of the twin transition and geopolitical challenges, the Commission may, for a transitory period in 2025, 2026 and 2027 – in order to not compromise the positive effects of the Recovery and Resilience Facility– take into account the increase in interest payments in calculating the adjustment effort within the Excessive Deficit Procedure.

C. Transposition deadline for the Directive on budgetary frameworks

Article 15.1

1. Member States shall bring into force the provisions necessary to comply with this Directive ~~one year after entering into force~~ by 31 December 2025. They shall forthwith communicate to the Commission the text of those provisions. The Council encourages Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures, and to make them public.