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## **WORKING DOCUMENT**

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**From:** General Secretariat of the Council  
**To:** Working Party of Financial Counsellors

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**Subject:** EGR - Replies from the Commission services on related to written technical questions asked by Member States in relation to the proposal for a Regulation replacing Regulation (EC) No 1466/97

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Delegations will find attached the written replies from the Commission services related to written technical questions asked by Member States in relation to the proposal for a Regulation replacing Regulation (EC) No 1466/97.

The Commission draws the attention of delegates to the fact that these replies express the preliminary views of the Commission services and they may not in any circumstances be regarded as stating an official position of the Commission, they are intended only for the entities to which they are addressed, and they may contain confidential and/or privileged material.

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## **WRITTEN REPLIES TO MEMBER STATES' QUESTIONS ON THE PROPOSAL FOR REPLACING REGULATION (EC) No 1466/97**

### **Definition of the net expenditure indicator**

#### **1. Will one-offs be removed from the net expenditure indicator?**

One-off measures will continue to be excluded from the net expenditure indicator. One-off measures started being excluded from the indicator used to measure the fiscal effort with the 2005 reform of the Stability and Growth Pact. Excluding one-offs from a fiscal indicator has a double purpose. On the one hand, it allows assessing Member States as compliant with the required fiscal adjustment when specific events worsen the recorded fiscal position only temporarily (e.g. a court ruling). On the other hand, it avoids that Member States comply with fiscal requirements thanks to fiscal measures that do not structurally improve budgetary positions. Those purposes remain equally relevant under the new framework.

#### **2. Do we smooth investment out in the calculation of the net expenditure indicator?**

It is proposed to no longer smooth investment expenditure for the calculation of the net expenditure indicator. While the pattern of investment expenditure is set out in the plan ex ante, there may be year-on-year variation in ex-post outcomes, for example due to intrinsic uncertainty on the timing of large investments. Over the lifetime of the plan, this impact will be reflected in the control account. The control account will capture unanticipated spikes in investment expenditure, as it keeps track of all cumulative upward and downward deviations. Unforeseeable investment fluctuations that lead to a deviation from the net expenditure path set by the Council in a given year would thus be taken into account on a case-by-case basis at the time of the DBP assessment and in Article 126(3) reports.

#### **3. Should the net expenditure path be expressed in real or nominal terms? How to take inflation surprises into account?**

-In the view of the Commission services, nominal targets based on reasonable assumptions for the GDP deflator would be more transparent and easier to monitor as budgets are set in nominal terms and, if respected, would make fiscal policy more counter-cyclical, thus contributing to a better monetary-fiscal policy mix. Downward inflation surprises (typically in downturns) would give some further freedom for government spending in real terms, while upward inflation surprises (typically in good times) would not automatically translate into higher government spending. Large inflation surprises could be taken into account in the assessment phase (i.e., in the Article 126(3) report), while not necessarily considering a full adjustment of expenditure to inflation as justified.

### **Design of the Commission technical trajectory and Member States' net expenditure path**

#### **4. What is the value added of Annex I compared with the article (6), since they are not changeable by delegated act?**

The only difference between Article 6 and Annex I of the proposal for a regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 relates to the criterion for the technical trajectory that aims to ensure consistency with the corrective arm (point c in Annex I of the proposal). This was included in Annex I but not in Article 6 because it is a specification of criterion (b) of Article 6 according to which the deficit

should be brought below the 3% of GDP threshold and it would apply only when a new plan is prepared and a deficit-based EDP is not yet opened.

#### **5. What does adjustment and planning period mean?**

As defined in Article 2 of the proposed Regulation, the adjustment period refers to the period of time over which the fiscal adjustment of a Member State takes place. It covers a period of 4 years and can be extended by up to 3 years, resulting in a maximum fiscal adjustment period of 7 years.

The planning period, referred to in the proposed legislation as the “planning horizon” (see for instance point e of Annex I to the proposed Regulation), will be by default 4 years. The planning horizon and the adjustment period coincide thus for a 4-year plan without extension.

The planning horizon can be 5 years if that is the length of the national legislature. For a 5-year plan without extension, the adjustment period would still be 4 years and the 5<sup>th</sup> year of the plan will be based on a no fiscal policy change assumption. In the case of an extension (which can in that case be maximum of 2 years), the adjustment in the 5<sup>th</sup> year will be based on the extended adjustment period.

#### **6. Can the net expenditure path in the plan differ from the Commission trajectory? What are “sound and verifiable arguments” to assess the difference?**

Yes, the net expenditure path in the plan can differ from the Commission technical trajectory. In this case, according to Article 11(2) of the proposal for a regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, if the plan includes a higher net expenditure trajectory than in the technical trajectory issued by the Commission, the Member State has to provide in its plan sound and verifiable economic arguments explaining the difference. This difference between the net expenditure path in the plan and the technical trajectory will be discussed as part of the technical dialogue between the Commission and the Member State, held in accordance with Article 10 of the proposal.

In particular, the Member State would have to provide “sound and verifiable arguments”, i.e., solid economic arguments (backed by data) to ascertain that the net expenditure path it proposes still ensures the desirable debt dynamic and the respect of the 3% of GDP reference value for the deficit. Given that a number of assumptions underpinning the Commission’s DSA are already commonly agreed with the Member States (e.g. GDP projections, ageing cost projections), the Commission does not generally expect differences in these variables. However, more recent data, newly implemented policy actions with demonstrable impact not yet captured by the DSA, or more granular data on some variables (e.g. interest rates) at national level may justify some differences between the net expenditure path in the plan and the Commission trajectory.

#### **7. Can updated potential growth estimates have an impact on the net expenditure path? (e.g. the estimates for potential growth increase in the period covered by the plan because of accelerated reform implementation).**

The plan (including the net expenditure path) should be fixed for a multi-annual period (of 4 or 5 years), as a rule, but they could be revised for objective circumstances preventing 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, in accordance with Article 14(1) of the proposal. Therefore, it would not be possible to reopen the plan/net expenditure path based on

regular revisions to potential growth estimates (which are, in addition, not observable ) as this does not entail objective circumstances preventing the implementation of the original plan. In case of a revision of the plan, the new technical trajectory computed by the Commission and the plan will be based on the latest data available and latest macroeconomic outlook.

### Safeguards

#### **8. How to compute the medium-term output growth below which the net expenditure growth has to remain, on average, as a rule over the horizon plan?**

“Medium-term output growth” as referred to in Article 6, point (e) and Annex I, point (f) of the proposal for a regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 should be interpreted as a 10-year average, in order to smooth out annual fluctuations.

#### **9. What is the definition of the benchmark adjustment of at least 0.5% of GDP? What is the metric used?**

The reference to the benchmark adjustment of at least 0.5% of GDP in Article 15(2), point (e), of the proposal for a Regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 is meant to make the adjustment path in the plan consistent with the corrective arm. It would apply only when a new plan is prepared and a deficit-based EDP is not yet opened.

In the context of the reform, the metric used can either be the change in the structural primary balance or net primary expenditure (which are equivalent *ex ante*). Using net expenditure would ensure full consistency with the single operational indicator used in the monitoring of plans. Whilst the technical trajectory in the simulations shared with the Member States was calibrated on the structural primary balance, as has traditionally been the case in the DSA, the trajectory could be calibrated on net expenditure in the future.

#### **10. What does a proportional adjustment during the length of the plan mean? Can a Member State be more ambitious?**

Article 15(2), point d, of the proposal for a Regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 would require at least a proportional fiscal adjustment over the period of the plan compared to the total effort over the entire adjustment period. This means a minimum adjustment of  $\frac{4}{7}$ <sup>ths</sup> of the total adjustment to be implemented in the first 4 years of the extended adjustment period of 7 years. This is a minimum (‘at least’) and the Member State can be more ambitious and choose to make a higher adjustment in the first 4 years of the extended adjustment period of 7 years.

### Revision of the plan

#### **11. What would be the time horizon of the revised plan? Can a Member State request an extension when submitting a revised plan if the initial plan had already benefited from an extension?**

A revised plan would retain the same fiscal adjustment period and planning horizon as the original plan. In this way, a revision of the plan would not lead to a misalignment with the national electoral cycle. An exception could be considered when a new government resulting from early general

elections would request the submission of a revised plan. In this case, the planning horizon could cover a new period of 4 years, to keep the synchronisation with the national electoral cycle.

Regarding the extension, Article 14(4) of the proposal does not refer to Article 13 (setting the conditions for an extension of the adjustment period) when listing the provisions of the proposal applicable when a revised national plan is submitted.

## **12. Can we reopen the plan because of good news?**

As stated in Article 14(1) of the proposed Regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, a Member State may request to submit a revised national medium-term fiscal-structural plan to the Commission before the end of the (original) planning period if there are objective circumstances preventing 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. Circumstances that make it easier for a government to implement the original national medium-term fiscal-structural plan thus cannot be the basis for a request to revise the plan.

## **13. Could the revised effort not be lower if the updated technical trajectory is more favourable than the one underpinning the initial plan?**

As explained under question 12, Article 14(1) of the proposal would provide that a Member State may request to submit a revised plan before the end of the (original) adjustment period in particular if there are objective circumstances preventing the implementation of the original plan. This means that the objective circumstances would prevent the Member State from complying with the net expenditure path set by the Council. Article 14 (3) of the proposal stipulates that the new technical trajectory shall not allow backloading of the fiscal adjustment effort or a lower fiscal adjustment effort, taking the past adjustment into account.

### **Extension of the adjustment period**

## **14. What are the incentives for investment for Member States that do not ask for an extension of the adjustment period?**

By moving to a medium-term approach, Member States will be better able to balance their investment needs against other expenditure priorities, even in the absence of an extension of the fiscal adjustment period. Reforms and investments can boost the growth potential of an economy, improve the sustainability of public finances and build forward better, providing powerful incentives per se for their implementation. In addition, Article 2 (3), point (d) and recital 14 of the proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, the implementation of reforms and investments can be used by the Commission as a relevant factor in the Article 126(3) reports.

## **15. What happens with the extension if there is a delay in the implementation of reforms and investment because of unforeseen circumstances outside the government's control? What are the possible implications of the activation of the escape clause on the monitoring of the reform and investment commitments underpinning an extension of the adjustment period?**

As per point 2.5 of Annex VII to the proposal, Member States will need to implement the reforms within the plan period and the investments at the latest by the end of the adjustment period (up to 7 years). In case of exceptional circumstances outside the control of the government leading to a major

impact on the public finances of the Member State concerned triggering an escape clause in accordance with Article 25 of the proposal, the Commission would need to assess the impact on the implementation of reform and investment commitments underpinning an extension of the adjustment period and propose a follow-up based on this assessment.

**16. Will the growth effects of all investments be assessed, even in the case of no extension?**

The Commission will continue to assess the broader set of reform and investment commitments contained in the plans in the context of the European Semester, as per current practice. Any estimates for the related growth effects, if available, will continue to inform the Commission's assessment.

**Reforms and investment**

**17. How will the Commission assess that the set of reforms and investment entailed a significant structural improvement of public finances over the medium-term?**

In accordance with point 2.1 of Annex VII to the proposal, the set of reform and investment commitments underpinning an extension of the adjustment period would be expected to entail a significant structural improvement of public finances of the Member State concerned over the medium-term. The terms "structural" and "significant" mean that the impact of the set of reforms and investments must be durable and substantial. This is sufficiently clear for a legislative text. A quantification of these terms is not possible given the different circumstances existing in Member States, and would contradict the spirit of the reform. The Commission will critically assess the plausibility of the information provided by Member States regarding the expected impact on fiscal finances.

**18. Will there be a standard time horizon over which medium-term public investment will be averaged to assess whether the planned nationally financed public investment is higher than historical data before the plan?**

Respect of the "increase in nationally financed investment expenditure" condition stipulated in Article 13(2), point v of the proposal would be gauged against a reference period preceding that covered by the plan. For example, the requirement could be considered fulfilled if the planned level of investment expenditure (as % of GDP) over the 4-year period covered by the plan is higher than the level of investment expenditure over the 4-year period immediately preceding the plan. The assessment will have however to cater for country specificities as well as for cases where a particularly strong increase in investment in a given year/years distorts the data for a given period (e.g. for investment financed in the context of NGEU).

**Common priorities of the Union**

**19. What type of defence expenditure would fall under the Strategic Compass for Security and Defence (can it include buying military equipment outside the EU)?**

The objectives of the Strategic Compass for Security and Defence are set out in the document approved by the Council at its meeting held on 21 March 2022. The Commission cannot at this stage pre-empt an assessment of whether the set of reforms and investment commitments put forward by a Member State to underpin an extension of the adjustment period (as per Article 13 and Annex VII of the proposed Regulation) will address, taken altogether, the objectives of the Strategic Compass for Security and Defence. In any case, as per Article 13(3) of the proposed Regulation, each of the

reform and investment commitments underpinning an extension of the adjustment period shall be sufficiently detailed, front-loaded, time-bound and verifiable. This will allow the Commission to properly assess and monitor the reforms and investments put forward by Member States.

### **Annual progress report**

#### **20. What is the frequency of monitoring by COM?**

The monitoring cycle of the proposed framework will remain unchanged and continue to follow that of the European Semester (see Articles 3 and 4 of the proposed Regulation). In particular, the Commission will undertake an ex post assessment of Member States' compliance with the net expenditure path set by the Council for each Member State each spring, on the basis of Member States' annual progress report and following the publication by Eurostat of government finance statistics and EDP statistics. An ex ante assessment of compliance will also be undertaken each autumn for euro area Member States, with the adoption of the Commission's DBP opinions. Commission assessments will continue to be presented in the context of the Spring Package and the Autumn package. Transparency will thus continue to be ensured.

#### **21. In which language would the report be submitted?**

In line with current practice for the SCPs and NRPs and to speed up the work in view of the tight deadlines, the annual progress report should be submitted in English. Member States will however retain the right of submitting a version in one of their official languages.

#### **22. When would the first report be prepared and what period would it cover?**

In accordance with Article 20(1) of the proposed Regulation, the first annual progress report would be submitted to the Commission by 15 April of the year following the Council endorsement of the first medium-term fiscal-structural plans. We take note of the preference expressed by some Member States to delay the submission of the report to 30 April, given that Eurostat's public finance and EDP outturn data are typically not published before 21 April, and the tight timeline for the preparation of the report.

The content of the progress report would need to be in line with the Annex III of the proposed Regulation, in particular including 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 for the first year of the plan.

### **Opening of an EDP**

#### **23. Is sticking to the plan enough to avoid an EDP in case of a breach of 3% reference value?**

No. The EDP for breaches of the 3% of GDP reference value will remain unchanged. This means that a planned or observed breach of the 3% of GDP will continue to trigger a 126(3) report under the corrective arm. According to article 2(3), point b of the proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure ('corrective arm'), the developments in the medium-term budgetary positions, including, in particular, the size of the actual deviation from the net expenditure path, in annual and cumulative terms as measured by the control account, and the extent to which the deviation is due to a severe economic downturn in the euro area or in the Union as a whole or to exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, will be taken into account by the Commission when preparing a report under Article 126(3) TFEU. Where relevant, the deviation compared to the technical trajectory will also be taken

into account when considering the size of the deviation. However, based on the double overarching condition of Article 2(4) of the corrective arm, which remains unchanged, relevant factors to assess the breach of the deficit criterion can only be taken into account for Member States with debt above 60% of GDP, if the deficit remains close to the reference value and the excess over the 3% of GDP reference value is temporary.

**24. Is there automaticity in the debt-based opening of an EDP?**

There is no automaticity in the opening of debt-based EDP. Specifically, for a Member State with debt above 60% of GDP, a deviation from the net expenditure path set by the Council will trigger a 126(3) report to assess if an EDP needs to be opened. The degree of a Member State's debt challenges would be considered a key relevant factor, in accordance with article 2(3) of the proposal for a Council Regulation amending Regulation (EC) no 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure ('corrective arm'). In particular, where the Member State faces substantial debt challenges, it shall be considered a key factor leading to the opening of a debt-based EDP as a rule. The Commission shall also take into account all other relevant factors, as indicated in Article 126(3) TFEU, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned. A non-exhaustive list is included in the above-mentioned Article 2(3).

**Control account**

**25. Will the cumulated deviation in the control account be set to 0 when a Member State submits a new plan or will it continue to count for the next plan as well?**

The control account should continue to record deviations until the Member State has completed its adjustment and reached a position that ensures that debt is put on downward path and the deficit is maintained below 3% of GDP.

**26. Will there be a threshold which indicates an excessive deviation from the net expenditure path?**

No. The introduction of a fixed numerical threshold would not allow to assess the specific factors which cause the deviation.

**27. At what frequency would the control account be monitored?**

The control account will be updated and monitored on a yearly basis based on the latest outturn data. The Commission will compare the actual net expenditure of the Member State with the net expenditure path set by the Council for the given year and will record a debit or a credit in the control account, in accordance with Annex VI to the proposed Regulation. The yearly debit or credit will be added to the cumulated balance of the control account.

**28. How will the control account be used for preparing a 126.3 report?**

The control account is a monitoring tool to keep track of deviations from the net expenditure path set by the Council. The size of the actual deviation, in annual and cumulative terms, will be taken into account as a relevant factor when assessing compliance with the deficit and debt criteria (see also question 24).

**Warning****29. How will a significant risk of deviation be assessed?**

In accordance with Article 23 of the proposed Regulation, the Commission could address a warning 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. A mechanical threshold is not advisable, as specific circumstances should be taken into account. When an observed deviation from the net expenditure path or a breach of the 3% of GDP reference value is preceded by a warning, it could be considered as an aggravating factor in an Article 126(3) report.

**Escape clauses****30. During the activation of the escape clause, would Member States under the preventive arm still have to adjust by 0.5% of GDP as a benchmark as mentioned in Annex 1 which refers to Article 3 of Regulation No 1467/97?**

No. The 0.5% of GDP benchmark adjustment applies to the net expenditure path set by the Council (when a Member State has a deficit expected above the 3% of GDP reference value which is not close and temporary). The activation of a general or country-specific escape clause in accordance with Articles 24 and 25 of the proposed Regulation allows for a deviation from this path provided it does not endanger fiscal sustainability in the medium term.

**31. Would countries under EDP be allowed a longer period to bring the deficit below 3% of GDP if they experience “exceptional circumstances” from the very beginning?**

When opening an EDP, it is at Council’s discretion, upon a proposal from the Commission, to establish the deadline for the correction of the excessive deficit (Article 3(4) of the proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (‘corrective arm’). However, for the years when the deficit is expected to exceed the reference value, the corrective path under the EDP recommendation shall be consistent with a minimum annual adjustment of at least 0.5% of GDP as a benchmark. Moreover, where exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, including on the respect of the corrective path, occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised EDP recommendation, provided that this does not endanger fiscal sustainability in the medium term. The revised recommendation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule.

**32. During the activation of the escape clauses, will the deviation from the net expenditure path continue to be recorded in the control account? Will Member States have to correct these deviations once the escape clause is deactivated? What happens at the exit from the escape clause?**

Articles 24 and 25 of the proposed Regulation allow Member States or a Member State to deviate from their net expenditure path(s) in the event of a severe economic downturn in the euro area or the Union as a whole or exceptional circumstances outside the control of the Member State that lead to a major impact on the public finances of the Member State concerned, provided that those deviations do not endanger fiscal sustainability in the medium term. The Council shall specify a time-limit for such a deviation.

During the activation of the escape clauses, the deviation from the net expenditure path will continue to be recorded in the control account. Once the escape clause is deactivated, Member States will not have to compensate the deviation registered in the control account while the clause was active. In case the plan is still ongoing following the deactivation of the escape clause, Member States will have to comply with the net expenditure path as initially set by the Council. However, Member States would have the possibility to request to submit a revised plan in case of objective circumstances preventing the implementation of the original plan, according to Article 14(1) of the proposed Regulation.

#### **Links with the MIP**

#### **33. Are we not adding a new condition for opening an EIP?**

The proposed regulation does not add a new condition for opening an EIP. The EIP is opened according to Article 7 of Regulation (EU) No 1176/2011. The proposed regulation clarifies that conditions set out for the opening of an EIP could apply in 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. However, an EIP remains possible under all other conditions that fall under article 7 or Regulation (EU) No 1176/2011 and so there is no additional condition, rather a clarification of circumstances relevant to the proposed regulation.

#### **European Semester**

#### **34. Clarification of what kind of “measures” could be taken in case of failure to implement the European semester (Article 4 (3), points (a), (b) and (c) of the proposed regulation)?**

The Articles of the proposed regulation on the European Semester are, as they were already in Council Regulation (EC) No 1466/97, descriptive. They aim at explaining the interaction of the several processes, and do not create rights or obligations. Article 4(2) of the proposed regulation explains that Member States should consider the several recommendations – all acts adopted by the Council under Articles 121 and 148 TFEU regulating the European Semester are recommendations – before taking key decisions in the development of their policies, and that this is monitored by the Commission.

Article 4(3) indicates what will happen in case a Member State fails to act upon those recommendations. Article 4(3) does not create any new legal tool, it simply describes what are the available tools in case a Member State does not act upon the guidance received from the Council. Some of these tools are listed individually, like Article 4(3) point (a) on further CSRs, or Article 4(3) point (b), on warnings under Article 121(4) TFEU. In Article 4(3) point (c) there are references to some tools provided in other regulations (Council Regulation (EC) No 1467/97 and Regulation (EU) No 1176/2011) and in the proposed regulation. For example on this last regard, if a Member State failed to respect the Council Recommendation which endorsed the set of reform and investment commitments underpinning an extension of its plan as per Article 16 of the proposed regulation, the Council could adopt a Recommendation under Article 19 setting a revised net expenditure path with a shorter adjustment period.

According to the established practice, if there is no policy action by a Member State in response to CSRs, and the Commission and the Council are of the view that the challenge is still pertinent, a further recommendation is proposed by the Commission and adopted by the Council in the subsequent annual cycle.

It is to be noted that, the language ‘further country-specific recommendation’ used in Article 4(3), point a, of the proposed regulation stands for the language used in Article 2-a(3), point a of Council

Regulation (EC) No 1466/97 “further recommendations to take specific measures”. The suggested language in the proposed regulation should be much clearer.

### **35. What does “Other multilateral surveillance procedures” mean?**

Articles 3 and 4 of the proposed regulation which concern the organisation of the European Semester do not change the logic and objectives of the European Semester as the framework for coordination of economic and employment policies, that brings together specific procedures and processes (like the adoption of country-specific recommendations, the Macroeconomic Imbalance Procedure or the submission, assessment and endorsement of the national plans). Article 2-a(2) of Council Regulation (EC) No 1466/97 already described the content of the European Semester, but without covering all the processes of macroeconomic coordination.

In the proposed regulation, the Commission endeavoured to clarify the language and the definitions in relation to the European Semester:

- Article 2(1) of the proposal now defines ‘country-specific recommendation’, a term that has been widely used in the practice but was not formally defined in the legislation,
- Article 3 of the proposed regulation defines the objectives and content of the ‘European Semester’. It is now clearer that it encompasses all the coordination processes that have Article 121 and 148 TFEU as legal basis,
- Article 3 points (a) to (d) of the proposal list specific processes, while Article 3, point (e) refers to “other multilateral surveillance procedures” established by the co-legislator under Article 121(6) TFEU, both those already existing (example: post-programme surveillance) or those that could be established in the future, ensuring thus full coordination of surveillance processes under the European Semester .

### **36. Impact on timeline/content of the European Semester**

Article 2(1) of the proposal specifies that “‘country-specific recommendation’ means the annual guidance by the Council to a Member State on economic, budgetary, employment and structural policies in accordance with Articles 121 and 148 TFEU.” On this regard, the language ‘where necessary’ used in Article 4(1) of the proposal does not imply a change in the annual cycle of the CSRs publication. It only means that if there is a reason, then all the tools available under Article 121, in particular paragraph 4 could be used.

As explained, the changes in Articles 3 and 4 of the proposed regulation about the European Semester are for clarification only.

As to the actors of the European Semester, in Council Regulation (EC) No 1466/97, there is one reference to the European Council in Article 2-a(2), point (d), which was the basis for the submission and assessment of national reform programmes. This provision was deleted as there will no longer be national reform programmes.

However, the European Council will continue to have a formal role in the adoption of the CSRs and of the euro area recommendations on the basis of Article 121(2) TFEU.

As to the Commission and the Council, they will continue adopting CSRs in an annual cycle. The nature of the CSRs is set to evolve and adapt to circumstances – and this ability of the CSRs to evolve and be adaptable to the circumstances has been a major asset. There will be a need to ensure consistency

between the CSRs and the Council Recommendations endorsing the national plans in accordance with Article 16 of the proposed regulation.

According to Article 121(1) TFEU, macroeconomic coordination takes place ‘within the Council’. Therefore the role of the Council committees is not expected to change.

As to the timeline, the expectation is that the two major milestones in the annual cycle of macroeconomic coordination will not change: an autumn package in November after the publication of the Commission forecasts, and a spring package in May, also after the publication of the Commission forecasts. A major asset of the European Semester cycle has been its flexibility. Whenever it was useful there was also a winter package with an earlier publication of a series of reports. Also on some occasions the Annual Sustainable Growth Survey appeared either earlier (2020) or later (2019) given macroeconomic and political developments. This flexibility should be preserved.

### **37. What is the basis for issuing CSRs for specific Member States?**

The cycle of Commission proposing and Council adopting CSRs is set to remain annual, as explained under question 37.

#### **Delegated acts**

### **38. How are Annexes II-VII consistent with the requirement that delegated acts be limited to non-essential elements? Why is the period for Council objection reduced to one month instead of two?**

Annexes II-VII are consistent with the requirement that delegated acts should be limited to non-essential elements in the view of the Commission. More specifically:

As to Annex II: the essential elements of the national medium-term fiscal-structural plans are in Articles 11-12 (and 13 if an extension is requested by the MS in its plan) of the proposed regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. Annex II is only detailing more the information to be listed in the national medium-term-structural plans.

As to Annex III: the essential elements of the progress reports are in Article 20(1)-(2) and 22 of the proposed regulation. Annex III is only detailing more the information to be provided in the progress reports.

As to Annex IV: the essential elements of the control account are in Article 21 of the proposed regulation. Annex IV is only detailing more the functioning of the control account.

As to Annex V: the essential elements of the methodology to assess plausibility are in Article 8 of the proposed regulation. Annex V is only detailing more this methodology and essentially refers to existing Commission tools (deterministic scenarios of the Commission’s medium-term public debt projection framework described in the Debt Sustainability Monitor 2022 and Commission’s stochastic analysis).

As to Annex VI: the essential elements of the common priorities are in Article 12, point b, of the proposed regulation. Annex VI is only detailing more those common priorities, which are in already adopted texts.

As to Annex VII: the essential elements to take into account in the assessment framework for the set of reform and investment commitments underpinning an extension of the adjustment period are in Article 13. Annex VII is only detailing more this assessment framework.

As to the duration of the objection period: Article 290(2), point b, TFEU provides that it is for the legislative act to decide on the duration of the objection period. The Commission has proposed one month to allow for faster decision-making, as changes in the annexes might have an impact on the preparation of the plans. This is shorter than what is foreseen in the Annex to the inter-institutional agreement on “Better Regulation” (point V.18 - OJ L 123, 12.5.2016, p. 1), which stipulates that “Without prejudice to the urgency procedure, the period for objection defined on a case-by-case basis in each basic act should in principle be of two months, and not less than that, extendable for each institution (the European Parliament or the Council) by two months at its initiative”.

## Legislative Review

### **39. Why does the report not include an assessment of the effectiveness of the new rules with respect to the Treaty reference values?**

According to Article 36 of the proposal, the report on the application of the regulation shall review:

- (a) the effectiveness of this Regulation, particularly whether the provisions governing decision-making have proved sufficiently efficient in ensuring a downward path for public debt ratios or maintaining them at prudent levels in accordance with the relevant Council recommendations;
- (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States.

This review would naturally also include the effectiveness of the new rules with respect to the Treaty reference values, as was the case in the review of 5 February 2020 of the current Regulation.

## IFIs

### **40. Can you clarify how the role of the IFIs will be expanded? Will minimum standards for IFIs be introduced before their role is formally increased?**

Article 22 of the proposed regulation proposes to expand the role of the IFIs as they would provide an assessment of compliance of budgetary outturns data reported in the annual progress reports with the net expenditure paths. If there are deviations, IFIs would also analyse the causes of such deviations. In substance, this falls under the general advisory role of the IFIs, entailing the task to monitor national fiscal policy developments and to be able to assess which factors influence relevant budgetary items in which way. During the transition phase, in which the minimum standards for IFIs (as presented in Article 8 of the amended budgetary framework Directive) are introduced, IFIs can already perform these tasks.

### **41. Why is the assessment of the IFIs in the progress report and not in their own report, since they are independent?**

Including the assessment of the IFIs in the annual progress report, as proposed in point (o) of Annex III to the proposal, increases the visibility of the IFIs and underlines their legal role in this process. It does not at all compromise their independence as the annual progress report would - contain the original assessment of the IFIs without modification.

### **42. Can we get more clarification on the assessment from the IFIs to be included in the annual progress reports? Will they simply be required to confirm whether the net expenditure path was complied with in t-1?**

Neither the Commission, nor a national authority can prescribe how the IFIs should perform their assessment of compliance of budgetary outturns data reported in the annual progress reports with the net expenditure paths, and their assessment, in case of deviations, of the causes of such

deviations, given their functional independence. If there are no deviations in the aggregated figures, IFIs might either just confirm this, or they might also find it useful to explain how compliance was achieved.

