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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	EGR - Technical draft suggestions from the Presidency on Block 3 (Regulation 1466/97)

Delegations will find attached technical draft suggestions from the Presidency to be discussed at the Financial Counsellors Working Party on 11 July 2023.

This document includes some technical draft suggestions to be considered by delegates in order to steer the debate in the Financial Counsellors Working Party. Due to the multiple cross-references in the proposal, these suggestions may imply changes in other articles or recitals, which could be amended in due time. As a rule, deletion or addition of provisions will not result in a change in the numeration of previous or subsequent articles in the drafts presented to the working party.

Block 3: Structure and content of medium-term fiscal structural plan and progress report.

To be discussed in FiCo on 11 July

Sub-block 3A: *Medium term fiscal structural plan*

Article 2

Definitions

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

[...]

- (3) ‘technical trajectory’ means the net expenditure trajectory put forward by the Commission to provide guidance to 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;
- (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, reform and investment commitments of a Member State, covering a period of 4 years or 5 years depending on the 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 an ~~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 time of 4 years plus an additional 3 years at most;
- (8) ‘control account’ means a record of the cumulated upward and downward deviations of the actual net expenditure in a Member State from the net expenditure path;
- (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

Article 11

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

1. The national medium-term fiscal-structural plan shall provide the information listed in Annex II. In particular, it shall present a net expenditure ~~trajectory path, 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 requirements of Article ~~15(2)+2.~~ Where the national-medium-term fiscal-structural plan includes a higher net expenditure trajectory path that differs from 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.
2. 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.
3. 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 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 achieving a fair green and digital transition, ensuring energy security, strengthening social and economic resilience and the necessary build-up of defence capabilities 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;
4. 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;
5. The national medium-term fiscal-structural plan shall 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 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.~~

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:

[...]

- (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 a convergence of~~ that the public debt ~~towards ratio is put or remains on a plausibly downward path or stays at~~ prudent levels and bringing and maintaining the government deficit below the 3% of GDP reference value.
- (f) If applicable, the duly substantiated reasons (with relevant sound ~~and verifiable~~ economic arguments) for deviating from the differences of the net expenditure path and the technical trajectory put forward by the Commission, including the duly justified reasons for the differences between. ~~In case the~~ Member States' ~~makes use of~~ assumptions referred to under point (e) ~~that differ from and~~ 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 relevant literature for macroeconomic impact estimation models and techniques. commonly agreed methodologies.
- (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.
- (q) Information on the consultations of social partners, civil society organisations and other relevant stakeholders in view of the preparation of the plan.

ANNEX VI

Common priorities of the Union

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

- (a) The European Green Deal¹, 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 Rights³ including the related targets on employment, skills and poverty reduction by 2030;
- (c) The Digital Decade Policy Programme 2030⁴, and reflected at national level through the National Digital Decade Strategic Roadmaps;

¹ Communication COM(2019) 640 final of 11 December 2019 from the Commission ‘The European Green Deal’ and Decision (EU) 2022/591 of the European Parliament and of the Council of 6 April 2022 on a General Union Environment Action Programme to 2030 (OJ L 114, 12.4.2022, p.22).

² Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (‘European Climate Law’).

³ (2017/C 428/09) Interinstitutional Proclamation on the European Pillar of Social Rights (OJ C 428, 13.12.2017, p. 10).

⁴ Decision (EU) 2022/2481 of the European Parliament and of the Council of 14 December 2022 establishing the Digital Decade Policy Programme 2030 (OJ L 323, 19.12.2022, p. 4).

- (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

Sub-block 3B: Annual progress report

Article 20

Progress report

[...]

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.

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 set 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 ~~under the information to be provided in accordance with Annex II, points (i) and (j), as well as, if applicable, (k) and (n).~~
- (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

⁵ Council of the European Union, COPS 130.

requirements in the context of the European Semester set out in Article 27 of Regulation (EU) 2021/241.

- (g) Information on the evolution of implicit liabilities related to ageing, and contingent liabilities with a potentially large impact on government budgets 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 following 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 following remaining years of the adjustment period, taking into account the net expenditure path set 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 that foster upward social convergence among Member States towards better working and living conditions, in line with the principles of the European Pillar of Social Rights and the Employment Guidelines under Article 148 TFEU. That includes the expected impact of measures, in relation to progress on the national targets on employment, skills and poverty reduction by 2030.~~
- ~~(o) The assessment of the independent fiscal institutions referred to in Article 22.~~