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WORKING DOCUMENT

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

Subject: EGR - ECB presentation of its 5 July 2023 opinion (CON/2023/20)

Delegations will find attached the ECB presentation of its EGR opinion at the FiCo WP meeting of 18 July.



EUROPEAN CENTRAL BANK

EUROSYSTEM

Opinion of the European Central Bank

on a proposal for
economic governance
reform in the Union

18/07/2023



(DG Legal Services)



(DG Economics)

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General observations

The ECB welcomes the Commission proposals...

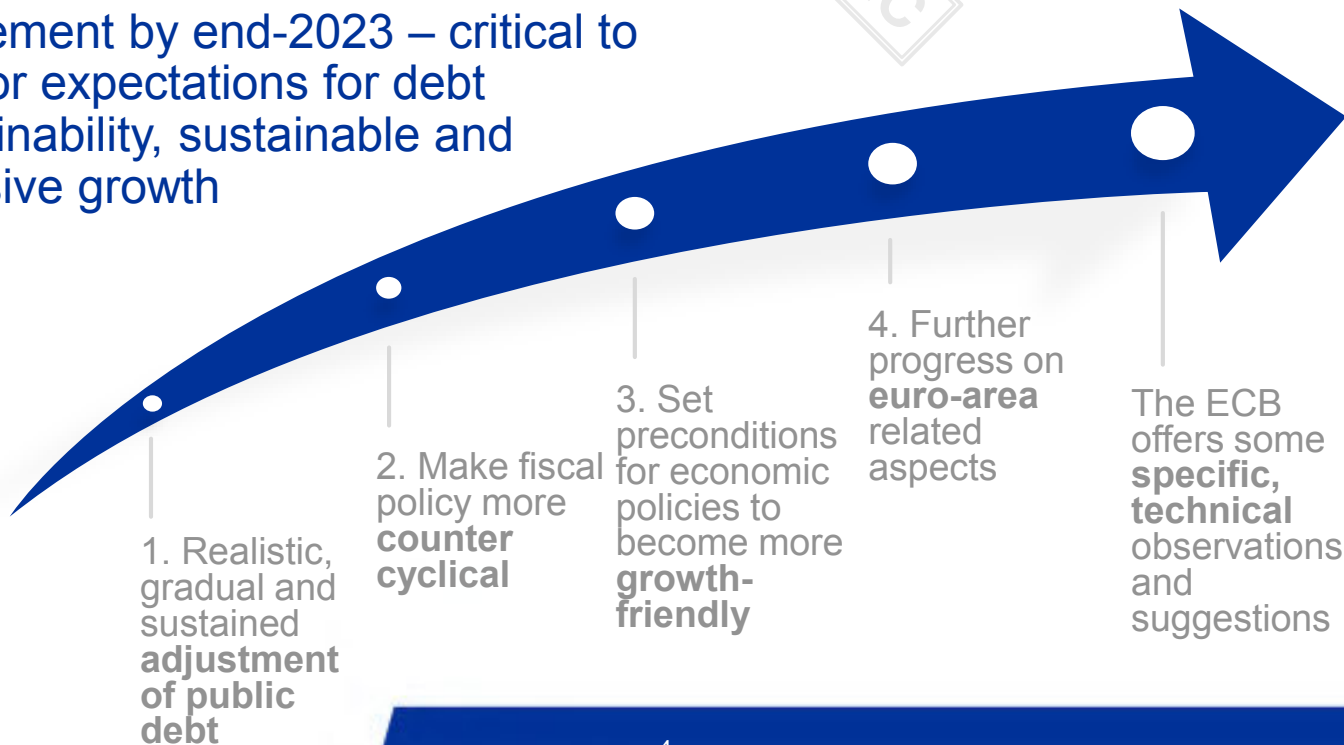
Objectives:

- ✓ safeguard the **sustainability of public debt** and the **countercyclicality** of fiscal policy
- ✓ **medium-term approach** to budgetary policies
- ✓ achieve **simplification** and increased **national ownership** of the framework
- ✓ reforms, investment and fiscal sustainability are mutually reinforcing – foster through an **integrated approach**
- ✓ improve **enforcement**



... and urges swift agreement

Agreement by end-2023 – critical to anchor expectations for debt sustainability, sustainable and inclusive growth



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Transversal matters

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Completing Europe's Economic & Monetary Union

Emphasises need for progress on EA aspects: aggregate EA fiscal stance

Recalls need for a permanent central fiscal capacity of sufficient size in the longer run



Treaty on Stability, Coordination & Governance

Welcomes integration into the Union legal framework

Notes there is no need to amend or repeal TSCG



Delegated powers to amend the annexes

Recommends further details and specifications be included *ex ante*

Consultation of ECB on delegated acts

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Specific observations

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- 1 Public debt sustainability and fiscal adjustment
- 2 National medium-term fiscal-structural plans
- 3 Interaction with the macroeconomic imbalance procedure
- 4 Compliance and enforcement
- 5 Role of independent fiscal institutions and the EFB

1. Public debt sustainability and fiscal adjustment (1)

- DSA methodology
 - ✓ Should **ensure replicability, predictability and transparency**
 - ✓ To be specified in consultation with, and supported by, the Member States
 - ✓ EFB should be also consulted
- Technical trajectory on net expenditure path
 - Further **enhance the definition of ‘net expenditure’**
 - a) Explain whether the path is defined in nominal or real terms
 - b) Clarify methodology to calculate the deduction of:
 - discretionary revenue measures
 - cyclical elements of unemployment benefit expenditure

1. Public debt sustainability and fiscal adjustment (2)

- Welcomes **safeguards to ensure debt is sufficiently diminishing**
 - Still subject to discussions
 - Need to strike a **balance** between two needs:
 - Complexity and ownership
 - Effectiveness of debt reduction
- Public debt ratio - assessment of **plausible downward path**:
 - Recommends **further elaboration** of the key parameters and assumptions
 - Recommends development of a **common framework** for the “sound and verifiable economic arguments” for higher net expenditure path put forward by Member States

2. National plans (1) – reforms and investment



- Crucial to ensure fiscal adjustment is not to the detriment of **productive investment**, especially when supporting common priorities of the Union.
 - Productive investment and reforms will foster economic growth, enhancing in turn, the long-term sustainability of public finances



- **Technical dialogues** should be conducted in a **smooth, transparent and predictable manner**
 - Technical dialogues are crucial for national ownership
 - Properly structured and detailed to clearly specify the contents of the plans



- Recommends that the legislation includes a **higher level of detail** on the requirements for the **reforms and investment commitments** to be included in the national plans
 - Effective monitoring of the quality of the investment

2. National plans (2) – adjustment period



- **“4+3” time horizon** stretches beyond a typical electoral cycle
 - May hinder compliance with reform and investment commitments



- Calls for a **prudent use of extensions** and **well-developed assessment framework** to ensure reforms and investments:
 - are conducive to **enhancing potential growth** and **debt sustainability**
 - safeguard to ensure **increased investment for critical policy priorities** (green and digital transitions)
 - are sufficiently **frontloaded**
 - **add to pre-existing commitments** by a substantial share

2. National plans (3) – revision of national plans



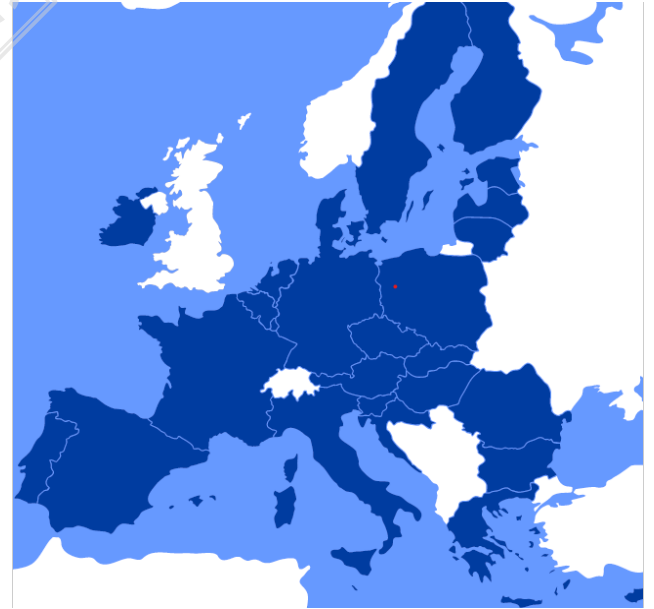
- Assessment of the **objective circumstances** preventing the implementation of the original plan
 - Recommends that the legislation specifies the objective circumstances considered **relevant**
 - Recommends that the legislation ensures that revised plan does not permit **backloading** of reforms and investments



- Preparation of **new technical trajectory** by the Commission
 - Should consider **past debt adjustment performance** of Member State

3. Interaction with the Macroeconomic Imbalance Procedure (MIP)

- Welcomes **holistic monitoring of national reforms** and the requirement for national plans to address the country-specific recommendations.
- Recommends that national plans focus on **main risks** related to fiscal sustainability, losses of competitiveness, and external imbalances.
- Evolving nature of macroeconomic challenges:
 - Need to ensure reforms and investments can be adjusted to **address new challenges** in a timely & effective manner
- Enforcement is key:
 - Need for transparent, **effective trigger mechanisms**
 - MIP should be used to its **full potential**



4. Compliance and enforcement (1)



- Ensuring **timely, adequate and transparent** monitoring and enforcement of Member States' compliance is of the essence



- Recommends **enhancing the procedure** to recommend a revised net expenditure path with a shorter adjustment period:
 - Member State fails to satisfactorily comply with reform and investment commitments
 - Commission recommendation → the Council should be **obliged** to act, via the 'comply-or-explain' procedure (i.e. 'may' changed to 'shall')
 - Looks forward to Commission's forthcoming work to develop a new enforcement tool



- Opening of EDPs:
 - Well-defined and transparent methodological approach for the **assessment of substantial public debt sustainability challenges** and other relevant factors

4. Compliance and enforcement (2) – control account

Control account

- Crucial element to support countercyclicality and enforce the new debt-based EDP
 1. Include further specification of the **functioning and key parameters** of the control account
 2. **Publish, on the Commission's website**, the country-specific computations and the status of each Member State
 - Preferably at the time of the spring and autumn Commission forecasts
 3. Introduce a **threshold for deviations** of actual net expenditures from the net expenditure path that would trigger a report under Article 126(3) TFEU



5. Independent Fiscal Institutions and the EFB

- Independent Fiscal Institutions
 - Supports **strengthening** the role of IFIs
 - Provided their **overall capacity** is also improved, commensurate with their tasks, and they have **adequate and stable resources**
 - Recommends **further enhancing** the role of IFIs
 - Preventive arm: advisory role in the **preparation of national plans**
 - Assessing non-quantifiable targets (e.g. reforms)
 - Assessing underlying assumptions, consistency with the Commission's technical trajectory, plausibility of commitments
 - Corrective arm: preparing an **opinion** on the Commission analysis of **relevant factors** for the report under Article 126(3) TFEU
- European Fiscal Board
 - Supports a **significant role for the EFB** in economic governance
 - Welcomes role for EFB opinion for the general escape clause
 - Recommends consultation of EFB on DSA methodology
 - Recommends enhancing the role of the EFB in assessing the appropriate fiscal stance of the euro area



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Conclusion

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- The ECB welcomes the Commission proposals
- The ECB offers some specific, technical observations and suggestions for the consideration of the Union legislators
- The ECB stands ready to provide advice and support to them in finding agreement as soon as possible.

ECB Opinion on EGR