Commission welcomes political agreement on a new economic governance framework fit for the future

Brussels, 10 February 2024

The Commission welcomes today's agreement between the European Parliament and the Council on the most ambitious and comprehensive reform of the EU's economic governance framework since the aftermath of the economic and financial crisis.

The Commission presented its reform proposals in April 2023.

The main objectives of the framework are to **strengthen Member States' debt sustainability**, and **promote sustainable and inclusive growth** in all Member States through growth-enhancing reforms and priority investments. The framework will help make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive and resilient economy.

The reforms address shortcomings in the current framework. They seek to ensure that the framework is simpler, more transparent and effective, with greater national ownership and better enforcement. They take into account the need to reduce increased public debt levels, including as a result of the COVID-19 pandemic, in a realistic, gradual and sustained manner. The new framework also builds on the lessons learned from the EU policy response to the financial crisis where a lack of investment hampered a swift economic recovery.

Stronger national ownership with medium-term plans

New medium-term fiscal structural plans are at the centre of the new framework. Member States will design and present plans setting out their fiscal targets, priority reforms and investments, and measures to address any possible macroeconomic imbalances during a fiscal adjustment period. The 'adjustment period' refers to the timeframe within which, through a combination of fiscal adjustments, reforms and investments, a Member State's debt level is put on a sustainable downward path.

These plans will then be assessed by the Commission and endorsed by the Council, based on common EU criteria.

Integrating fiscal, reform and investment objectives into a single medium-term plan will help to create a coherent and streamlined process. It will strengthen national ownership by providing Member States with greater leeway in setting their own fiscal adjustment paths and reform and investment commitments. Member States will present annual progress reports to facilitate more effective monitoring and enforcement of the implementation of these commitments.

This new fiscal surveillance process will be embedded in the existing European Semester, which will remain the central framework for economic and employment policy coordination.

Simpler rules taking account of different fiscal challenges

The new framework introduces risk-based surveillance which differentiates between Member States based on their individual fiscal situations. This approach will adhere to a transparent common EU framework underpinned by safeguards to ensure that debt is put on a downward path (the debt sustainability safeguard) or provide a safety margin below the Treaty deficit reference value of 3% of GDP in order to create fiscal buffers (the deficit resilience safeguard).

A single operational indicator – net primary expenditure – will serve as a basis for fiscal surveillance, thereby simplifying fiscal rules.

For Member States with a government deficit above 3% of GDP or public debt above 60% of GDP, the Commission will issue a country-specific "reference trajectory". This trajectory will provide guidance to Member States to prepare their plans, and will ensure that debt is put on a plausibly downward path or stays at prudent levels.

For Member States with a government deficit below 3% of GDP and public debt below 60% of GDP, the Commission will provide technical information to ensure that the deficit is maintained below the 3% of GDP reference value over the medium term. This will be done at the request of the Member State.

Promoting reforms and investment

Both reforms and investment are needed to face new and existing challenges. They are also essential components of credible debt-reduction plans. The new framework will facilitate and encourage Member States to implement the measures needed to secure the green and digital transitions, strengthen economic and social resilience and bolster Europe's security capacity.

Member States that commit to implementing reforms and investments designed to achieve these objectives will benefit from a more gradual adjustment period, extended from four years to up to seven years. These measures must comply with specific criteria by, notably, addressing country-specific recommendations issued to Member States in the context of the European Semester or targeting the achievement of specific EU policy priorities.

Reforms and investment commitments of the national Recovery and Resilience Plans will be taken into account for an extension of the adjustment period in the first round of the plans.

The Commission will take into account a number of relevant factors when assessing the existence of an excessive deficit. An increase of government investment in defence would be explicitly recognised as one such relevant factor. Other relevant factors include the Member State's public debt situation, economic and budgetary developments, and the implementation of reforms and investment.

Enhancing enforcement

Rules require enforcement. While the new framework provides Member States with more leeway over the design of their plans, it also establishes a strengthened enforcement regime to ensure Member States deliver on their commitments. Member States will present annual progress reports focusing on the implementation of commitments laid out in their plans for assessment by the Commission.

The Commission will set up a control account to record deviations from the agreed fiscal path. When the balance of the control account exceeds a numerical threshold and the Member State's debt is above 60% of GDP, the Commission will prepare a report to assess whether an Excessive Deficit Procedure should be opened. A failure to deliver on agreed reform and investment commitments could result in a fiscal adjustment period being shortened. The rules on opening a deficit-based Excessive Deficit Procedure remain unchanged.

Next steps

The European Parliament and the Council will now have to formally adopt the political agreement.

The new framework will come into operation next year, on the basis of plans that will be presented later this year by Member States. This leaves sufficient time for Member States to prepare their plans for the years to come. In 2024, fiscal surveillance will be based on the country-specific recommendations already issued in spring 2023.

Background

The EU's economic governance framework consists of the EU fiscal policy framework (the Stability and Growth Pact and requirements for national fiscal frameworks) and the Macroeconomic Imbalance Procedure, which are implemented in the context of the European Semester for policy coordination, as well as the framework for macroeconomic financial assistance programmes.

In line with President von der Leyen's political guidelines, the Commission presented a review of the effectiveness of the economic surveillance framework and launched a public debate on its future in February 2020. This extensive public debate and consultation process allowed stakeholders to express their views on the key objectives of the framework, its functioning, and new challenges to be addressed. These views fed into the Commission's legislative reform proposals which were presented in April 2023. In December 2023, the Council adopted a general approach. The European Parliament endorsed the Committee on Economic and Monetary Affairs mandate to enter into negotiations in January 2024. The European Parliament and the Council then reached a political agreement on 10 February 2024.

For more information

European Commission's legislative proposals for a reformed EU economic governance framework

IP/24/711

Quotes:

"Today's agreement on reforming the EU's fiscal rules is a very welcome and long-awaited breakthrough – many thanks to the European Parliament and the Council for their intensive efforts. At a time of significant economic and geopolitical challenge, the new rules will allow us to address today's new realities and give EU Member States clarity and predictability on their fiscal policies for the years ahead. These rules will improve the sustainability of public finances and promote sustainable growth by incentivising investment and reforms. This will support the EU's long-term competitiveness and further strengthen the Economic and Monetary Union to the benefit of all Europeans."
Valdis Dombrovskis, Executive Vice-President for an Economy that Works for People - 09/02/2024

"Today's agreement to reform our economic governance is good news for the European economy. It concludes a long journey for the redesign of the EU's fiscal rules. While the agreed texts are different and more complex with respect to our initial proposal, they preserve its core elements: more medium-term planning; greater ownership by Member States within a common framework; a more gradual fiscal adjustment to reflect commitments to investments and reforms. I particularly welcome the fact that the final agreement improves the text agreed in Council last December, including by further protecting public investment and strengthening the social dimension of the framework. I want to thank the negotiating teams of the European Parliament, the Council Presidency and the Commission, in particular DG ECFIN, for their efforts to bring this crucial reform over the line."
Paolo Gentiloni, Commissioner for Economy - 09/02/2024

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