



European Commission proposal for a reform of the EU economic governance framework

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Key objectives and principles of the reform

- The key objective of the reform is to strengthen debt sustainability and promote sustainable and inclusive growth through reforms and investment.
- Key principles:
 - Medium-term approach bringing together fiscal policy, reforms and investment.
 - Gradual and credible debt reduction underpinned by growth enhancing investment and reforms for EU priorities.
 - More national ownership, based on common EU rules and better enforcement.
 - Simpler rules taking account of different fiscal challenges.

Context

- Legislative proposals follow a long and intense period of consultations and discussions, which started before Covid and accelerated since October 2021.
- Legislative proposals are consistent with the Commission communication on orientations for reform (9 November 2022).
- Several modifications and clarification addressing concerns of Member states (i.e. safeguard provisions).

Key elements of the new framework

1. **Medium-term fiscal structural plans** (4-year horizon), proposed by Member States but framed by EU requirements.
2. **A country-specific net expenditure path (i.e. net of discretionary revenue measures)** will be the single operational fiscal indicator. It should ensure that debt converges to prudent levels. Targeting net expenditure makes fiscal policy counter-cyclical in normal circumstances.
3. **Extended adjustment period** (up to 7 years) underpinned by a specific set of reform and investment commitments (supporting growth and fiscal sustainability; addressing CSRs and EU priorities).
4. **Additional common safeguards** on deficit, debt, backloading and net expenditure growth.
5. **General and country-specific escape clauses** for extraordinary situations (severe downturn in the EU/EA or exceptional events at national level outside the control of the Member States).
6. **Enhanced enforcement.**
7. **Changes to the directive on national fiscal frameworks.**

A country-specific net expenditure path

- Single fiscal operational indicator.
- Should ensure that:
 - Debt at the end of the plan horizon (4 years) is, and remains, on a plausible downward path, or stays at prudent levels, without future adjustment;
 - Deficit is, and remains, under 3% without further adjustment.
- Use of common and transparent methodology for the assessment of the fiscal effort.
- Commission will provide “technical trajectory” to guide the Member States and to facilitate multilateral surveillance.

Additional safeguards

- 0.5% of GDP minimum adjustment for as long as the deficit is above 3% reference value.
- Debt at the end of the planning horizon (4 years) lower than at the beginning.
- Anti-backloading provision.
- Net expenditure growth below medium-term output growth, on average, over the plan horizon.

Provisions for Member States with low public debt challenges

- Risk-based surveillance.
- Respect of 3% deficit threshold on a “no policy change” basis.
- No technical trajectory, but guidance as regards the structural primary balance at the end of the planning horizon.
- Consideration of long-term fiscal sustainability challenges related to population ageing.

Thank you