Commission proposes new economic governance rules fit for the future

Brussels, 26 April 2023

The Commission has today presented legislative proposals to implement the most comprehensive reform of the EU's economic governance rules since the aftermath of the economic and financial crisis. The central objective of these proposals is to **strengthen public debt sustainability** and **promote sustainable and inclusive growth** in all Member States through reforms and investment.

The proposals address shortcomings in the current framework. They take into account the need to reduce much-increased public debt levels, build on the lessons learned from the EU policy response to the COVID-19 crisis and prepare the EU for future challenges by supporting progress towards a green, digital, inclusive and resilient economy and making the EU more competitive.

The new rules will facilitate necessary reforms and investment and help reduce high public debt ratios in a realistic, gradual and sustained manner, in line with President **von der Leyen**'s 2022 State of the Union address. The reform will make economic governance **simpler**, **improve national ownership,** place a greater emphasis on the medium term and **strengthen enforcement**, within a transparent common EU framework.

The proposals are the result of an extended period of reflection and broad consultation process.

Stronger national ownership with comprehensive medium-term plans, based on common EU rules

National medium-term fiscal-structural plans are the **cornerstone** of the Commission's proposals.

Member States will design and present plans setting out their fiscal targets, measures to address macroeconomic imbalances and priority reforms and investments over a period of at least four years. These plans will 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.

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

Simpler rules taking account of different fiscal challenges

Fiscal situations, challenges and economic prospects vary greatly across the EU's 27 Member States. Hence, a one-size-fits-all approach does not work. The proposals seek to move to a more **risk-based surveillance framework** that puts public debt sustainability at its core, while promoting sustainable and inclusive growth. This approach will adhere to a **transparent common EU framework**.

Member States' plans will set out their fiscal adjustment paths. These will be formulated in terms of **multi-year expenditure targets**, which will be the single operational indicator for fiscal surveillance, thereby simplifying fiscal rules.

For each Member State with a government deficit above 3% of GDP or public debt above 60% of GDP, the **Commission** will issue a country-specific "**technical trajectory**". This trajectory will seek to ensure that debt is put on a plausibly downward path or stays at prudent levels, and that the deficit remains or is brought and maintained below 3% of GDP in the medium term.

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 Member States to ensure that the government deficit is maintained below the 3% of GDP reference value also over the medium term.

These technical trajectories and technical information will guide **Member States** when designing the multi-year expenditure targets that they will include in their plans.

Common safeguards will apply to ensure **debt sustainability**. The 3% and 60% of GDP reference values for deficit and debt will remain unchanged. The ratio of public debt to GDP will have to be lower at the end of the period covered by the plan than at the start of that period; and a minimum fiscal adjustment of 0.5% of GDP per year as a benchmark will have to be implemented so long as the deficit remains above 3% of GDP. Furthermore, Member States benefitting from an extended fiscal adjustment period will need to ensure that the fiscal effort is not postponed to the outer years.

General and country-specific escape clauses will allow deviations from the expenditure targets in case of a severe economic downturn in the EU or the euro area as a whole or of exceptional circumstances outside the control of the Member State with a major impact on public finances. The Council, based on a recommendation from the Commission, will decide on the activation and deactivation of these clauses.

Facilitating reforms and investment for EU priorities

Reforms and investment are both essential. The green and digital transitions, the strengthening of economic and social resilience and the need to bolster Europe's security capacity will require large and sustained public investment in the years to come. Reforms enhancing sustainable and inclusive growth remain an essential component of credible debt-reduction plans. The positive interaction between reforms and investment is already showing its benefits under NextGenerationEU's Recovery and Resilience Facility.

The proposals therefore aim to facilitate and encourage Member States implementing important reform and investment measures. Member States will benefit from a more gradual fiscal adjustment path if they commit in their plans to a set of reforms and investment that comply with specific and transparent criteria.

Providing for effective enforcement

Rules require enforcement. While the proposals provide Member States with more control over the design of their medium-term plans, they also put in place a **more stringent enforcement regime** to ensure Member States deliver on the commitments they undertake in their medium-term fiscal-structural plans.

For Member States that face substantial public debt challenges, departures from the agreed fiscal adjustment path will by default lead to the opening of an excessive deficit procedure.

Failure to deliver on the reform and investment commitments justifying an extension of the fiscal adjustment period could result in the adjustment period being shortened.

Next steps

Swift agreement on revising the EU fiscal rules and other elements of the economic governance framework is a pressing priority at the current critical juncture for the EU economy.

The Council, in conclusions also endorsed by the European Council, has called for the legislative work to be concluded in 2023. The Commission calls on the European Parliament and the Council to reach agreement on the legislative proposals presented today as quickly as possible, so as to adequately respond to the challenges ahead.

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.

The legislative proposals presented today follow a debate on the review of the economic surveillance framework first launched in February 2020. Stakeholders widely contributed to the debate on the future of the framework through various fora, including an online public survey. The Commission summarised its main takeaways on the online consultation in a report published in March 2022. These contributions provided valuable input to the Commission's reform proposals.

In November 2022, the Commission presented orientations for a reformed EU economic governance framework. In March 2023, the Economic and Financial Affairs Council (ECOFIN) adopted conclusions on the Commission's orientations which were then endorsed by the European Council.

For more information

Questions and answers: Commission proposes new economic governance rules fit for the future

Factsheet

Legislative proposals for a reformed EU economic governance framework

Press release: Building an economic governance framework fit for the challenges ahead (November 2022)

Press release: Commission relaunches the review of EU economic governance (October 2021)

Press release: Commission presents review of EU economic governance and launches debate on its future (February 2020)

Recovery and Resilience Facility

The European Semester

Stability and Growth Pact

Macroeconomic Imbalance Procedure

IP/23/2393

Quotes:

We need fiscal rules that are fit for the challenges of this decade. The new rules will help reduce high public debt levels in a realistic, gradual and sustained manner. They will also improve national ownership based on common EU rules, and strengthen enforcement. Sound public finances enable us to invest even more in the fight against climate change, to digitise our economy, to finance our inclusive European social model, and to make our economies more competitive. I look forward to a swift agreement on this crucial reform.
Ursula von der Leyen, President of the European Commission - 26/04/2023

Our common EU fiscal rules date back to the 1990s and we have since withstood major economic shocks: from the global economic and financial crisis, to the pandemic and the war in Ukraine. We now face different challenges and economic priorities, and our rules need to reflect these changes. Today's proposals will ensure a steady reduction of high levels of public debt and help us meet our major reform and investment needs. We are simplifying the rulebook, ensuring public debt sustainability through gradual and realistic fiscal adjustment, and supporting sustainable and inclusive growth. Following extensive consultation, we have reached a careful balance by giving countries greater flexibility and ownership of their medium-term fiscal objectives, while putting in place safeguards to ensure transparency and equal treatment. At the same time, we are stepping up enforcement so that countries stick to their commitments. This is how the EU can lower public debt, keep it sustainable, ensure sound public finances and build a solid base for our future prosperity.
Valdis Dombrovskis, Executive Vice-President for an Economy that Works for People - 26/04/2023

Today's proposals aim to bring about a more gradual but steadier reduction in debt levels than the Pact has achieved in the past and to boost sustainable and inclusive growth through investment and reforms. We have debated extensively and consulted widely. Now we need to forge a consensus among Member States and the European Parliament: to rediscover that unity of purpose that helped Europe navigate the immense challenges of the past three years. I am convinced that we can and that this new framework will support both stability and growth in the EU for years to come.
Paolo Gentiloni, Commissioner for Economy - 26/04/2023

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Related media

Read-out of the weekly meeting of the von der Leyen Commission by Valdis Dombrovskis, Executive Vice-President of the European Commission, and Paolo Gentiloni, European Commissioner, on EU's economic governance