European Commission

NEW ECONOMIC GOVERNANCE RULES FIT FOR THE FUTURE

26 April 2023

The Commission has presented legislative proposals to implement a comprehensive reform of the EU economic governance framework.

The proposals seek to **respond to the significantly higher levels of public debt** in the aftermath of the pandemic and support reforms and investment. They **address shortcomings** in the current framework and **take into account the lessons** from the EU policy response to COVID-19.

They make EU economic governance **simpler**, improve **national ownership**, place a greater emphasis on the medium-term and strengthen **enforcement**.

Key principles and objectives

The key objective of the reform is to **strengthen debt sustainability** and **promote sustainable and inclusive growth** through reforms and investment. It includes:

- Stronger national ownership
- Simpler rules
- Facilitating reforms and investment for EU priorities
- Providing for effective enforcement

New fiscal surveillance process

The proposals introduce a new process based on Member States integrating fiscal, reform and investment commitments into a single medium-term plan.

COMMISSION

issues "**technical trajectories**" for Member States with public debt above 60% of GDP or a government deficit above 3% of GDP to guide the setting and assess the degree of ambition of their expenditure targets.

MEMBER STATES

submit **medium-term fiscal-structural** plans setting out their fiscal adjustment paths and reform and public investment commitments.

COUNCIL

endorses the plans following a positive assessment from the Commission.

MEMBER STATES

present **annual progress reports** on the implementation of commitments for assessment by the Commission.

Links with the European Semester

The new fiscal surveillance process will be **integrated in the European Semester**, which will remain central to policy coordination. It **monitors the delivery of investment and reform commitments** contained in Member States' recovery and resilience plans and, in future, their medium-term fiscal-structural plans.

Timeline

The proposals are the result of an extended period of reflection and an extensive consultation process with a wide range of stakeholders.

2020	2021	2022		2023	
February	October	March	November	April	end
Launch of public debate on future of EU economic governance	Relaunch of public debate	Report on results of public survey	Presentation of orientations for reforms	Presentation of legislative proposals for reforms	Expected agreement on legislative proposals (as per the Council's commitment)

Fiscal adjustment path

All Member States must prepare medium-term plans setting out their fiscal, reform and investment policies over the course of four years. These plans will form the basis of fiscal surveillance.

Member States with a deficit below 3% and debt below 60% of GDP

No fiscal adjustment required

These Member States must maintain:

- a government deficit below 3% of GDP and
- public debt below 60% of GDP over the medium term.

Member States with a deficit above 3% or debt above 60% of GDP

Fiscal adjustment spread over 4 years

These Member States must outline a fiscal adjustment path which ensures that:

- the deficit remains or is brought and maintained below 3% of GDP;
- debt is put on a plausibly downward path or stays at prudent levels by the end of the adjustment period;
- debt must be lower at the end of the period covered by the plan than at the start of that period;
- a minimum fiscal adjustment of 0.5% of GDP per year as a benchmark is to be implemented so long as the deficit remains above 3% of GDP.

Fiscal adjustment spread over 7 years

- Member States may benefit from a more gradual fiscal adjustment path of up to seven years to fulfil the criteria above if they commit to reforms and investment that support the adjustment.
- They will still need to deliver a sizeable adjustment during the four years covered by the plan.