Procedure file

Basic information

CNS - Consultation procedure Regulation 2023/0137(CNS)	Awaiting final decision
Excessive deficit procedure: speeding up and clarifying the implementation Amending Regulation 1997/1467 1996/0248(CNS) Subject 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		16/02/2024
		FERBER Markus	16/02/2024
		MARQUES Margarida	
		Shadow rapporteur	
		KELLEHER Billy	
		LAMBERTS Philippe	
		RINALDI Antonio Maria	
		VAN OVERTVELDT Johan	
		GUSMÃO José	
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets		25/05/2023
		VAN OVERTVELDT Johan	
	EMPL Employment and Social Affairs	The committee decided not to give an opinion.	
Council of the European Union			
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs	GENTILONI Paolo	
European Central Bank			

Key events

26/04/2023	Legislative proposal published	COM(2023)0241	Summary
12/06/2023	Committee referral announced in Parliament		
11/12/2023	Vote in committee		
15/12/2023	Committee report tabled for plenary, 1st reading/single reading	A9-0444/2023	Summary
23/04/2024	Debate in Parliament		
23/04/2024	Decision by Parliament	T9-0312/2024	

Technical information

Procedure reference	2023/0137(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amending Regulation 1997/1467 1996/0248(CNS)
Legal basis	Treaty on the Functioning of the EU TFEU 126-p14-a2
Mandatory consultation of other institutions	European Central Bank
Stage reached in procedure	Awaiting final decision
Committee dossier	ECON/9/11944

Documentation gateway

Legislative proposal		COM(2023)0241	26/04/2023	EC	Summary
European Central Bank: opinion, guideline, report		CON/2023/0020 OJ C 290 18.08.2023, p. 0017	05/07/2023	ECB	
Economic and Social Committee: opinion, report		CES2275/2023	20/09/2023	ESC	
Committee of the Regions: opinion		CDR0157/2023	10/10/2023	CofR	
Amendments tabled in committee		PE754.925	25/10/2023	EP	
Specific opinion	BUDG	PE754.864	23/11/2023	EP	
Committee report tabled for plenary, 1st reading/single reading		A9-0444/2023	15/12/2023	EP	Summary
Supplementary legislative basic document		15876/2023	03/01/2024	CSL	Summary
Text adopted by Parliament, 1st reading/single reading		T9-0312/2024	23/04/2024	EP	

Additional information

Research document	Briefing	07/02/2024

Excessive deficit procedure: speeding up and clarifying the implementation

PURPOSE: to reform the EU economic governance framework.

PROPOSED ACT: Council Regulation.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: this proposal forms part of a package and aims to amend Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (the corrective arm of the Stability and Growth Pact). It is accompanied by:

- a proposal to replace Council Regulation No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (the preventive arm of the Stability and Growth Pact);

- a proposal to amend Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

The review of the EU's economic governance framework was based on a consultation with a wide range of stakeholders. It revealed that the framework has a number of strengths, but also a series of shortcomings, in particular i) increased complexity, ii) the need to be more effective in reducing high levels of debt and building up buffers for future shocks, as well as (iii) the need to update a number of instruments and procedures to incorporate lessons learned from the response to recent economic shocks, including the interaction between reforms and investments under the Recovery and Resilience Facility.

The strong policy response to the COVID19 pandemic proved effective in mitigating the economic and social damage of the crisis, but resulted in a significant increase in public- and private-sector debt ratios, underscoring the importance of reducing debt ratios to prudent levels in a gradual, sustained and growth-friendly manner and addressing macroeconomic imbalances, while paying due attention to employment and social objectives.

The package including this legislative proposal aims at making the EU governance framework simpler, more transparent and effective, with greater national ownership and better enforcement, while allowing for reform and investment and reducing high public debt ratios in a realistic, gradual and sustained manner. In this way, in the context of the European Semester, the reformed framework should help build the green, digital and resilient economy of the future, while ensuring the sustainability of public finances in all Member States.

Stronger ex-post enforcement would be the necessary counterpart of a risk-based surveillance framework that provides more leeway to Member States to set their adjustment paths.

CONTENT: the proposal to amend Council Regulation (EC) No 1467/97 (the corrective arm of the Stability and Growth Pact - SGP) provides for a shift to a more risk-based surveillance framework that puts debt sustainability at the centre and, in order to further differentiate between Member States, takes into account their public debt challenges, while respecting a transparent and common EU framework consistent with the 3% of GDP and 60% of GDP reference values set out in Protocol No 12 on the excessive deficit procedure annexed to the Treaties

Under the proposal, the rules for the opening and closing of an excessive deficit procedure (EDP) for breaches of the 3% of GDP deficit reference value would remain unchanged, with some adjustments to ensure consistency with the EDP for breaches of the debt criterion, to recognise the role of independent fiscal institutions and to clarify cases of severe economic downturn in the Union or the euro area as a whole. It is a well-established element of EU fiscal surveillance that has been effective in influencing fiscal behaviour and is well understood by policy makers and the general public, thanks to its simplicity.

The excessive deficit procedure for breaches of the debt criterion would be strengthened for both activation and abrogation. It would focus on departures by Member States with debt above 60% of GDP from the fiscal path that the Member State has committed itself to and has been endorsed by the Council under the proposed Regulation replacing the preventive arm of the Stability and Growth Pact (SGP).

A substantial public debt challenge established according to the most recent Debt Sustainability Monitor should be considered a key factor leading to the opening of an EDP as a rule. In case this original path is no longer feasible, due to objective circumstances, the Commission could propose to the Council an amended path under the EDP.

More specifically, the proposal:

- changes the operationalisation of the Treaty debt criterion, abandoning the 1/20th rule and focusing on the respect of the net expenditure path set by the Council under the proposed Regulation replacing the preventive arm of the SGP;

- removes the reference to a quantitative description of a severe economic downturn and refers instead to the proposed Regulation replacing the preventive arm of the SGP;

- streamlines the list of relevant factors to decide on the existence of an excessive deficit;

- provides that, in the event of a severe economic downturn, the Commission and the Council may decide in their assessment not to conclude on the existence of an excessive deficit, in line with the approach followed when the general escape clause was activated during the COVID-19 crisis;

- specifies the requirements of the corrective net expenditure path set out in a Council Recommendation, namely that the government deficit should be brought back to or maintained below the 3% of GDP reference value and that the debt ratio should be placed on a plausible downward path or kept at a prudent level;

- maintains, for the years in which the government deficit is expected to exceed the reference value, a minimum annual adjustment of at least 0.5% of GDP as a benchmark;

- imposes an additional obligation on Member States to include in their report on effective action the opinion of their independent fiscal institution;

- provides that in case of a severe economic downturn in the euro area or the Union as a whole, the Commission and the Council may decide not to conclude on the existence of an excessive deficit.

Lastly, the proposal provides that the missions undertaken by the Commission in Member States allow an exchange also with relevant stakeholders other than the national authorities, including independent fiscal institutions. It also requires the Commission to carry out dedicated surveillance missions to Member States which were given a notice by the Council and provides that, in that context and upon invitation by the parliament of the Member State concerned, the Commission may present its assessment of the economic and fiscal situation in the Member State concerned.

Excessive deficit procedure: speeding up and clarifying the implementation

The Committee on Economic and Monetary Affairs adopted, following a special legislative procedure (consultation), the report by Esther de LANGE (EPP, NL) and Margarida MARQUES (S&D, PT) on the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

This Regulation lays down the provisions for speeding up and clarifying the implementation of the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.

The committee responsible recommended that the European Parliament approve the Commission's proposal subject to amendments.

Assessment of excessive debt

When assessing the existence of an excessive deficit in accordance with Article 126(3) TFEU, the Commission should take into account, as a key relevant factor, the degree of debt challenge in the Member State concerned.

The Commission, when drawing up a report under Article 126(3) TFEU, should take into account, as a key relevant factor, the degree of debt challenge in the Member State concerned. A substantial public debt challenge established according to the most recent Debt Sustainability Monitor should be considered a key factor leading to the opening of an EDP as a rule.

The Commission should take into account all other relevant factors, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned, that should include in particular the developments in the medium-term economic position and the developments in the medium-term budgetary position, and the delivery and commitment by the Member State on the implementation of the investments and reforms to address the common priorities of the Union as set out in the EU Regulation on the preventive arm, the reforms and investments committed in the national plans of the Recovery and Resilience Facility, Cohesion Funds and future EU investments instruments that serve the same purpose.

Net expenditure

In order to simplify the Union fiscal framework and increase transparency, a single operational indicator anchored in debt sustainability should serve as a basis for setting the fiscal path and carrying out annual fiscal surveillance for each Member State.

According to Members, that single indicator should be based on nationally financed net primary expenditure, that is to say expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure, expenditure on Union programmes fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union cap with a limit of 0.25% of GDP, cyclical elements of unemployed benefit expenditure, and costs related to the borrowing of funds for the loans related to the national Recovery and Resilience Facility Plans.

By 31 December 2028 and every five years thereafter, the Commission should publish a report on the application of this Regulation.

Excessive deficit procedure: speeding up and clarifying the implementation

PURPOSE: to speed up and clarify the implementation of the excessive deficit procedure.

PROPOSED ACT: Council Regulation (Agreement in principle with a view to consulting the European Parliament).

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

Parliament is being consulted again on the proposal to amend Regulation (EC) No 1467/97 laying down provisions on speeding up and clarifying the implementation of the excessive deficit procedure. The aim of the excessive deficit procedure is to prevent the occurrence of excessive government deficits and, if they do occur, to speed up their correction, with compliance with budgetary discipline being examined on the basis of the government deficit and debt criteria.

The proposed Regulation is part of a package together with the Regulation on the preventive arm of the stability and growth pact and the Directive amending 2011/85/EU on requirements for budgetary frameworks of the Member States. Together, they establish a reformed Union economic governance framework that incorporates into Union law the substance of Title III ?Fiscal Compact? of the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union.

The main elements of the Council draft are as follows:

Excessive deficit procedure

It is foreseen that to trigger the process, the Commission would prepare a report, when the ratio of the government debt to GDP exceeds the reference value, the headline deficit is not close to balance or in surplus and when the deviations recorded in the control account of the Member State either exceed 0.3 percentage points of GDP annually, or 0.6 percentage points of GDP cumulatively.

The Council and the Commission would make a balanced overall assessment of all the relevant factors that affect the assessment of compliance with the deficit and/or the debt criteria of the member state concerned. These include among other things, the degree of public debt challenges, the size of the deviation, the progress in the implementation of reforms and investments and, where applicable the increase of government spending on defence.

Rules relating to the excessive deficit procedure

When it decides that an excessive deficit exists, the Council should at the same time make recommendations to the Member State concerned. The Council recommendation should establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation should also establish a deadline for the correction of the excessive deficit. It should also request that the Member State implements a corrective net expenditure path, which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set in the recommendation.

The Council proposes to maintain the rules of the excessive deficit procedure in so far as when the excessive deficit procedure is opened on the basis of the deficit criterion, the corrective net expenditure path should be consistent with a minimum annual structural adjustment of at least 0.5% of the GDP.

However, the Council also decided that the Commission may, for a transitory period in 2025, 2026 and 2027, take into account the increase in interest payments in calculating the adjustment effort within the excessive deficit procedure.

The Council agreed that the fine in case of non-compliance would amount to up to 0.05% of GDP and accumulate every six months until effective action is taken.

Transparency

URTASUN Ernest	Member	20/07/2023	Fiscal Matters
URTASUN Ernest	Member	18/07/2023	Ecologistas en Accion