European Parliament

New economic governance framework

On 10 February 2024, the Council and Parliament reached a provisional agreement on a new economic governance framework for the EU, seeking to balance national debt sustainability with sustainable and inclusive growth in all Member States. Parliament is due to vote on the final texts during the April II 2024 session.

Background

The agreement is the outcome of a comprehensive, perennial debate on the EU's fiscal rules. The reformed framework is shaped by a trade-off between higher and more dispersed public debt levels, after several years of unprecedented fiscal challenges, and the need for sustained public investment in support of the Union's common priorities. In contrast to the previous incremental reforms of the stability and growth pact in 2005, 2011, 2013 and 2015, the new economic governance framework is generally seen as far-reaching.

Cornerstones of the provisional agreement

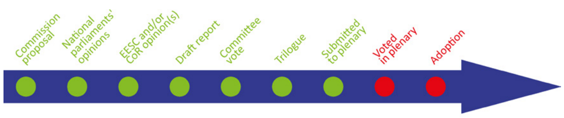
The centrepiece is the **national medium-term fiscal-structural plans** that will give Member States more leeway to set their country-specific fiscal plans, bilaterally negotiated with the European Commission. Those plans span four to seven years, depending on Member States' reform and investment commitments. The new framework introduces risk-based surveillance, differentiated according to each Member State's fiscal position. For Member States with a government deficit of over 3 % of gross domestic product (GDP) or public debt above 60 % of GDP, the Commission will issue a country-specific **reference trajectory** – a benchmark fiscal expenditure path. The basis for these multi-year fiscal plans is a single operational indicator, namely **net expenditure**. This expenditure path will serve as the basis for the monitoring and the assessment of compliance with the fiscal rules. Inter alia, national expenditure on co-financing of programmes funded by the EU will be excluded from the calculation, offering national capitals an incentive to contribute to EU investment projects. Any fiscal adjustment requirements however, will be based on the structural primary balance (cyclically adjusted fiscal balance excluding interest payments).

The net expenditure path will be anchored in a debt sustainability analysis, an analytical framework that assesses the fiscal risks, and projects macroeconomic variables under different assumptions. In addition, numerical rules serve as safeguards, to ensure – as a minimum – two things:

- a **debt sustainability safeguard** requires debt to decline on average by at least 1 percentage point of GDP per year as long as debt exceeds 90 % of GDP, and by at least 0.5 percentage point of GDP per year as long as debt stands between 60 % and 90 % of GDP;
- a **deficit resilience safeguard** requires an adjustment of at least 0.4 percentage points of GDP (0.25 percentage points in the event of an extension) in structural primary terms, until the structural balance is above or equal to -1.5 % of GDP.

If a Member State is in an **excessive deficit procedure**, the annual net expenditure allowed would be adjusted by 0.5 % of GDP (excluding interest payments until 2027). The first national plans will need to be submitted by each Member State by 20 September 2024, while several countries are expected to be placed under the excessive deficit procedure, as the Commission will base this decision on 2023 outturn data.

First-reading reports: 2023/0138(COD); 2023/0137(CNS); 2023/0136(NLE); Committee responsible: ECON; Rapporteurs: Markus Ferber (EPP, Germany) & Margarida Marques (S&D, Portugal). For more information see our 'legislation in progress' briefing.



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PE 760.429 – April 2024