

The New Economic Governance

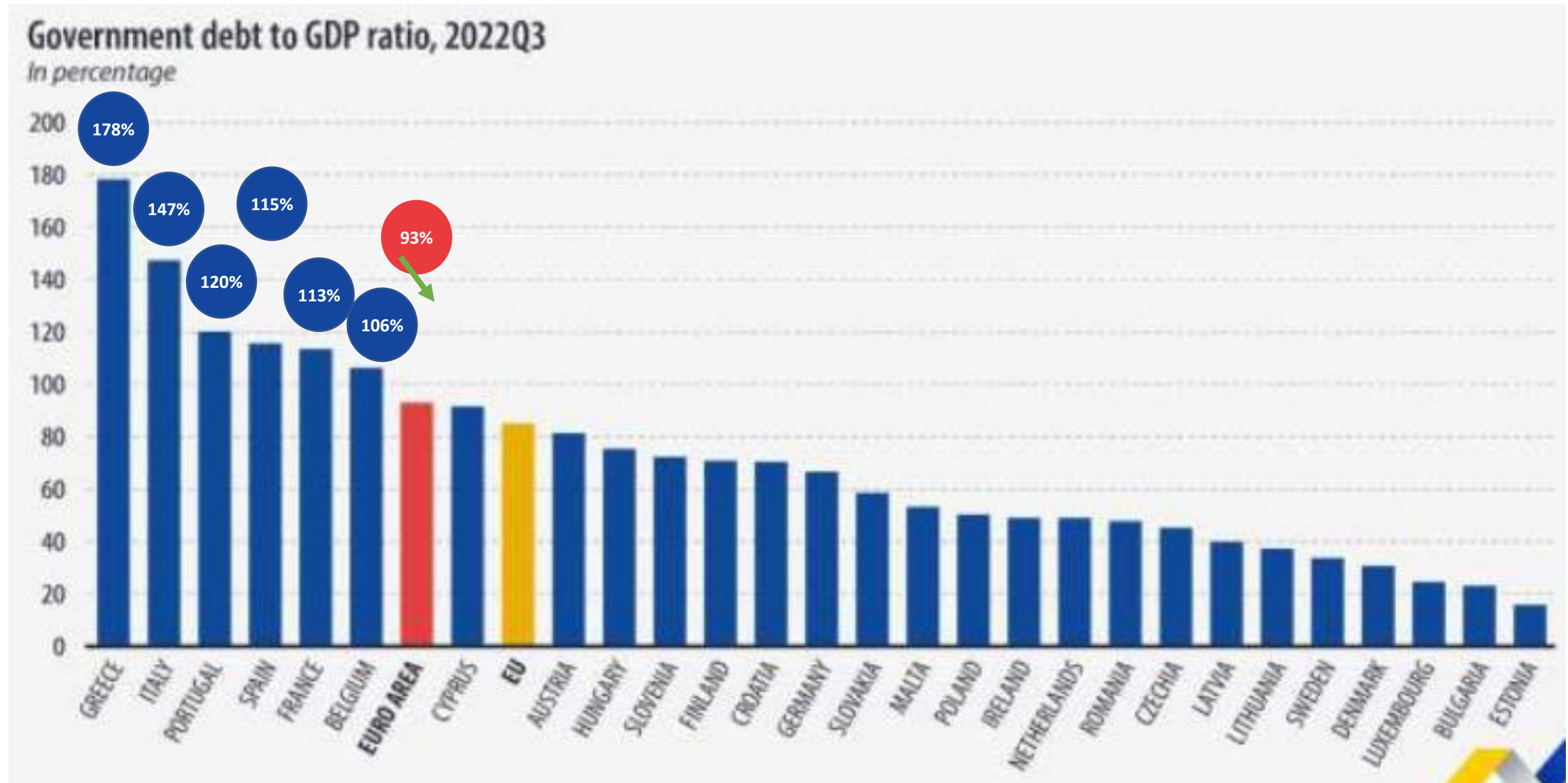
Preliminary legal analysis of the legislative package of April 2023

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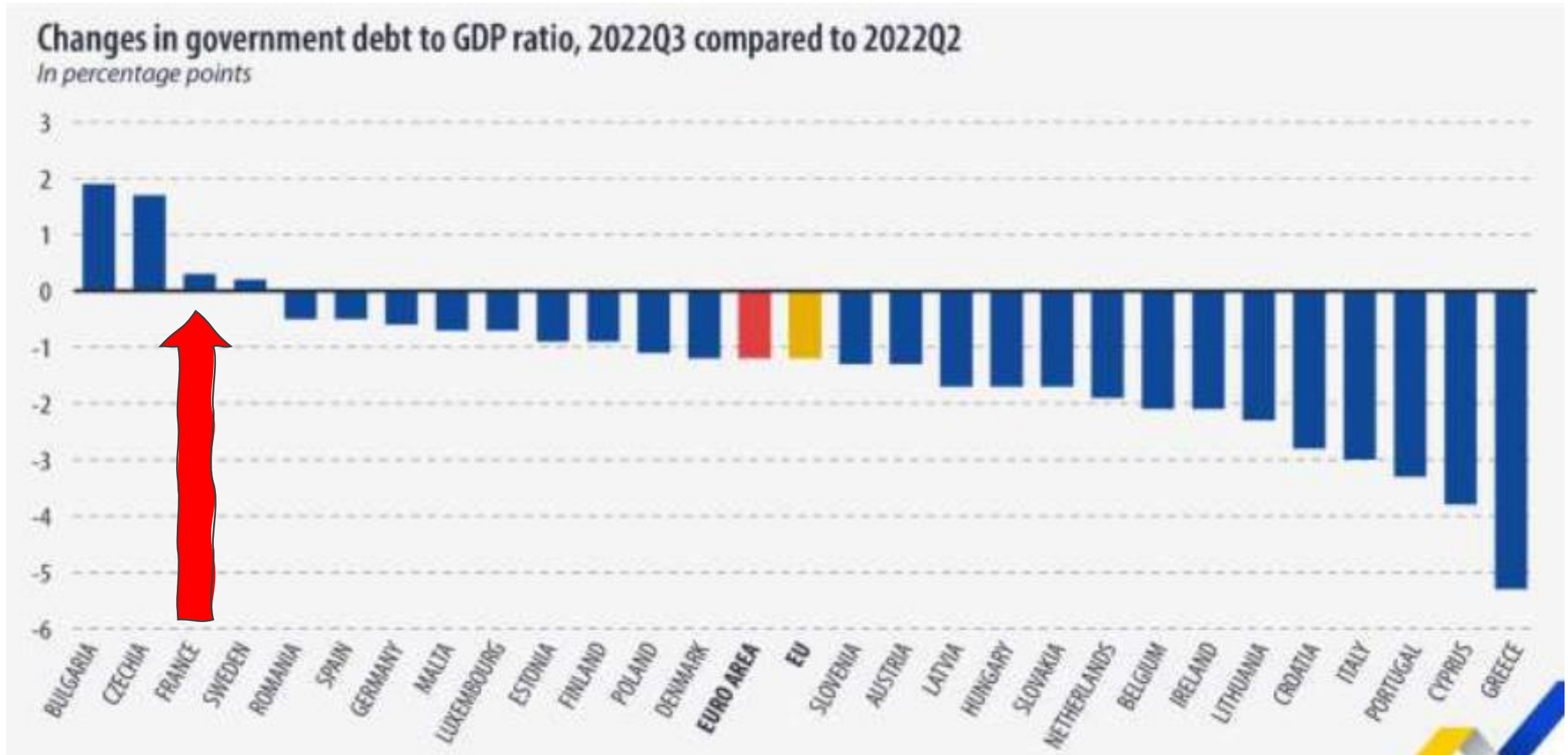
EZA Snack Debates, 28.6.2023, Brussels / on-line event

SOME BASIC FACTS ABOUT THE DIVERGING FISCAL POSITIONS OF THE MS



Source, Eurostat, Government debt down to 93,0% of GDP in euro area, EuroIndicators, n° 12/2023, 23.1.2023 ([lien](#))

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SOME BASIC FACTS ABOUT THE DIVERGING FISCAL POSITION OF THE MS

Dette publique brute consolidée par Etat membre

		General government gross debt							Components of government debt, in % of GDP			
		Millions of national currency			% of GDP			Difference in pp of GDP 2022Q3 ^P compared with:		Currency and deposits	Debt securities	Loans
		2021Q3	2022Q2 ^P	2022Q3 ^P	2021Q3	2022Q2 ^P	2022Q3 ^P	2021Q3	2022Q2 ^P	2022Q3 ^P	2022Q3 ^P	2022Q3 ^P
Euro area 19	EUR	11 750 308	12 103 279	12 152 371	97.3	94.2	93.0	-4.3	-1.2	2.9	76.7	13.4
Euro area 20	EUR	11 796 440	12 148 936	12 198 121	97.2	94.1	92.9	-4.3	-1.2	2.9	76.6	13.4
EU	EUR	12 762 163	13 121 765	13 180 283	89.7	86.4	85.1	-4.6	-1.2	2.6	69.7	12.7
Belgium	EUR	548 189	573 668	575 009	111.9	108.3	106.3	-5.6	-2.1	0.3	89.5	16.5
Bulgaria	BGN	30 950	32 157	36 591	23.3	21.3	23.1	-0.1	1.9	-	18.7	4.4
Czechia	CZK	2 433 842	2 794 976	2 982 489	40.4	43.5	45.2	4.7	1.7	0.2	39.7	5.2
Denmark	DKK	960 636	845 856	840 039	39.5	31.8	30.7	-8.8	-1.2	0.8	23.3	6.6
Germany	EUR	2 430 788	2 514 916	2 527 294	68.6	67.2	66.6	-2.0	-0.6	0.6	51.3	14.7
Estonia	EUR	5 754	5 702	5 585	19.2	16.7	15.8	-3.3	-0.9	0.3	5.5	10.0
Ireland	EUR	236 304	236 603	236 142	57.4	51.2	49.0	-8.4	-2.1	5.4	33.5	10.2
Greece	EUR	357 369	359 110	357 431	202.9	183.5	178.2	-24.7	-5.3	3.7	42.4	132.1
Spain	EUR	1 432 341	1 475 368	1 503 799	121.9	116.1	115.6	-6.3	-0.5	0.4	100.8	14.3
France	EUR	2 840 922	2 916 834	2 956 801	115.4	113.1	113.4	-2.0	0.3	1.9	100.1	11.4
Croatia	EUR*	45 856	45 636	45 689	81.5	73.2	70.4	-11.1	-2.8	0.1	49.5	20.8
Italy	EUR	2 707 228	2 768 877	2 743 111	154.2	150.4	147.3	-6.8	-3.0	12.0	121.8	13.5
Cyprus	EUR	24 821	24 181	24 003	106.5	95.3	91.6	-15.0	-3.8	0.6	58.0	33.0
Latvia	EUR	13 791	15 147	15 085	42.3	41.6	39.9	-2.4	-1.7	0.7	33.5	5.7
Lithuania	EUR	24 160	24 225	24 036	44.6	39.6	37.3	-7.3	-2.3	0.0	30.2	7.1
Luxembourg	EUR	17 809	19 313	19 213	25.5	25.3	24.6	-0.9	-0.7	0.4	20.1	4.0

Source, Eurostat, Government debt down to 93,0% of GDP in euro area, EuroIndicators, n° 12/2023, 23.1.2023 ([lien](#))

WHERE THE APRIL PACKAGE COMES FROM?

« SIX PACK » (2011)

« TWO PACK » (2014)

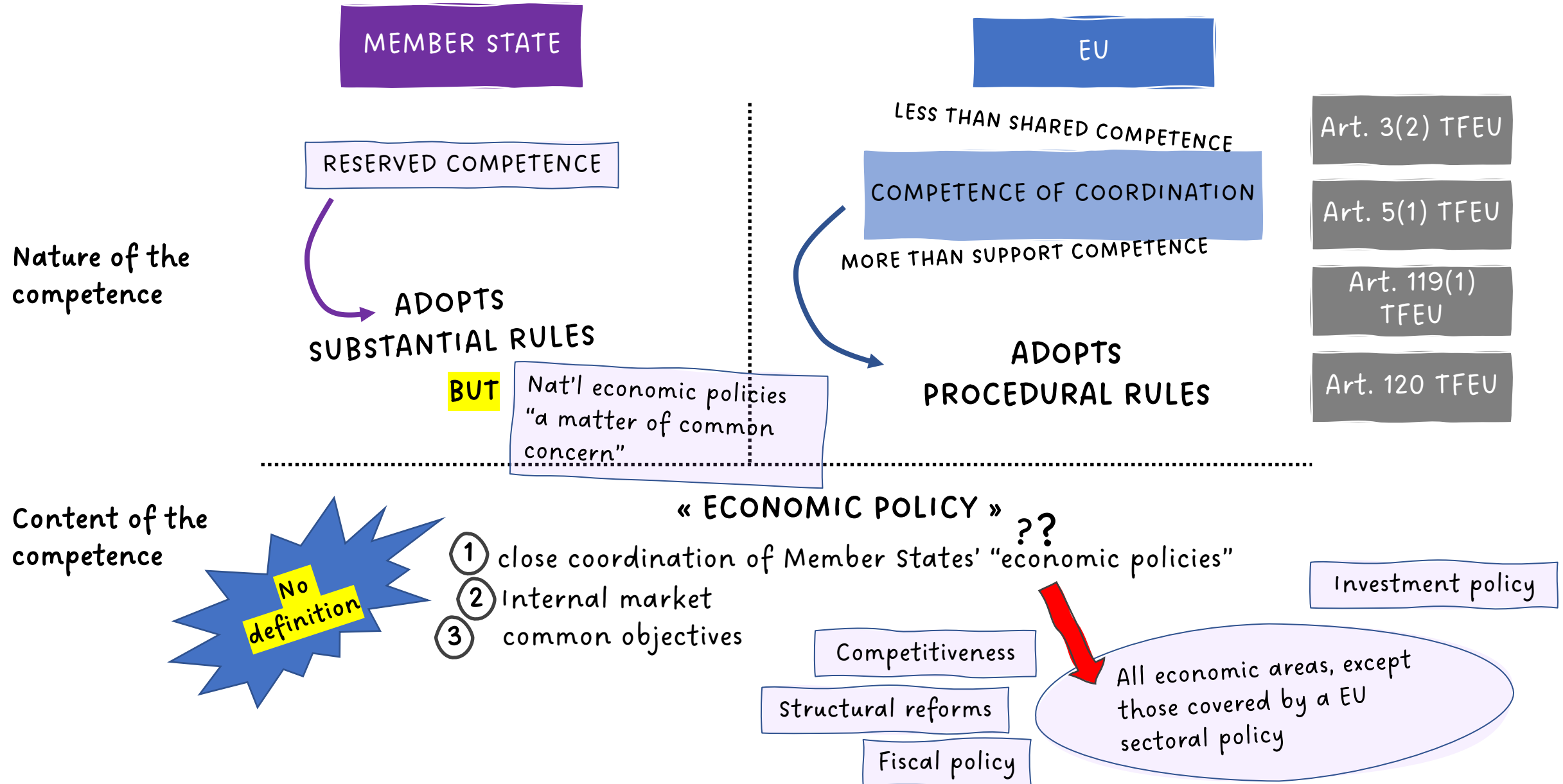
REVIEW CLAUSE

Nov. 2014	1ST ECONOMIC GOVERNANCE REVIEW
Febr. 2020	2ND ECONOMIC GOVERNANCE REVIEW
Oct 2021	2ND ECON GOV REVIEW - COVID IMPLICATION
Autumn 2021	PUBLIC CONSULTATION
Nov 2022	ECONOMIC REVIEW COMMUNICATION
Nov 2022	EXCHANGES WITH MS

DIVERGING DEBT DYNAMICS
PRO-CYCLICALITY OF FISCAL POLICIES
LARGE DIFFERENCE IN THE PACE OF FISCAL CONSOLIDATION AND ECONOMIC GROWTH
NO INCENTIVE TO GROWTH-FRIENDLY PUBLIC FINANCES
LACK OF OWNERSHIP
COMPLEX GOVERNANCE
UNEVEN COMPLIANCE OF NAT'L FRAMEWORKS
...

CALLS FOR MORE GROWTH-FRIENDLY FISCAL RULES, MINDFUL OF SOCIAL ISSUES, SUPPORTIVE OF EU POLICY PRIORITIES FOR THE TWIN GREEN AND DIGITAL TRANSITION

SOME BASICS ABOUT THE EU COMPETENCES IN THE ECONOMIC POLICY FIELD



SOME BASICS ABOUT THE EU COMPETENCES IN THE ECONOMIC POLICY FIELD

MEMBER STATE

« THE MS **SHALL COORDINATE THEIR** ECONOMIC POLICIES... »

« MS **SHALL CONDUCT THEIR** ECONOMIC POLICIES... »

« MS **SHALL REGARD THEIR** ECONOMIC POLICIES... »

« THE MS **SHALL AVOID** EXCESSIVE GOVERNMENT DEFICITS... »

« THE MS **COMMIT THEMSELVES** TO RESPECT THE MEDIUM-TERM BUDGETARY OBJECTIVE... »

« THE MS **COMMIT THEMSELVES** TO TAKE THE CORRECTIVE BUDGETARY ACTION »

EU

“THE COUNCIL SHALL ADOPT A **RECOMMENDATION** SETTING OUT THE **BROAD** (ECONOMIC POLICY) **GUIDELINES**”

“THE COMMISSION **MAY** ADDRESS A **WARNING** TO THE MS CONCERNED”

THE COUNCIL, ON A **RECOMMENDATION** FROM THE COMMISSION, **MAY** ADDRESS THE **NECESSARY RECOMMENDATIONS** TO THE MEMBER STATE CONCERNED

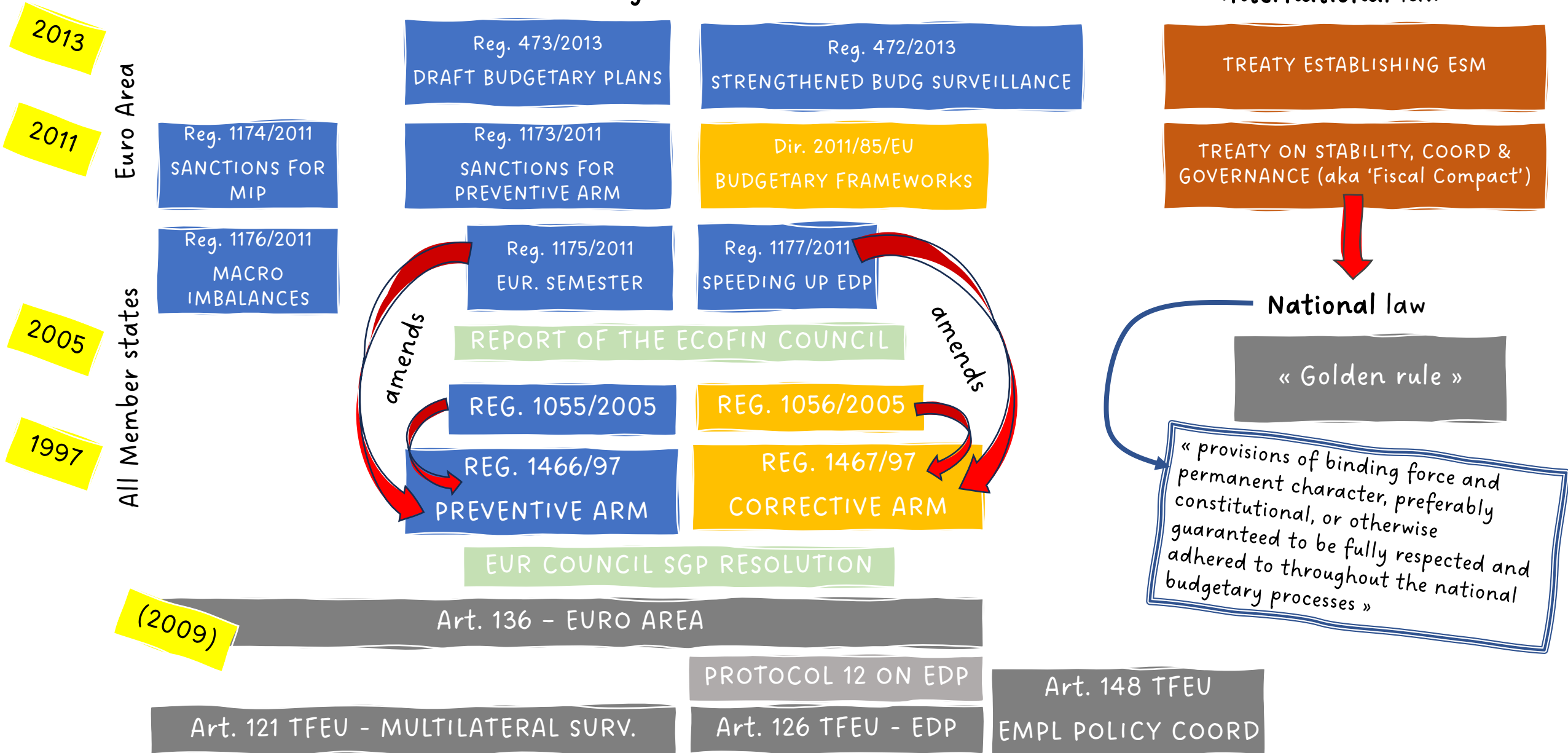
“THE COUNCIL SHALL (...) **DECIDE** AFTER AN **OVERALL ASSESSMENT** WHETHER AN EXCESSIVE DEFICIT EXISTS”

THE COUNCIL SHALL ADOPT, **WITHOUT UNDUE DELAY**, ON A **RECOMMENDATION** FROM THE COMMISSION, **RECOMMENDATIONS** ADDRESSED TO THE MEMBER STATE CONCERNED

BUILDING BLOCKS OF THE STABILITY AND GROWTH PACT (TODAY)

EU Legislation

International law



BUILDING BLOCKS OF THE STABILITY AND GROWTH PACT (TODAY)

EU Legislation

REG. 1176/2011
MACRO IMBALANCES

REG. 1466/97
PREVENTIVE ARM

REG. 1467/97
CORRECTIVE ARM

Reg. 472/2013
STRENGTHENED BUDG SURVEILLANCE

EU Soft Law

CODE OF CONDUCT
SGP

CODE OF CONDUCT
REG. 472 & 473/2013

FISCAL SUSTAINABILITY
ANALYSIS FRAMEWORK

METHODOLOGY
EXPENDITURE
BENCHMARK

METHODOLOGY OUTPUT
GAP

METHODOLOGY
ASSESSMENT EFFECTIVE
ACTION

BUILDING BLOCKS OF THE STABILITY AND GROWTH PACT (TOMORROW?)

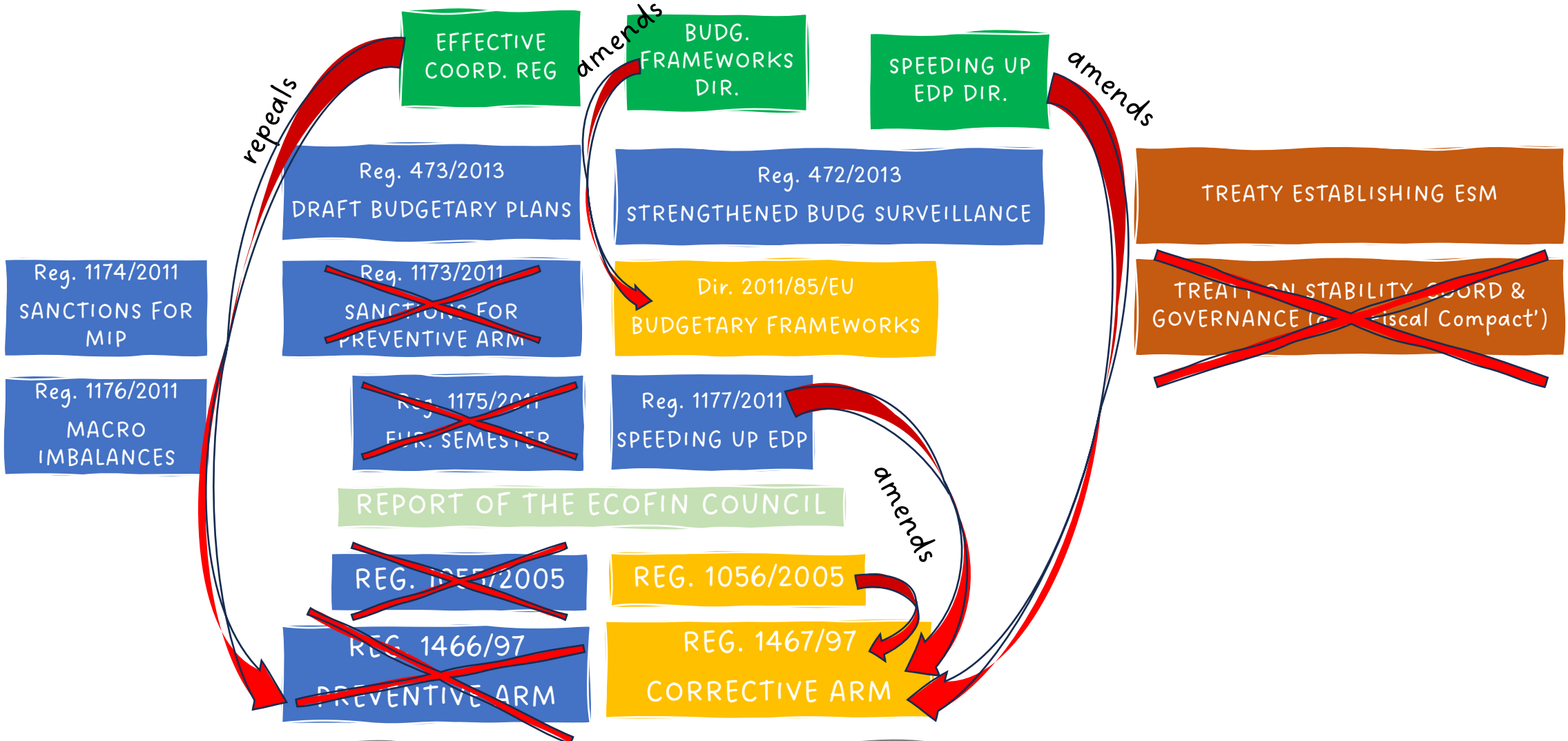
EU Legislation

International law

2023

Euro Area

All Member states



CONSTITUTIONAL PROVISIONS = STILL THE SAME

THE STABILITY AND GROWTH PACT - HOW IT WORKS TODAY? (CRITERIA)

EU OBJECTIVES

EMU Guiding principles

EUR COUNCIL'S POLITICAL PRIORITIES

BEPGs

Guidelines for Empl policies

PREVENTIVE ARM

EUR COUNCIL SGP RESOLUTION

REG. 1466/97
(consolidated)

FISCAL COMPACT (TSCG)

Medium-term budgetary objective (MTO) between **-1%** GDP and balance or surplus

Adjustment path - depends on Debt level + DSA* + Growth rate => standard path = 0,5% GDP

Additional indicator: annual expenditure growth

Medium-term budgetary objective between **-0,5%** GDP and balance or surplus

CORRECTIVE ARM

Art 126 TFEU + PROTOCOL 12

REG. 1467/97
(consolidated)

Deficit to GDP ratio <3%

unless the excess was exceptional, temporary and close to reference value

Debt to GDP ratio <60%

unless ratio has decreased over the previous three years at an average rate of 1/20 per year

*DSA= Debt sustainability analysis

THE STABILITY AND GROWTH PACT - HOW IT WILL WORK TOMORROW?

EU OBJECTIVES

EMU Guiding principles

EUR COUNCIL'S POLITICAL PRIORITIES

BEPGs

Country Specific Recomm.

PREVENTIVE ARM

NEW REG. 1466/97

- 1 Net expenditure trajectory - NO MORE NUMERICAL TARGETS!
Public debt on a **plausibly** downward path
Government deficit < 3% GDP
Delivery of investment and reforms identified in CSR
- 2 Adjustment period = at least 4 years
Up to 7 years upon conditions (more investments, more reforms)

Incentive to growth-friendly fiscal consolidation

ASSESSED BY THE COMMISSION ACCORDING TO DSA METHODOLOGY

CORRECTIVE ARM

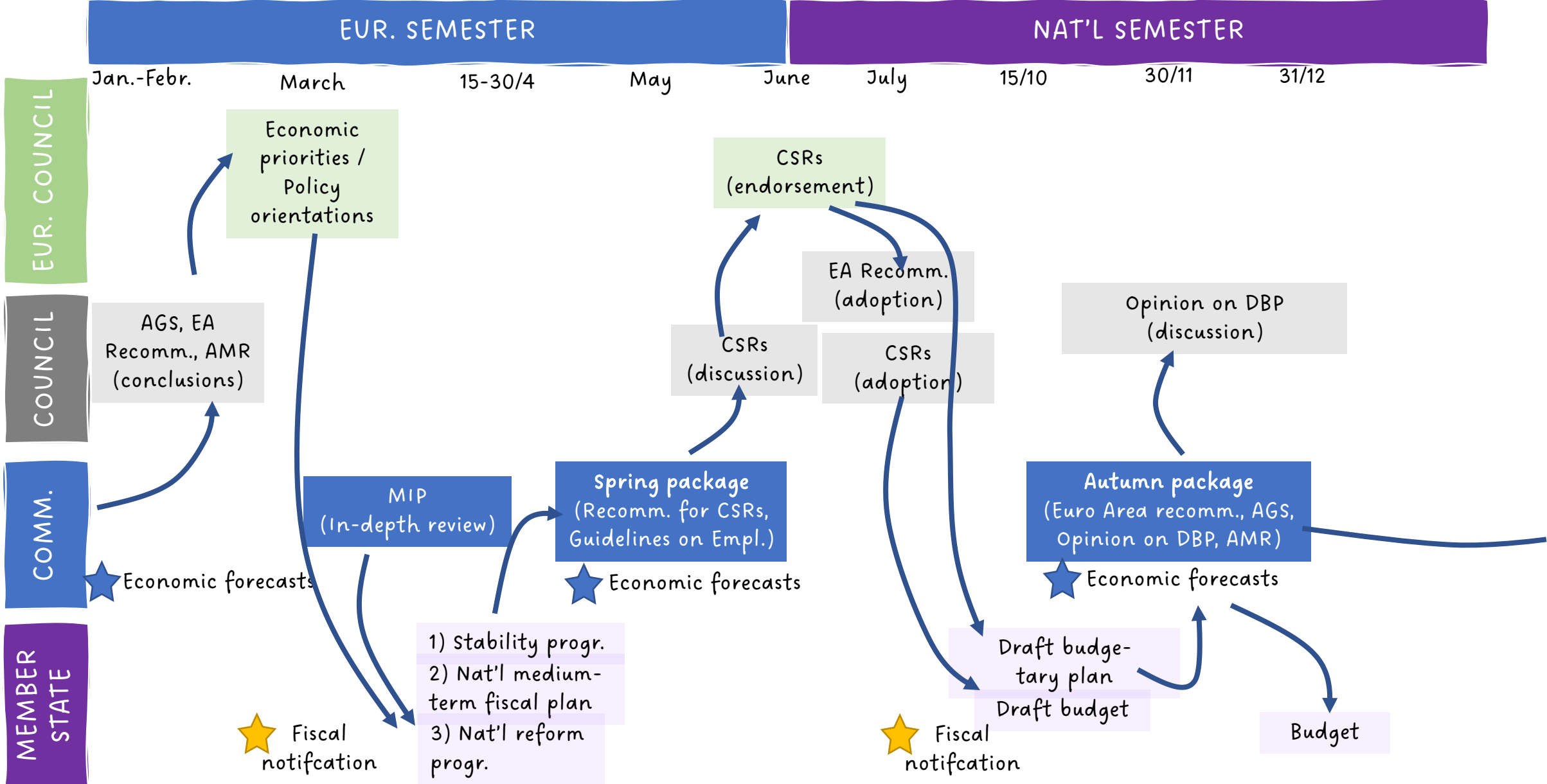
Art 126 TFEU + PROTOCOL 12

REG. 1467/97 AS AMENDED

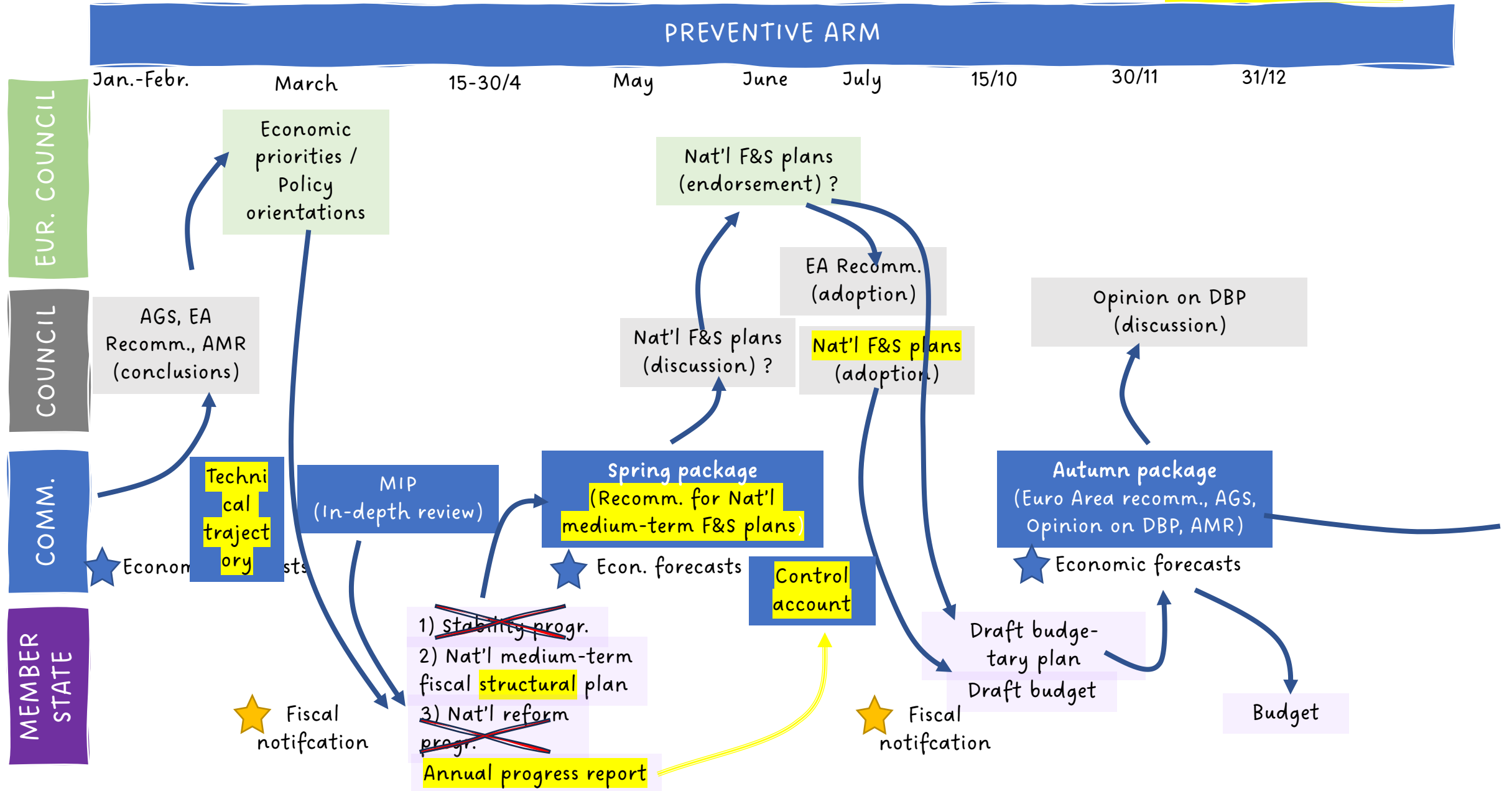
Deficit to GDP ratio < 3%
unless the excess was exceptional, temporary and close to reference value

Debt to GDP ratio < 60%
unless MS respects its net expenditure path

THE STABILITY AND GROWTH PACT - HOW IT WORKS TODAY? (TOOLS)



THE STABILITY AND GROWTH PACT - HOW IT WORKS TOMORROW?



THE OLD SGP VS THE **NEW** SGP (PREVENTIVE ARM)

What the move from the Medium-term Budgetary Objective to the Net expenditure trajectory tells us?



Differentiated for individual MS

Defined on the basis of 3 components

- 1 debt-stabilising balance for a debt ratio equal to the 60% GDP reference value
- 2 a supplementary debt-reduction effort for Member States with a debt ratio in excess of the 60% GDP reference value
- 3 a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure

Annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures

TODAY

PROGRESS TOWARDS MTO ASSESSED ON THE BASIS OF 2 PILLARS: STRUCTURAL BALANCE COMPLEMENTED BY THE EXPENDITURE BENCHMARK

a maximum growth rate (i.e. the reference rate) for government spending net of discretionary revenue measures

THE OLD SGP VS THE **NEW** SGP (PREVENTIVE ARM)

TECHNICAL TRAJECTORY (COMMISSION)

Published with the
corresponding
structural primary
balance

NET EXPENDITURE TRAJECTORY (MEMBER STATE)

Differentiated for individual MS

Requirements for the technical trajectory

- 1 the public debt ratio is put or remains on a plausibly downward path, or stays at prudent levels;
- 2 the government deficit is brought and maintained below the 3% of GDP reference value
- 3 the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan is at least proportional to the total effort over the entire adjustment period
- 4 the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory
- 5 national net expenditure growth remains below medium-term output growth, on average

Requirements for the net expenditure path

- 1 (idem)
- 2 (idem)
- 3 government deficit is maintained below the 3% of GDP reference value in the absence of further budgetary measures over a period of 10 years
- 4 the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan is at least proportional to the total effort over the entire adjustment period
- 5 For the years that expected deficit > 3% of GDP, corrective net expenditure path shall be consistent with a minimum annual adjustment of at least 0,5% of GDP as a benchmark
- 6 the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory

INDICATOR TO EVALUATE SUFFICIENT PROGRESS =
ACTUAL NET EXPENDITURE (« DEPENSES EFFECTIVES NET)

TOMORROW

THE OLD SGP VS THE NEW SGP (PREVENTIVE ARM)

Structural balance: cyclically adjusted general government balance net of temporary measures

« la différence entre les recettes et les dépenses publiques corrigée des effets imputables au cycle économique et aux événements ponctuels » (OCDE)

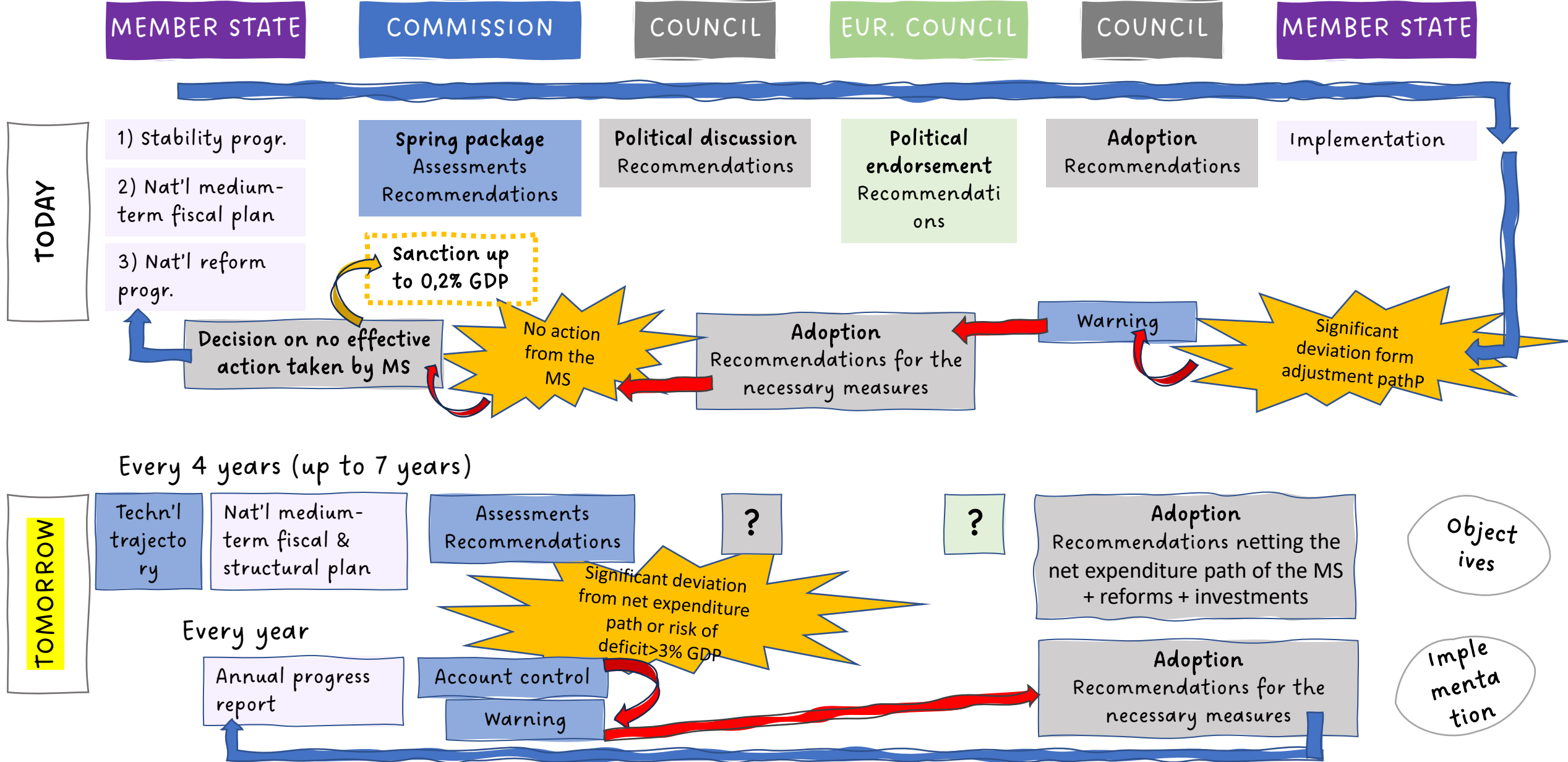
Structural primary balance: cyclically adjusted general government balance net of temporary measures and net of interest expenditure

Government expenditure net of:

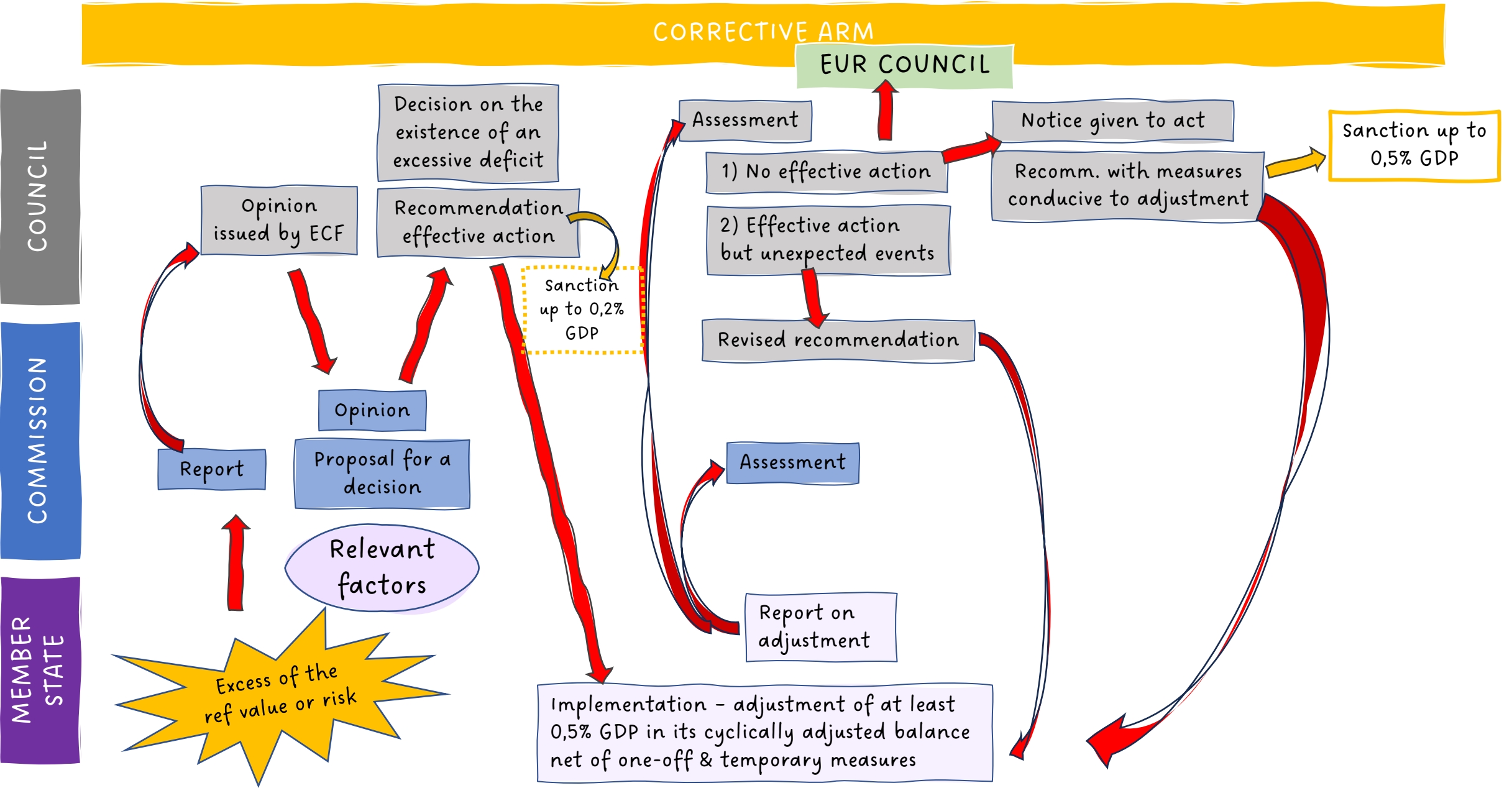
- ① interest expenditure
- ② discretionary revenue measures, and
- ③ other budgetary variables outside the control of the government (expenditure on programmes of the Union fully matched by Union funds revenue and cyclical elements of unemployment benefit expenditure)

OTHER VARIABLES MAY BE ADDED OVER TIME FOLLOWING CHANGE INTRODUCED BY COMMISSION TO THE ANNEX II

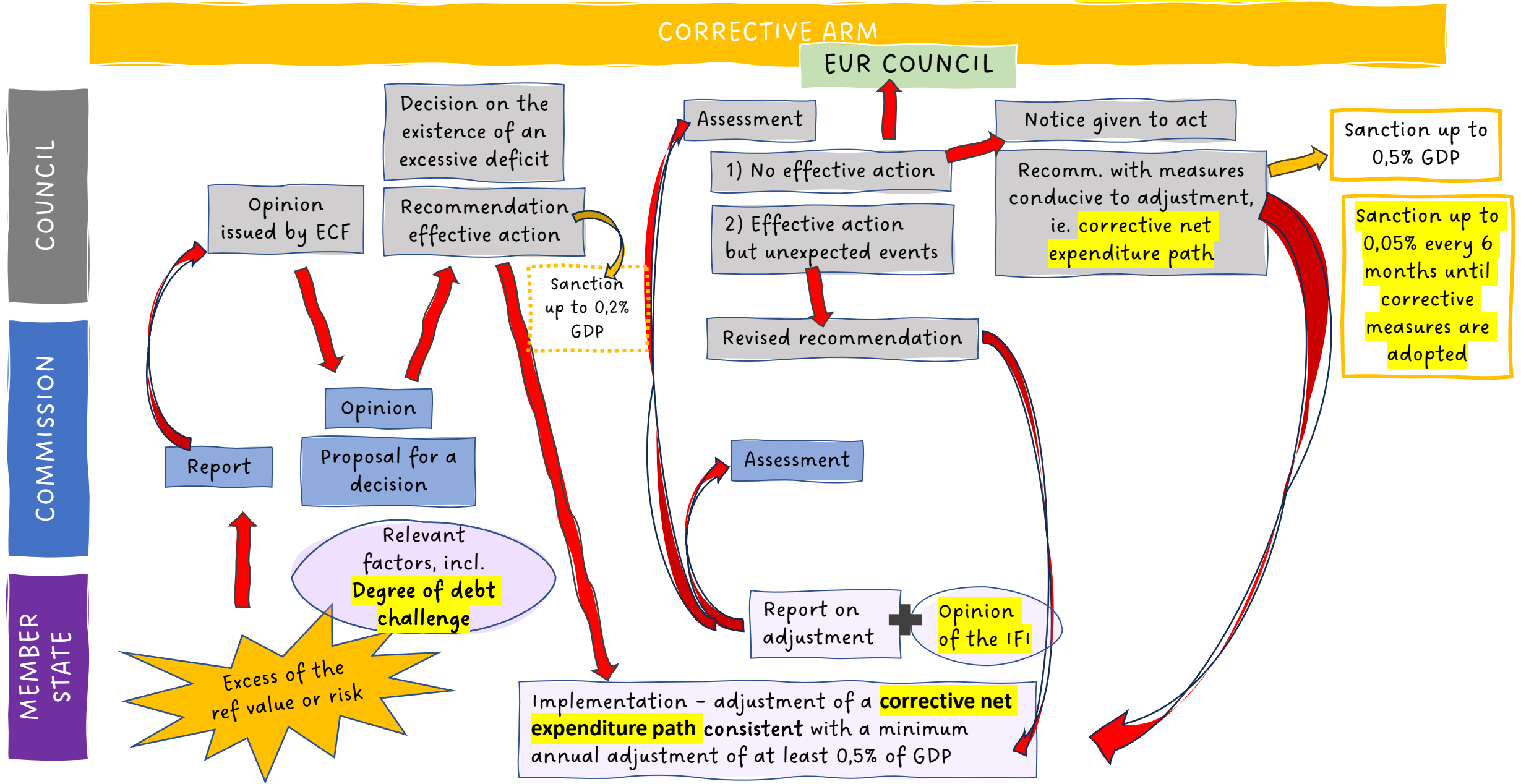
THE OLD SGP VS THE NEW SGP (PREVENTIVE ARM)



THE STABILITY AND GROWTH PACT - HOW IT WORKS TODAY? (TOOLS)



THE STABILITY AND GROWTH PACT - HOW IT WORKS TOMORROW? (TOOLS)



TO WHAT EXTENT THE NEW SGP SUPPORTS SOCIAL POLICIES?

SIGNIFICANT IMPROVEMENT IN THE SOCIAL DIMENSION OF THE SGP

REG. 1466/97
PREVENTIVE ARM

"surveillance and coordination of economic policies contribute to support the achievement of the Union's objectives for growth and employment"

NEW REG. 1466/97

- ① The national medium-term fiscal-structural plan shall address the common priorities of the Union, including the European Green Deal, European Pillar of Social Rights and the Digital Decade
- ② Information to mention by the MS in their annual progress reports: Information on labour market, skills and social policy developments, and on the implementation of policy measures taken that foster upward social convergence among Member States towards better working and living conditions, in line with the principles of the European Pillar of Social Rights and the Employment Guidelines under Article 148 TFEU. That includes the expected impact of measures, in relation to progress on the national targets on employment, skills and poverty reduction by 2030.

Towards a de-subordination of social policy to the economic and fiscal sphere?



No clause similar to Art. 7 Reg. 472/2013

A NEW ECONOMIC GOVERNANCE MORE ACCOUNTABLE? WELL...

« Economic Dialogue » introduced in Economic governance in 2011

REG. 1466/97, Art. 2ab
PREVENTIVE ARM

REG. 1467/97, Art. 2a
CORRECTIVE ARM

NEW REG. 1466/97
LIMITED CHANGES

Lack of consistency between the 2 economic dialogues

- ⑤ The European Parliament shall be duly involved in the European Semester (...) in particular by means of an economic dialogue.
- ① ~~Competent committee~~ of the European Parliament:
 - ~~President of the Council, the Commission and,~~
 - where appropriate, the President of the European Council or the President of the Eurogroup,Invited to appear before the committee to discuss Council decisions or recommendations in the preventive arm or the corrective arm
- policy guidance to Member States issued by the Commission
- ② The Member State concerned by such decisions, recommendations or notices may be invited to participate in an exchange of views.
- ③ The Council and the Commission shall regularly inform the European Parliament of the application of these Regulations.
- ⑥ The President of the Council, and the Commission, and, where appropriate, the President of the Eurogroup, shall report annually to the European Parliament and to the European Council on the results of the multilateral surveillance.
- ④ The Council is, as a rule, expected to follow the recommendations and proposals of the Commission or explain its position publicly.

« NEW » REG. 1467/97
- NO CHANGE

Thank you for your attention!

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