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Opinion of the European Committee of the Regions — Reform of the EU economic governance framework

(C/2023/1329)

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Reference documents:	Commission Communication — Communication on orientations for a reform of the EU economic governance framework COM(2022) 583 final Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 COM(2023) 240 final Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure COM(2023) 241 final Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States COM(2023) 242 final

I. RECOMMENDATIONS FOR AMENDMENTS

Amendment 1

COM(2023) 240 final — Recital 4

Text proposed by the European Commission	CoR amendment
The involvement of social partners, civil society organisations and other relevant stakeholders in the European Semester is key to ensure ownership and transparent and inclusive policy-making.	The structured involvement of national parliaments and, where relevant, regional parliaments depending on the division of competences within the Member States, local and regional authorities , social partners, civil society organisations and other relevant stakeholders in the European Semester and in the economic governance process as a whole is key to ensure ownership and transparent and inclusive policy-making.

Amendment 2

COM(2023) 240 final — Recital 5

Text proposed by the European Commission	CoR amendment
The economic governance framework of the Union should be adapted to better take into account the growing heterogeneity of fiscal positions, public debt challenges and other vulnerabilities across Member States. The strong policy response to the COVID-19 pandemic proved highly effective in mitigating the economic and social damage of the crisis, but the crisis 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. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union including achieving a fair digital and green transition, including the Climate Law, ensuring energy security, open strategic autonomy, addressing demographic change, strengthening social and economic resilience and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come.	The economic governance framework of the Union should be adapted to better take into account the growing heterogeneity of fiscal positions, public debt challenges and other vulnerabilities across Member States. The strong policy response to the COVID-19 pandemic proved highly effective in mitigating the economic and social damage of the crisis, but the crisis 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 economic, social and territorial cohesion objectives and employment objectives. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union including achieving the Sustainable Development Goals (SDGs), achieving a fair digital and green transition, including the Climate Law, ensuring energy security, open strategic autonomy, addressing demographic change, strengthening social and economic resilience and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come.

Amendment 3

COM(2023) 240 final — Recital 9

Text proposed by the European Commission	CoR amendment
National medium-term fiscal-structural plans should bring together the fiscal, structural reforms and investment commitments of each Member State and these plans should be the cornerstone of the economic governance framework of the Union. Each Member State should present a medium-term plan that sets out its fiscal trajectory as well as priority public investment and reform commitments that together ensure sustained and gradual debt reduction and sustainable and inclusive growth, avoiding a pro-cyclical fiscal policy, as well as broader reform and investment commitments, including in relation to the green and digital transitions, social and economic resilience and the implementation of the European Pillar of Social Rights. During the lifetime of the Recovery and Resilience Facility, commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account.	National medium-term fiscal-structural plans should bring together the fiscal reforms and investment commitments of each Member State and these plans should be the cornerstone of the economic governance framework of the Union. Each Member State, following close and structured cooperation with local and regional authorities, civil society organisations and other relevant stakeholders, should present a medium-term plan that sets out its fiscal trajectory as well as priority public investment and reform commitments that together ensure sustained and gradual debt reduction and sustainable and inclusive growth, avoiding a pro-cyclical fiscal policy, as well as broader reform and investment commitments, including in relation to the Sustainable Development Goals, the green and digital transitions, the resilience and promotion of economic, social and territorial cohesion, and the implementation of the European Pillar of Social Rights. During the lifetime of the Recovery and Resilience Facility, commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account.

Reason

Local and regional authorities (LRAs) are responsible for more than half of public investment and a third of public expenditure as a whole in the EU, and they hold key political and financial responsibilities for the implementation of national medium-term fiscal-structural plans. It is therefore vital that these plans be drawn up in close and structured cooperation with such authorities. This concerns not only the legitimacy and fairness of the plans but also their effectiveness. The SDGs and cohesion must be included among the priorities to be implemented by the plans.

Amendment 4

COM(2023) 240 final — Recital 12

Text proposed by the European Commission	CoR amendment
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. That single operational 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 and expenditure on Union programmes fully matched by revenue from Union funds . This indicator allows for macro-economic stabilisation as it is not affected by the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government.	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. That single operational indicator should be based on national net primary expenditure, that is to say expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure and net of all expenditure incurred by Member States and local and regional authorities as part of Structural and Investment Fund co-financing and Union programmes. This indicator allows for macro-economic stabilisation as it is not affected by the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government. It also helps encourage public investment in sustainable growth and the EU's shared priorities.

Reason

Expenditure as part of Structural and Investment Fund co-financing is, by definition, particularly useful in efforts to address current major challenges and implement European priorities. These investments need to be encouraged.

Amendment 5

COM(2023) 240 final — Recital 13

Text proposed by the European Commission	CoR amendment
To provide guidance to the Member States in the drafting of their medium-term fiscal-structural plan, the Commission should put forward a technical trajectory based on the minimum fiscal adjustment that brings the debt trajectory of the Member State on a plausibly downward path or maintains debt at a prudent level. It should also ensure that the public debt ratio at the end of the planning horizon declines below its level in the year before the start of the technical trajectory. The sustainability of that debt reduction should result from appropriate fiscal policies.	When Member States draft their medium-term fiscal-structural plan, the Commission shall invite each Member State to put forward a trajectory for a sustainable debt based on the minimum fiscal adjustment that brings the debt trajectory of the Member State on a downward path or maintains debt at a prudent level. The sustainability of the debt should result from appropriate fiscal policies.

Reason

It is up to democratically elected governments to develop a trajectory for sustainable debt to then be discussed with the Commission and approved by both parties.

Amendment 6

COM(2023) 240 final — Recital 16

Text proposed by the European Commission	CoR amendment
Each national medium-term fiscal-structural plan should mention its status in the context of national procedures, notably whether the plan was presented to the national parliament and whether there has been parliamentary approval of the plan. The national medium-term fiscal-structural plan should also indicate whether the national parliament had the opportunity to discuss the Council recommendation on the previous plan and, if relevant, any other Council recommendation or decision, or any Commission warning.	Each national medium-term fiscal-structural plan shall mention its status in the context of national procedures, notably whether the plan was presented to the national parliament and, where relevant, to regional parliaments, depending on the division of competences in the Member State concerned , and whether there has been parliamentary approval of the plan. The national medium-term fiscal-structural plan should also indicate whether the national parliaments had the opportunity to discuss the Council recommendation on the previous plan and, if relevant, any other Council recommendation or decision, or any Commission warning.

Amendment 7

COM(2023) 240 final — Article 1 — Subject-matter

Text proposed by the European Commission	CoR amendment
This Regulation sets out rules ensuring effective coordination of economic policies of the Member States, thereby supporting the achievement of the Union's objectives for growth and employment. It lays down detailed rules concerning the content, submission, assessment and monitoring of national medium-term fiscal-structural plans as part of multilateral budgetary surveillance by the Council and the Commission so as to promote debt sustainability and sustainable and inclusive growth in the Member States and prevent the occurrence of excessive government deficits, by medium-term planning.	This Regulation sets out rules ensuring coordination of economic policies of the Member States, to support the achievement of the Union's objectives for sustainable and inclusive growth and employment and the EU's common priorities set out in Annex VI. It lays down detailed rules concerning the content, submission, assessment and monitoring of national medium-term fiscal-structural plans as part of multilateral budgetary surveillance by the Council and the Commission so as to promote debt sustainability and sustainable and inclusive growth in the Member States and prevent the occurrence of excessive government deficits, by medium-term planning.

Amendment 8

COM(2023) 240 final — Article 2(2))

Text proposed by the European Commission	CoR amendment
For the purposes of this Regulation, the following definitions apply: [...] 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures and other budgetary variables outside the control of the government as set out in Annex II, point (a);	For the purposes of this Regulation, the following definitions apply: [...] 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, local authorities' investment expenditure, including that under Structural and Investment Fund co-financing and Union programmes, and other budgetary variables outside the control of the government as set out in Annex II, point (a);

Reason

It is important to bear in mind that some ten Member States are in great budgetary difficulty. They either have debt in excess of 100 % of their GDP, or a deficit of more than 5 %. It makes sense for Member States to be able to deduct expenditure from the budget for European programmes such as the Green Deal, digitalisation or structural funds, which require large financial contributions from the Member States under 'net expenditure'.

Amendment 9

COM(2023) 240 final — Article 2(2))

Text proposed by the European Commission	CoR amendment
For the purposes of this Regulation, the following definitions apply: [...]	For the purposes of this Regulation, the following definitions apply: [...]
(3) ' technical trajectory' means the net expenditure trajectory put forward by the Commission to provide guidance to Member States with public debt above the 60 % of gross domestic product (GDP) reference value or government deficit above the 3 % of GDP reference value when drawing up their national medium-term fiscal-structural plans; [...]	(3) 'trajectory' means, on the basis of a trajectory presented by the Member State , the net expenditure trajectory negotiated between the Commission and the Member State when drawing up its national medium-term fiscal-structural plans; [...]

Reason

See amendment to Recital 13. Each Member State would propose a sustainable debt reduction trajectory to be negotiated with the Commission. The trajectories that are 'definitively' adopted should be agreed upon by both parties.

Amendment 10

COM(2023) 240 final — Article 3, third paragraph (new) — The European Semester

Text proposed by the European Commission	CoR amendment
	On the basis of a code of conduct ⁽¹⁾, the Member States shall set up a mechanism that allows for the structured involvement of local and regional authorities in the European Semester in line with their competences and in accordance with the national legal framework.
	⁽¹⁾ Opinion of the European Committee of the Regions on 'Improving the governance of the European Semester: a Code of Conduct for the involvement of local and regional authorities' (OJ C 306, 15.9.2017, p. 24).

Reason

Better involvement of local and regional authorities in the European Semester thanks to a code of conduct could address its lack of effectiveness through greater consideration of local and regional realities and stronger ownership.

Amendment 11

COM(2023) 240 final — Article 5 — Technical trajectory

Text proposed by the European Commission	CoR amendment
For each Member State having a public debt above the 60 % of GDP reference value or a government deficit above the 3 % of GDP reference value, the Commission shall put forward, in a report to the Economic and Financial Committee, a technical trajectory for net expenditure covering a minimum adjustment period of 4 years of the national medium-term fiscal-structural plan, and its possible extension by a maximum of 3 years pursuant to Article 13. The Commission shall make the report public.	Based on a proposal for an expenditure reduction trajectory made by each Member State having a public debt above the 60 % of GDP reference value or a government deficit above the 3 % of GDP reference value, the Commission shall consult the Economic and Financial Committee during negotiations with the Member State for the adoption of a trajectory for net expenditure covering a minimum adjustment period of 4 years of the national medium-term fiscal-structural plan, and its possible extension by a maximum of 3 years pursuant to Article 13. The Commission shall make the final agreement on the trajectory public.

Reason

See amendments to recital 13 and Article 2(3).

Amendment 12

COM(2023) 240 final — Article 6

Text proposed by the European Commission	Amendment
The technical trajectory shall ensure that: (a) the public debt ratio is put or remains on a plausibly downward path, or stays at prudent levels; (b) the government deficit is brought and maintained below the 3 % of GDP reference value; (c) 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; (d) 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; and [...]	The technical trajectory shall ensure that: (a) the public debt ratio is put or remains on a plausibly downward path, or stays at prudent levels; (b) the government deficit is brought and maintained below the 3 % of GDP reference value; (c) 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; and [...]

Reason

Having a debt ratio lower at the end of the adjustment period than at the beginning is superfluous for countries classified as low risk. Moreover, this requirement may contradict the need for reforms and investments this new fiscal framework is meant to encourage.

Amendment 13

COM(2023) 240 final — Article 9 — Submission of the national medium-term fiscal-structural plans

Text proposed by the European Commission	CoR amendment
Each Member State shall submit to the Council and to the Commission a national medium-term fiscal-structural plan before end-April following the entry into force of this Regulation. The Member State concerned and the Commission may agree to extend this deadline by a reasonable period if necessary. The Member State shall make its national medium-term fiscal-structural plan public.	Each Member State shall submit to the Council and to the Commission a national medium-term fiscal-structural plan before end-April of the year following that of the entry into force of this Regulation. The Member State concerned and the Commission may agree to extend this deadline by a reasonable period if necessary. <i>Before drawing up its national and medium-term fiscal-structural plan, each Member State shall set up a structured cooperation mechanism with the local and regional authorities, social partners, civil society organisations and other stakeholders concerned so that they can be fully involved in developing these plans, in accordance with the national legal framework. This shall be detailed in the plan.</i> The Member State shall make its national medium-term fiscal-structural plan public.

Reason

See amendment to recital 9. It is also crucial that the implementation timeline allows for the full participation of LRAs and stakeholders in the drawing up of the plan.

Amendment 14

COM(2023) 240 final — Article 12, point (b) — Requirements

Text proposed by the European Commission	CoR amendment
The national medium-term fiscal-structural plan shall: [...] (b) explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in the country-specific recommendations, correct the identified macroeconomic imbalances under the Macroeconomic Imbalances Procedure if applicable, and address the common priorities of the Union referred to in Annex VI of this Regulation, including the European Green Deal, European Pillar of Social Rights and the Digital Decade while being consistent with the updated National Energy and Climate Plans and the National Digital Decade Roadmaps; [...]	The national medium-term fiscal-structural plan shall: [...] (b) explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in the country-specific recommendations, correct the identified macroeconomic imbalances under the Macroeconomic Imbalances Procedure if applicable, and address the common priorities of the Union referred to in Annex VI of this Regulation, including the European Green Deal, <i>the promotion of economic, social and territorial cohesion, the SDGs, the</i> European Pillar of Social Rights and the Digital Decade while being consistent with the updated National Energy and Climate Plans and the National Digital Decade Roadmaps; [...]

Amendment 15

COM(2023) 240 final — Article 15(2) — Assessment of national medium-term fiscal-structural plans by the Commission

Text proposed by the European Commission	CoR amendment
When assessing the national medium-term fiscal-structural plan the Commission shall examine for all Member States: [...] (f) whether 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.	When assessing the national medium-term fiscal-structural plan the Commission shall examine for all Member States: [...] (f) whether the structural cooperation mechanism referred to in Article 9 has been put in place; (g) whether all information listed in Annex II has been provided by the Member State.

Reason

Having a debt ratio lower at the end of the adjustment period than at the beginning is superfluous for countries classified as low risk.

Setting up a structured cooperation mechanism and the provision of all information listed in Annex II should also be specifically included in the Commission's assessment, in order to confirm their binding nature

Amendment 16

COM(2023) 240 final — Article 26, first paragraph — European Semester Dialogue

Text proposed by the European Commission	CoR amendment
The European Parliament shall be duly involved in the European Semester in order to increase the transparency and ownership of, and the accountability for the decisions taken, in particular by means of an economic dialogue. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee shall be consulted within the framework of the European Semester where appropriate. Relevant stakeholders, in particular the social partners, shall be involved within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.	The European Parliament, national parliaments and, where relevant, regional parliaments depending on the division of competences in the Member States, shall be duly involved in the European Semester in order to increase the transparency and ownership of, and the accountability for the decisions taken, in particular by means of an economic dialogue. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee shall be consulted within the framework of the European Semester. Relevant stakeholders, in particular local and regional authorities and the social partners, shall be involved within the framework of the European Semester, in accordance with the provisions of the TFEU and national legal and political arrangements.

Amendment 17

COM(2023) 240 final — Article 27 — Comply or explain rule

Text proposed by the European Commission	CoR amendment
<i>The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.</i>	

Reason

The separation of powers and institutional autonomy of the Council must be respected.

Amendment 18

COM(2023) 240 final — Annexe II(a)

Text proposed by the European Commission	CoR amendment
A national medium-term fiscal-structural plan shall contain the following information: (a) The national net expenditure path referred to in Article 11. The other budgetary variables outside the control of the government that are part of the definition of net expenditure referred to in Article 2 consist in expenditure on programmes of the Union fully matched by Union funds revenue and cyclical elements of unemployment benefit expenditure; [...]	A national medium-term fiscal-structural plan shall contain the following information: (a) The national net expenditure path referred to in Article 11. The other budgetary variables outside the control of the government that are part of the definition of net expenditure referred to in Article 2 consist in expenditure by Member States and local and regional authorities as part of Structural and Investment Fund co-financing and programmes of the Union, and cyclical elements of unemployment benefit expenditure; [...]

Reason

See amendment to Recital 12.

Amendment 19

COM(2023) 240 final — Annexe II(q)

Text proposed by the European Commission	CoR amendment
A national medium-term fiscal-structural plan shall contain the following information: [...] (q) Information on the consultations of social partners, civil society organisations and other relevant stakeholders in view of the preparation of the plan.	A national medium-term fiscal-structural plan shall contain the following information: [...] (q) a description of the structural cooperation mechanism with local and regional authorities, social partners, civil society organisations and other relevant stakeholders in view of their full participation of the preparation of the plan, as well as a summary of how their contributions are taken into account in the plan;

Reason

See amendment to recital 9.

Amendment 20

COM (2023) 240 final — Annex VI — Common priorities of the Union

Text proposed by the European Commission	CoR amendment
The common priorities of the Union referred to in Article 12, point (b) are:	The common priorities of the Union referred to in Article 12, point (b) are:
(a) The European Green Deal 1, including the transition to climate neutrality by 2050 and the translation at national level through the National Energy and Climate Plans;	(a) The European Green Deal 1, including the transition to climate neutrality by 2050 and the translation at national level through the National Energy and Climate Plans;
	(aa) the promotion of economic, social and territorial cohesion, in accordance with Article 3 of the Treaty on European Union;
	(ab) the Sustainable Development Goals;
(b) The European Pillar of Social Rights including the related targets on employment, skills and poverty reduction by 2030;	(b) The European Pillar of Social Rights including the related targets on employment, skills and poverty reduction by 2030;
(c) The Digital Decade Policy Programme 2030, and reflected at national level through the National Digital Decade Strategic Roadmaps;	(c) The Digital Decade Policy Programme 2030, and reflected at national level through the National Digital Decade Strategic Roadmaps;
(d) A Strategic Compass for Security and Defence — For a European Union that protects its citizens, values and interests and contributes to international peace and security.	(d) A Strategic Compass for Security and Defence — For a European Union that protects its citizens, values and interests and contributes to international peace and security.

Amendment 21

COM(2023) 241 final — Recital 5

Text proposed by the European Commission	CoR amendment
The economic governance framework of the Union should be adapted to better take into account the growing heterogeneity of fiscal positions, sustainability risks and other vulnerabilities across Member States. The strong policy response to the COVID-19 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. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union, including achieving a fair	The economic governance framework of the Union should be adapted to better take into account the growing heterogeneity of fiscal positions, sustainability risks and other vulnerabilities across Member States. The strong policy response to the COVID-19 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 economic, social and territorial cohesion objectives. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union,

Text proposed by the European Commission	CoR amendment
digital and green transition, including the Climate Law, ensuring energy security, open strategic autonomy, addressing demographic change, strengthening social and economic resilience, and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come.	including achieving the Sustainable Development Goals (SDGs) , achieving a fair digital and green transition, including the Climate Law, ensuring energy security, open strategic autonomy, addressing demographic change, strengthening social and economic resilience, and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come.

Amendment 22

COM(2023) 241 final — Recital 8

Text proposed by the European Commission	CoR amendment
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. 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 and expenditure on Union programmes fully matched by revenue from Union funds . This indicator allows for macro-economic stabilisation as it is not affected by the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government.	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. 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 and all expenditure incurred by Member States and local and regional authorities as part of Structural and Investment Fund co-financing and Union programmes. This indicator allows for macro-economic stabilisation as it is not affected by the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government. It also helps encourage public investment in sustainable and inclusive growth and the EU's shared priorities.

Reason

See amendment to Recital 12 — COM(2023) 240 final.

Amendment 23

COM(2023) 241 final — Article 1(1), new Article 1(2)

Text proposed by the European Commission	CoR amendment
For the purposes of this Regulation the following definitions apply: [...] 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures and other budgetary variables outside the control of the government as set out in Annex II, point (a) of Regulation (EU) of the European Parliament and the Council [on the preventive arm];	For the purposes of this Regulation the following definitions apply: [...] 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, local authorities' investment expenditure, including that under Structural and Investment Fund co-financing and Union programmes , and other budgetary variables outside the control of the government as set out in Annex II, point (a) of Regulation (EU) of the European Parliament and the Council [on the preventive arm];

Reason

See amendment to Article 2(2) — COM(2023) 240 final.

Amendment 24

COM(2023) 241 final — Article 1(2), new Article 3(4)

Text proposed by the European Commission	CoR amendment
The Council recommendation made in accordance with Article 126(7) TFEU shall 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 shall also establish a deadline for the correction of the excessive deficit. In its recommendation, the Council shall 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. For the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual adjustment of at least 0,5 % of GDP as a benchmark.	The Council recommendation made in accordance with Article 126(7) TFEU shall 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 shall also establish a deadline for the correction of the excessive deficit. In its recommendation, the Council shall 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. For the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a maximum annual adjustment of 0,5 % of GDP as a benchmark.

Reason

Too high of an adjustment risks producing pro-cyclical effects.

Amendment 25

COM(2023) 241 final — Article 1(4)(a), new Article 5(1)(a)

Text proposed by the European Commission	CoR amendment
(a) paragraph 1 is replaced by the following: ‘1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126 (9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall 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 notice. For the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual adjustment of at least 0,5 % of GDP as a benchmark.’	(a) paragraph 1 is replaced by the following: ‘1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126 (9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall 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 notice. For the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a maximum annual adjustment of 0,5 % of GDP as a benchmark.’

Reason

Too high of an adjustment risks producing pro-cyclical effects.

Amendment 26

COM(2023) 242 final — Recital 11

Text proposed by the European Commission	CoR amendment
<i>Biased and unrealistic macroeconomic and budgetary forecasts for the annual and multiannual budget legislations can considerably hamper the effectiveness of fiscal planning and consequently impair commitment to budgetary discipline.</i> To improve baseline assumptions and provide unbiased assessments of the fiscal impact of various policy measures, the macroeconomic and budgetary forecasts of the Member States should be endorsed or produced by an independent fiscal institution.	To improve baseline assumptions and provide unbiased assessments of the fiscal impact of various policy measures <i>on all general government sub-sectors</i> , the macroeconomic and budgetary forecasts of the Member States should be endorsed or produced by an independent fiscal institution.

Reason

The impact of policies on government sub-sectors (central government, State government, local governments and social security funds) must also be assessed by independent fiscal institutions.

Amendment 27

COM(2023) 242 final — Article 8(4)

Text proposed by the European Commission	CoR amendment
Member States shall ensure that the institutions referred to in paragraph 1 have the following tasks: [...] (c) producing assessments on the impacts of policies on fiscal sustainability and sustainable and inclusive growth or endorsing those provided by the budgetary authorities; [...]	Member States shall ensure that the institutions referred to in paragraph 1 have the following tasks: [...] (c) producing assessments on the impacts of policies on fiscal sustainability <i>of all general government sub-sectors</i> and sustainable and inclusive growth or endorsing those provided by the budgetary authorities; [...]

Reason

See amendment to Recital 11.

II. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS (CoR),

1. considers the reform of the EU's economic governance framework inevitable given the impacts of the COVID-19 crisis and Russia's invasion of Ukraine, and given the need to encourage public investment to help achieve the EU's commitments when it comes to the green and digital transitions; the investments needed are estimated by the Commission at EUR 650 billion in public and private investments per year over the next decade, to which almost EUR 200 billion per year should be added for social infrastructure;
2. recalls that local and regional authorities (LRAs) are on the frontline for dealing with these multiple challenges, and are responsible for more than half of public investment in Europe;
3. highlights that economic governance reform occurs in an EU context or at EU level, that deficit and general government gross debt ratios to GDP stood at 4,5 % and 84,0 % respectively in the fourth quarter of 2022 and that only nine Member States have debt of less than 60 % of GDP and a deficit of less than 3 %;

4. supports the idea of national medium-term fiscal-structural plans, which could provide a more coherent approach to economic governance, as well as the proposal to align the duration of plans to the electoral cycles of each Member State;
5. warns against the harmful consequences in terms of the legitimacy and effectiveness of excessive centralisation and verticality when preparing these plans, as observed with the recovery plans in the context of the Recovery and Resilience Facility (RRF);
6. considers it essential, therefore, to provide for a legal obligation to set up, before the plans are developed, a structural cooperation mechanism with the local and regional authorities and stakeholders concerned, so that they can be fully involved in the development of these plans, in accordance with the national legal framework;
7. supports the principle of a possible extension to the fiscal adjustment period in specific cases and believes that investments and reforms aimed at promoting economic, social and territorial cohesion and achieving the UN Sustainable Development Goals, and at implementing the EU Green Deal and the digital transition, could be reasons for allowing such an extension for a limited amount of time;
8. considers, in addition, that the European economic governance framework is partly responsible for the sharp decline in public investment that has taken place since the eurozone crisis. We must avoid repeating this scenario in the wake of the COVID-19 crisis and Russia's invasion of Ukraine. The CoR thus regrets that public investment is inadequately encouraged in the Commission's proposed reform;
9. encourages a shift in the assessment of national expenditure that considers the quality of investments and evaluates the long-term development of debt; in this context, costs of inaction, notably in the area of climate adaptation measures, such as protection from floods, heat or forest fires, should be considered;
10. calls therefore for fiscal surveillance to be based on primary expenditure, net of discretionary revenue measures and interest expenditure, as well as cyclical unemployment expenditure and all expenditure incurred by Member States and local and regional authorities as part of Structural and Investment Fund co-financing and Union programmes, and cyclical elements of unemployment benefit expenditure;
11. recalls that expenditure under co-financing is, by definition, essential for the implementation of EU priorities — the European Green Deal, economic, social and territorial cohesion, the Sustainable Development Goals, the European Pillar of Social Rights and the 2030 Policy Programme 'Path to the Digital Decade'. Granting this expenditure favourable treatment within the financial framework would boost the overall coherence of European policies;
12. points out that to amortise the monetary cost of investments over their useful lifetime, with a limited scope of application for capital investments only, with its legal feasibility depending on national accounting rules, Article 126.3 TFEU and Article 2.3 of Regulation (EC) No 1467/97 could be an option;
13. welcomes the removal of the '1/20th rule' in the excessive deficit procedure (EDP);
14. is of the view that the criterion of having a debt ratio lower at the end of the adjustment period than at the beginning is superfluous for countries classified as low risk. Moreover, this requirement may contradict the need for reforms and investments this new fiscal framework is meant to encourage;
15. considers that the European Semester lacks effectiveness in terms of the implementation of reforms, and also lacks real legitimacy; it believes that its proposal for a code of conduct to involve local and regional authorities in the European Semester ⁽¹⁾ could remedy this through greater consideration of local and regional realities;

⁽¹⁾ Opinion of the European Committee of the Regions on 'Improving the governance of the European Semester: a Code of Conduct for the involvement of local and regional authorities' (OJ C 306, 15.9.2017, p. 24).

16. also believes that the European Semester should be directed towards a more integrated policy approach implementing the Sustainable Development Goals. In this respect, the CoR welcomes the initiative Greening the European Semester proposed by the European Commission and calls for the involvement of the CoR in this relevant work;

17. reiterates its support for the triggering of the general escape clause of the Stability and Growth Pact (SGP) at the start of the COVID-19 pandemic. This has undeniably played a significant role in the European response to this crisis, by allowing for the full use of public budgets to mitigate its health, economic and social consequences. If the SGP escape clause were to be deactivated in the economic governance framework's current state, the required debt reduction would lead to a detrimental return to austerity policies, and consequently result in great economic, social and environmental costs, as well as a negative impact on growth and therefore fiscal sustainability itself. The CoR therefore calls for the general escape clause to remain active until a revised economic governance framework is put in place;

18. considers that the Commission's proposals for reform can only be a first step towards reforming European economic governance, without changes to the treaties. Citizens' proposals that were made during the Conference on the Future of Europe must then be taken into account, and a revision of the provisions of the relevant Treaty carried out 'to ensure that the green and digital transitions, social justice and social progress go hand-in-hand with economic competitiveness' (proposal 11);

19. emphasises that the Vade Mecum of any future reformed Stability and Growth Pact must be more concise than the current one, which runs to 108 pages in length⁽²⁾, so with less instructions, but more focused rules, thus with a better chance for effective compliance;

20. is of the view that the Commission proposal, based on Article 121.6 of the Treaty on the Functioning of the European Union and falling into the scope of shared competences, complies with the principle of subsidiarity since the overall objective of facilitating and maintaining the stability of the Economic and Monetary Union (EMU) and supporting sustainable growth in the European Union cannot be achieved sufficiently by the Member States acting alone. The CoR also acknowledges that the new flexibility foreseen in the proposal for the national medium-term fiscal-structural plans would be a step to improve the proportionality of the legislative framework for economic governance while the introduction of a code of conduct for the European Semester would represent an even more significant improvement.

Brussels, 10 October 2023.

*The President
of the European Committee of the Regions*
Vasco ALVES CORDEIRO

⁽²⁾ https://economy-finance.ec.europa.eu/publications/vade-mecum-stability-and-growth-pact-2019-edition_en