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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

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

This proposal forms part of a package and aims to replace Council Regulation No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1] (the preventive arm of the Stability and Growth Pact). It is accompanied by a proposal to amend Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[2] (the corrective arm of the Stability and Growth Pact), as well as by a proposal to amend Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States[3]. The package therefore aims at reforming the EU fiscal framework.

In 2011, to take into account the lessons of the global financial crisis and the euro area sovereign debt crisis, and as part of the package known as the "Six-pack", Regulation (EC) No 1466/97 was amended by Regulation (EU) No 1175/2011[4], Regulation (EC) No 1467/97 was amended by Regulation (EU) No 1177/2011[5], and Directive 2011/85/EU was adopted.

Article 12a of Regulation No 1466/97 contains a review clause whereby every 5 years the Commission is required to publish a report on the application of the Regulation, to evaluate: (i) the effectiveness of the Regulation; (ii) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU, accompanied, where appropriate, by a proposal for amendments to the Regulation. The Commission carried out a review of the Regulation as part of the review of the EU economic governance framework launched in February 2020[6].

The review of the EU economic governance framework was based on an extensive consultation of a wide range of stakeholders including EU institutions, citizens, national governments and parliaments, social partners, non-governmental institutions and academia. It revealed a number of strengths, but also a series of shortcomings of the framework, in particular an increased complexity, the need to be more effective in reducing debt where it is high and build buffers for future shocks, and the need to update a number of instruments and

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1 OJ L 209, 2.8.1997, p. 1.

2 OJ L 209, 2.8.1997, p. 6.

3 OJ L 306, 23.11.2011, p. 41.

4 Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, p. 12).

5 Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33).

6 Communication COM(2020) 55 final of 5 February 2020 from the Commission 'Economic governance review, Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU'.

procedures so as to integrate the lessons learned from the policy responses to recent economic shocks, including the interaction between reforms and investment under the Recovery and Resilience Facility. The proposed package including this proposal aims to address these shortcomings and integrate those lessons.

In its Communication of 9 November 2022 the Commission put forward its orientations for a reform of the EU economic governance framework[7] aimed at ensuring debt sustainability and promoting sustainable and inclusive growth in all Member States. The orientations envisaged a stronger national ownership, a simplified framework and a move towards a greater medium-term focus, combined with stronger and more coherent enforcement. These orientations also reflected observations that emerged from the public consultation launched in October 2021, which invited other EU institutions and all key stakeholders to engage on the topic[8].

Based on the findings of the economic governance review and of the public consultation launched in October 2021, and on the basis of the orientations put forward in the Communication of 9 November 2022, the legislative package aims at making the EU governance framework simpler (by using a single operational indicator in the form of a net expenditure path and by simplifying reporting requirements in particular through the introduction of a holistic, single, integrated medium-term fiscal-structural plan), more transparent and effective, with greater national ownership and better enforcement, allowing for reform and investment while reducing high public debt ratios in a realistic, gradual and sustained manner. In this way, in the context of a stronger and more effective European Semester, the reformed framework should help build the green, digital and resilient European economy of the future, while ensuring the sustainability of public finances in all Member States. The reform proposals are thus shaped by the higher and more diverse public debt levels observed over a number of years and the need to sustain high levels of investment for the green and digital transitions, the need to ensure energy security, open strategic autonomy, as well as social and economic resilience, and the implementation of a strategic compass for security and defence.

- **Consistency with existing policy provisions in the policy area**

Given the extent of the changes required for the implementation of the Commission's orientations of 9 November 2022 for a reform of the EU governance framework, the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance is intended to replace Regulation (EC) No 1466/97.

These three pieces of legislation aim at establishing a reformed framework that relies on medium-term orientation and national ownership aiming at a credible and substantial reduction of high debt levels and at promoting sustainable and inclusive growth. The reformed economic governance framework, thus, retains the fundamental objectives of

[7] Communication COM(2022)583 final of 9 November 2022 from the Commission 'on orientations for a reform of the EU economic governance framework'.

[8] Commission Staff Working Document SWD(2022) 104 final of 28 March 2022 'Online public consultation on the review of the EU economic governance framework - Summary of responses - Final Report'.

budgetary discipline and growth promotion of the Stability and Growth Pact (SGP) and its founding provisions in the Treaty on the Functioning of the European Union.

At the same time, by aiming at sound and sustainable public finances as well as growth promotion, the reformed framework also meets the main objectives of the Fiscal Compact which forms Title III of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)[9]. In addition, other elements of the proposed legislation retain the substance of the Fiscal Compact. With a medium-term orientation anchored on country-specific debt challenges, this Regulation reflects in part the Fiscal Compact's requirement of convergence to medium-term positions to be proposed taking into account country-specific public debt challenges (Article 3.(1) point b of the TSCG). While emphasising the structural balance, the Fiscal Compact also requires an analysis of expenditure net of discretionary revenue measures for the overall assessment of compliance (Article 3(1) point b, of the TSCG), and this analysis is upheld in this Regulation. The Fiscal Compact allows for temporary deviations from the medium-term objective or adjustment path towards it only in exceptional circumstances (Article 3(1), point c of the TSCG), as envisaged in this Regulation. The Fiscal Compact stipulates that in case of significant observed deviations from the medium-term objective or the adjustment path towards it, measures have to be implemented to correct the deviations over a defined period of time (Article 3(1) point e of the TSCG). In the same vein, the reformed framework requires corrections of deviations from the net expenditure path set by the Council. Moreover, when deviations result in a deficit in excess of 3% of GDP, the Member State could be placed under the excessive deficit procedure. For a Member State with debt above 60% of GDP, the debt-based EDP would be strengthened: it would focus on departures from the net expenditure path, replacing the current debt reduction benchmark (the so-called "1/20th rule"), which imposed a too demanding fiscal effort. The Fiscal Compact assigns a monitoring role of the compliance with its rules to national independent fiscal institutions, and the provisions on the role and independence of those monitoring institutions, which had to be detailed in common principles proposed by the Commission[10] in accordance with Article 3(2) of the TSCG, are now fully integrated in the proposal amending Directive 2011/85. The Fiscal Compact provides that the Commission and the Council play a role in the enforcement process (Article 5 of the TSCG), as stated in the proposal for a Council Regulation amending Council Regulation (EC) No 1467/97.

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[9] With the aim of strengthening budgetary discipline throughout the economic cycle, on 2 March 2012, 25 Member States ratified the inter-governmental TSCG. In its first paragraph, Article 2 of the TSCG recalls that it '*shall be applied and interpreted by the Contracting Parties in conformity with the Treaties on which the EU is founded, in particular Article 4(3) TEU, and with European law, including procedural law whenever the adoption of secondary legislation is required'*. In its second paragraph, Article 2 of the TSCG recalls that it '*shall apply insofar as it is compatible with the Treaties on which the EU is founded and with EU law. It shall not encroach upon the competence of the Union to act in the area of the economic union*'. Title III of the TSCG, the "Fiscal Compact", is binding on the Member States whose currency is the euro and, on a voluntary basis, on other Member States (TSCG, art. 1(2) and 14(5)). Article 16 of the TSCG provides that '*within five years at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the TEU and the TFEU, with the aim of incorporating the substance of this Treaty into the legal framework of the EU*'

[10] See Communication COM(2012) 342 final of 20 June 2012 from the Commission 'Common principles on national fiscal correction mechanisms.

Commonalities between the Fiscal Compact and the reformed economic governance framework also stem from the implementation of the Fiscal Compact into the national legal orders. Most Contracting Parties to the TSCG have transposed the TSCG provisions into national laws inserting a direct link with corresponding EU laws[11]. This applies to the medium-term objective and convergence path as well as the assessment of a significant deviation or provisions requiring to follow the recommendations adopted by the Council (all drawn from Regulation (EC) No 1466/97).

Considering these commonalities, the proposed reformed economic governance framework can be considered as incorporating the substance of the fiscal provisions of the TSCG into the legal framework of the EU, as per Article 16 of the TSCG.

- **Consistency with other Union policies**

The proposal is part of a package that aims at moving to a risk-based common EU surveillance framework that differentiates between Member States by taking into account their public debt challenges. It revises the EU fiscal framework by integrating fiscal, reform and investment objectives into a single, holistic medium-term fiscal-structural plan which will be the cornerstone of the new framework. The plan will include all reform and investment commitments taken by Member States to address the challenges identified in the context of the European Semester including the country-specific recommendations. A set of these reform and investment commitments could allow an extension of the fiscal adjustment horizon provided that they meet, taken altogether, certain criteria such as being growth-enhancing (examples of such reforms include addressing the challenges of population ageing, improving the functioning of the labour market and increasing labour supply, encouraging innovation and strengthening skills, improving the business environment[12], removing barriers to the Single Market and addressing strategic dependencies), supporting fiscal sustainability (examples of such reforms include pension reforms, reforms improving the cost-effectiveness of public expenditure, or reforms increasing tax collection) and being consistent with common priorities of the Union defined in Annex VI of the proposed Regulation.

The proposed Regulation interacts with Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[13] in that the Council may adopt a recommendation establishing the existence of an excessive imbalance in case a Member State fails to implement the reform and investment commitments included in its medium-term fiscal-structural plan to address the country-specific recommendations that are relevant for the Macroeconomic Imbalances Procedure. Moreover, if a Member State is under an excessive imbalance procedure, it has to submit a revised medium-term fiscal-structural plan under the proposed Regulation which will serve as the corrective action plan under Regulation (EU) No 1176/2011.

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11 https://economy-finance.ec.europa.eu/system/files/2017-02/c20171201_en.pdf

12 Good governance and respect for the rule of law, in particular independent, quality and efficient justice systems, functioning and effective tax systems, as well as effective insolvency and robust anti-corruption and anti-fraud frameworks are key determinants in this context.

13 OJ L 306, 23.11.2011, p. 25.

The proposed Regulation also interacts with Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability[14]. Euro-area Member States under a macroeconomic adjustment programme under Regulation (EU) No 472/2013 will be exempt from submitting national medium-term fiscal-structural plans and annual progress reports under the proposed Regulation for the duration of the programme. Moreover, euro-area Member States under enhanced surveillance under Regulation (EU) No 472/2013 will have to take into account the recommendations addressed by the Council in accordance with Article 121(4) TFEU in case of a deviation from the net expenditure path.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

The legal basis for this instrument is Article 121(6) of the Treaty on the Functioning of the European Union (TFEU).

This provision allows the European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, to adopt detailed rules for the multilateral surveillance of Member States, including the establishment of a multilateral procedure according to which Member States policies are assessed. The main purpose behind Article 121 TFEU is the co-ordination of the economic policies of the Member States given the interdependencies between them.

Article 121(6) TFEU has been used as the legal basis for Regulation (EC) No 1466/97, which would be replaced by the current proposal. The objective of this proposal remains similar to the one of Regulation (EC) No 1466/97, namely to ensure the coordination of the economic policies of Member States and their multilateral budgetary surveillance with the objective of ensuring compliance with the guiding principles of stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

• Subsidiarity (for non-exclusive competence)

The proposal aims at moving to a risk-based EU surveillance framework that differentiates between Member States by taking into account their public debt challenges. National medium-term fiscal-structural plans are the cornerstone of the proposed framework. They would integrate fiscal, reform and investment objectives, including those to address macroeconomic imbalances where necessary, and to implement the European Pillar of Social Rights, into a single holistic medium-term plan, thus creating a coherent and streamlined process. Member States would have greater leeway in setting their fiscal net expenditure trajectory, strengthening the national ownership of their fiscal trajectories. At the same time, it is crucial that those plans are anchored in a common Union framework in the European Semester context in order to ensure multilateral surveillance of Member States given the potential spillovers that exist among the members of an economic and monetary union. This

[14] OJ L 140, 27.5.2013, p. 1.

also ensures equal treatment of Member States and consistency with common priorities of the Union.

The proposal is in conformity with the subsidiarity principle set out in Article 5 of the Treaty on the European Union. Its objective, namely ensuring the coordination of the economic policies of Member States and their multilateral budgetary surveillance as required by the TFEU, cannot be sufficiently achieved by the Member States and can be better achieved at Union level.

- **Proportionality**

The proposal respects the proportionality principle set out in Article 5 of the Treaty on the European Union. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

- **Choice of the instrument**

Article 121(6) TFEU provides for regulations.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Ex-post evaluations/fitness checks of existing legislation**

  Backward looking assessments of the EU economic governance framework were published in February 2020[15] and October 2021[16].

- **Stakeholder consultations**

Extensive consultations with stakeholders have taken place. They consisted in:

- Online consultation to gather the views of stakeholders, civil society and citizens. A summary report of the outcome of this consultation was published in March 2022.
- In-depth thematic discussions with Member States took place in the Council (ECOFIN), the Eurogroup, the Economic and Financial Committee and the Economic Policy Committee.

The results have been taken into account in the Communication of 9 November 2022 of the Commission on orientations for a reform of the economic governance framework[17], and in the present proposal.

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15 Communication COM(2020) 55 final of 5 February 2020 from the Commission ‘Economic governance review, Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU’.

16 Communication COM(2021) 662 final of 19 October 2021 from the Commission ‘The EU economy after COVID-19: implications for economic governance’.

After the adoption of the Communication of 9 November 2022, the Commission has provided additional material to Member States on the impact of the proposed reform and further discussions took place with Member States in the Council and with the European Parliament, which have been taken into account in the present proposal:

- The European Parliament adopted its annual reports on the European Semester on 15 March 2023 which also focused on the reform of the EU economic governance framework and the future of the European Semester.
- The Council (ECOFIN) adopted Conclusions on the orientations for a reform of the EU economic governance framework on 14 March 2023, which were endorsed by the European Council of 23-24 March 2023.

• Impact assessment

The proposal has been granted a derogation from an impact assessment on the grounds of (i) lack of options as the EU fiscal framework sets the boundaries of the revision and (ii) focus on targeted changes that (iii) do not result in an increase in reporting requirements for Member States and (iv) are informed by evidence-gathering activities undertaken in the recent past published as staff working documents and Communications drafted between 2020 and 2022.

• Fundamental rights

The proposal does not have consequences on rights.

4. BUDGETARY IMPLICATIONS

The proposal does not have implications for the EU budget.

5. OTHER ELEMENTS

• Implementation plans and monitoring, evaluation and reporting arrangements

The proposed Regulation does not require measures to facilitate its implementation. The subject of this legislative action does not pose implementation challenges for Member States.

The proposed Regulation simplifies reporting requirements for Member States by using a single operational indicator in the form of a net expenditure path and by introducing a holistic, single, integrated national medium-term fiscal-structural plan that replaces the Stability or Convergence Programmes and the National Reform Programmes of the Member States.

The proposed Regulation contains a review clause under Article 36 whereby every 5 years the Commission will publish a report on the application of this Regulation. The report will review: (i) the effectiveness of the Regulation, particularly whether the provisions governing

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[17] COM(2022)583 final.

decision-making have proved sufficiently robust in ensuring a downward path for public debt or maintaining it at prudent levels; (ii) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

To ensure that the revised EU governance framework is implemented by the Member States, increasing national ownership will be a key element of the reform. This will be done by better integrating the requirements of the common Union framework into the national policy debates and expanding the role of independent fiscal institutions by including them in the monitoring of the implementation by the Member States of their national medium-term fiscal-structural plans. In addition, the Commission will explore how to strengthen the role of the European Fiscal Board[18], while preserving the surveillance role conferred on the Commission by the EU Treaties. Currently, the European Fiscal Board is tasked to evaluate the implementation of the EU fiscal framework, in particular its horizontal consistency, possible cases of serious non-compliance and the appropriateness of the fiscal stance. It advises the Commission on these issues and points to policy options available under the Stability and Growth Pact if it identifies risks for the proper functioning of EMU. It also cooperates with national independent fiscal institutions to exchange best practice and facilitate common understanding. New tasks for the European Fiscal Board could include informing the periodic evaluation of the reformed framework and providing assessments on the implementation of central elements of the reformed governance system. The Board could also provide an opinion to inform the Council decision on activating (or extending) the general escape clause.

- **Detailed explanation of the specific provisions of the proposal**

Chapter 1 (Articles 1 and 2) of the proposed Regulation presents the purpose of the Regulation which is in particular to lay down detailed rules concerning the content, submission, assessment and monitoring of national medium-term fiscal-structural plans. It also defines the main terms used in the Regulation.

Chapter 2 (Articles 3 and 4) of the proposed Regulation contains the rules governing the European Semester. They introduce the EU fiscal framework into the European Semester surveillance cycle. They also provide that the Member States have to take into account the guidance given by the Council, and list the legal instruments in which a failure to do so by Member States could result in.

Chapter 3 (Articles 5 to 8) of the proposed Regulation focuses on the technical trajectory to be issued by the Commission for Member States with public debt above 60% of GDP or a government deficit above 3% of GDP.

Chapter 4 (Articles 9 to 19) of the proposed Regulation sets out the process for the medium-term fiscal-structural plans. They establish the obligation for each Member State to submit a medium-term fiscal-structural plan, the objectives of the technical dialogue between the Commission and the Member State prior to the submission of the plans, the content and

[18] Commission Decision (EU) 2015/1937 of 21 October 2015 establishing an independent advisory European Fiscal Board (OJ L 282, 28.10.2015, p. 37).

requirements of the plans, the conditions and criteria for an extension of the adjustment period, assessment process of the plan by the Commission and the endorsement process by the Council. They also set out the conditions under which the Council can request that a Member State submit a revised plan and under which the Council can propose a revision of the net expenditure path endorsed by the Council in case of failure by the Member State to comply with the required conditions regarding the submission of a revised plan or to implement the reform and investment commitments that led to an extension of the adjustment period.

Chapter 5 (Articles 20 to 25) of the proposed Regulation establishes the monitoring process for the national medium-term fiscal-structural plans and what happens in case of significant risk of deviation from the net expenditure path. Member States have to submit annual progress reports and the Commission will monitor the implementation of the net expenditure paths including through the set-up of a control account. The articles also establish the role of national independent fiscal institutions in the monitoring process and put in place the conditions under which a general escape clause or a country-specific escape clause could be activated.

Chapter 6 (Articles 26 to 29) of the proposed Regulation lays down the conditions under which the economic dialogue takes place between the institutions and Member States, including the necessity to inform the European Parliament on the application of the Regulation, the “comply or explain” rule, and the possibility for the European Parliament to have an exchange of views with a Member State where there is a significant risk of deviation from the net expenditure path.

Chapter 7 (Article 30) of the proposed Regulation establishes the interaction with Regulation (EU) No 1176/2011 requiring that consideration be given to the launch of the Excessive Imbalance Procedure in the event in which Member States do not implement the reform and investment commitments relevant to the Macroeconomic Imbalances Procedure that are included in its medium-term fiscal-structural plan. It also provides that when the Excessive Imbalance Procedure is launched under Regulation (EU) No 1176/2011, the Member State will have to submit a revised medium-term fiscal-structural plan which will act as the corrective action plan under the latter Regulation.

Chapter 8 (Article 31) of the proposed Regulation sets out the interaction with Regulation (EU) No 472/2013. It exempts euro-area Member States subject to a macroeconomic adjustment programme from submitting a medium-term fiscal-structural plan and an annual progress report and it requires that euro-area Member States under enhanced surveillance take into account recommendations addressed by the Council in accordance with Article 121(4) TFEU in case of a deviation from the net expenditure path.

Chapter 9 (Articles 32 and 33) of the proposed Regulation empowers the Commission to make changes to the annexes (except for Annex I) through delegated acts and sets out the conditions under which the Commission can exercise this delegation.

Chapter 10 (Articles 34 to 38) of the proposed Regulation establishes the common provisions applicable to the proposed Regulation regarding dialogue with Member States and missions to Member States, the review clause, the repeal of Regulation (EC) No 1466/97 and the entry into force.

Annexes I to VII of the proposed Regulation contain the following elements: the criteria for setting the medium-term technical trajectory for Member States with public debt above 60%

of GDP or government deficit above 3% of GDP; the information to be provided by Member States in the medium-term fiscal-structural plans; the information to be provided by Member States in the annual progress reports; the functioning of the control account; the methodology to assess plausibility by the Commission; the list of common priorities of the Union; and the assessment framework for the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(6) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank (footnote)

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) The coordination of the economic policies of the Member States within the Union, as provided for by the Treaty on the Functioning of the European Union (TFEU), entails compliance with the guiding principles of stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

(2) The Stability and Growth Pact (SGP), which initially consisted of Council Regulation (EC) No 1466/97[19], Council Regulation (EC) No 1467/97 of 7 July 1997[20] and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact[21], is based on the objective of sound and sustainable government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable and inclusive growth and employment.

(3) The fiscal governance framework, which is the subject matter of this Regulation, is a part of the European Semester, which also comprises the coordination and surveillance of broader economic and employment policies of the Member States, in accordance with Articles 121 and 148 TFEU.

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[19] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

[20] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

[21] Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997 (OJ C 236, 2.8.1997, p. 1).

(4) 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.

(5) 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[22], 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.

(6) The economic governance framework of the Union should put debt sustainability and sustainable and inclusive growth at its core and therefore differentiate between Member States by taking into account their public debt challenges and allowing country-specific fiscal trajectories.

(7) The multilateral surveillance procedure set out in Article 121(2), (3) and (4) and Article 148(4) TFEU should monitor in accordance with more detailed rules the full range of economic and employment developments in each of the Member States and in the Union. That includes the detection of macroeconomic imbalances and the prevention and correction of excessive imbalances as set out in Regulations (EU) No 1174/2011[23] and (EU) No 1176/2011[24] of the European Parliament and of the Council. For the monitoring of such economic and employment developments, Member States should present information in the form of medium-term fiscal-structural plans.

(8) Detailed rules should therefore be laid down regarding the content, submission, assessment and monitoring of the national medium-term fiscal-structural plans, in order to promote debt sustainability and sustainable and inclusive growth in the Member States and prevent the occurrence of excessive government deficits through medium-term planning.

(9) 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

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[22] The European Climate Law sets a Union-wide climate neutrality objective by 2050 and requires Union institutions and Member States to progress in enhancing adaptive capacity, requiring significant public investment to reduce the negative socio-economic impacts of climate change on the EU and its Member States, including negative impacts on growth and fiscal sustainability.

[23] Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8).

[24] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

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[25], commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account.

(10) Cohesion policy funds are also synchronised with the European Semester process. As the long-term investment policy of the EU budget, cohesion policy investments and reforms should also be duly taken into account in the drawing of the national medium-term fiscal-structural plans. Each Member State should also explain how its national medium-term fiscal-structural plan will ensure consistency with the expenditure on EU programmes fully matched by EU funds revenue and the relevant national co-financing.

(11) The presentation of the national medium-term fiscal-structural plan should be preceded by a technical dialogue with the Commission to ensure compliance with the provisions of this Regulation. On the basis of a recommendation from the Commission, the Council should set the net expenditure path and endorse the reform and investment commitments, including those taken for the possible extension of the adjustment period, as appropriate.

(12) 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.

(13) 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.

(14) The technical trajectory put forward by the Commission should also ensure that the government deficit is brought and maintained below the 3% of gross domestic product (GDP) reference value.

(15) In order to assess whether further adjustments are required towards the end of the four-year implementation period of the national medium-term fiscal-structural plan, the Commission should reassess the situation and put forward a new technical trajectory if the public debt of the Member State is still above 60% of GDP reference value or its government deficit is higher than 3% of GDP reference value.

(16) 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

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25 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

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.

(17) When Member States use assumptions in their medium-term fiscal-structural plan that differ from the Commission's standard medium-term debt projection framework, they should explain and duly justify the differences in a transparent manner and based on sound economic arguments.

(18) Since Member States could face additional costs at the end of their medium-term fiscal-structural plan such as ageing costs or an unfavourable interest-growth differential, they should ensure that the headline balance at the end of the adjustment period will be sufficient to ensure that the deficit durably stays below the 3% of GDP reference value.

(19) In order to allow for a proper interaction between the common Union framework and national budgetary frameworks, the Commission should base its assessment only on nationally financed net primary expenditure developments. Member States should be able to set their national budgetary objectives in terms of a different indicator, such as the structural balance if this is required by their national budgetary framework.

(20) The Commission's assessment of the national medium-term fiscal-structural plans should examine in particular the plausibility of the macroeconomic and fiscal assumptions, to the extent that they depart from those underlying the technical trajectory. In particular, the debt projections at unchanged policy to be included in the plan should be consistent and comparable with the Commission projections.

(21) In order to ensure the implementation of the medium-term fiscal-structural plans, the Commission and the Council should monitor the reform and investment commitments made in these plans under the European Semester, based on the annual progress reports submitted by the Member States, and in accordance with the provisions of Articles 121 and 148 TFEU. To that effect, they should engage in a European Semester dialogue with the European Parliament.

(22) To ensure a more gradual debt reduction, the adjustment period can be extended by a maximum of 3 years if the Member State underpins its medium-term fiscal-structural plan with a set of verifiable and time-bound reforms and investment that, taken altogether: are growth-enhancing, support fiscal sustainability, address the common priorities of the Union, address relevant country-specific recommendations addressed to the Member State under the European Semester, and address the country-specific investment priorities without leading to cuts in other nationally financed public investment over the adjustment period in order to ensure a macroeconomic impact of investments and avoid crowding out of other investment priorities.

(23) With a view to ensuring an equitable and transparent process, the reform and investment commitments should be assessed using a common Union framework. During the lifetime of the Recovery and Resilience Facility, commitments in the national Recovery and Resilience Plans can be considered in the assessment of the request for an extension of the adjustment period, where applicable. The set of reforms and investments underpinning an extension of the fiscal adjustment path period should be commensurate with the degree of public debt challenges as established in the most recent update of the Debt Sustainability Monitor and challenges to medium-term growth in the Member State. For Member States where public debt challenges are linked to significant challenges to medium-term growth, the set of reforms and investments is expected to also address bottlenecks to medium-term growth.

(24) The set of reform and investment commitments put forward in the national medium-term fiscal-structural plans should be aligned with common priorities of the Union. That set of reform and investment commitments should also be consistent with the implementation of the national strategies put forward by the Member State concerned to address the relevant Union

priorities. Where relevant, during the lifetime of the Recovery and Resilience Facility, cross-references to the Recovery and Resilience Plans should be made to ensure policy consistency.

(25) Where the verifiable and time-bound set of reform and investment commitments underpinning the more gradual net expenditure path is not met within the specified deadline, the Council, on a recommendation from the Commission, can recommend that adjustment be steepened, that is to say by shortening the extension of the net expenditure path.

(26) To inform enforcement actions, in particular a report under Article 126(3) TFEU, the Commission should set up a control account for each Member State to keep track of annual deviations of the net expenditure observed in the Member State from the net expenditure path set by the Council, summing those deviations over time.

(27) Independent fiscal institutions have proven their capacity to foster fiscal discipline and strengthen the credibility of Member States' public finances. In order to enhance national ownership, the role of independent fiscal institutions, traditionally mandated to monitor compliance with the national framework, should be expanded to the economic governance framework of the Union.

(28) When providing an opinion on the draft budgetary plans submitted pursuant to Article 6 of Regulation (EU) No 473/2013 of the European Parliament and of the Council[26], the Commission should assess if the draft budgetary plans are consistent with the net expenditure paths pursuant to this Regulation.

(29) Particular attention should be given to significant risks of divergences of budgetary positions from the net expenditure path set by the Council. Therefore it is appropriate to complement the multilateral surveillance procedure set out in Article 121(3) and (4) TFEU with an early warning system whereby the Commission pursuant to Article 121(4) TFEU alerts a Member State at an early stage about the need to take the necessary budgetary corrective action in order to prevent its government deficit becoming excessive. Moreover, in the event of persistent budgetary slippage the Council should reinforce its recommendation and make it public.

(30) In case of major shocks to the euro area or the Union as a whole, it is necessary to have a general escape clause to be able to deal with a severe economic downturn in the euro area or the Union as a whole by allowing for a deviation from the net expenditure path provided that it does not endanger fiscal sustainability in the medium term.

(31) There should also be a country-specific escape clause to allow a deviation from the net expenditure path provided that it does not endanger fiscal sustainability in the medium term in the case of exceptional circumstances, such as unpredictable exogenous events that could not have been prevented and that require counter-cyclical fiscal measures, outside the control of the Member State which have a major impact on the public finances of the Member State. Such major impact should result in an overall size of the shock that exceeds a 'normal' range: for example costs of natural disasters should be factored in in budgetary planning within a certain range. The triggering and extension of general and country-specific escape clauses are subject to a Council recommendation.

(32) This Regulation is part of a package together with Council Directive [XXX amending 2011/85/EU] and Council Regulation [XXX amending Council Regulation (EC) No 1467/97].

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[26] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

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[27], in accordance with Article 16 thereof. By building on the experience with the implementation of the TSCG by the Member States, the proposed legislative package retains the Fiscal Compact's medium-term orientation as a tool to achieve budgetary discipline and growth promotion. The package includes a strengthened country-specific dimension aimed at enhancing national ownership, including by means of a stronger role for Independent Fiscal Institutions, which draws essentially on the Fiscal Compact's common principles proposed by the Commission[28] in accordance with Article 3(2) of the TSCG. The analysis of expenditure net of discretionary revenue measures for the overall assessment of compliance required by the Fiscal Compact is set out in this Regulation. As in the Fiscal Compact, temporary deviations from the medium-term plan are allowed only in exceptional circumstances in this Regulation. In a similar vein to the Fiscal Compact, in case of significant deviations from the medium-term plan, measures should be implemented to correct the deviations over a defined period of time. The package strengthens fiscal surveillance and enforcement procedures to deliver on the commitment of promoting sound and sustainable public finances and sustainable and inclusive growth. The economic governance framework reform, thus, retains the fundamental objectives of budgetary discipline and debt sustainability set out in the TSCG.

(33) In order to ensure effective implementation and appropriate monitoring of this Regulation, the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of: the information to be provided by Member States in their medium-term fiscal-structural plans, the information to be provided by Member States in their annual progress reports, the functioning of the control account, the methodology to assess plausibility by the Commission, drawing up of the list of common Union priorities and the assessment framework for the set of reform and investment commitments underpinning an extension of the fiscal adjustment period. It is of particular importance that the Commission carries out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making[29]. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

(34) The multilateral surveillance should be based on high quality and independent statistics produced in accordance with the principles laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council[30],

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27 Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of 2 March 2012.

28 Communication COM(2012) 342 final of 20 June 2012 from the Commission 'Common principles on national fiscal correction mechanisms.

29 OJ L 123, 12.5.2016, p. 1.

30 Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164).

HAVE ADOPTED THIS REGULATION:

CHAPTER I

SUBJECT-MATTER AND DEFINITIONS

Article 1

Subject-matter

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.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

(1) 'country-specific recommendation' means the annual guidance by the Council to a Member State on economic, budgetary, employment and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU);

(2) '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);

(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;

(4) 'net expenditure path' means the multi-annual trajectory for net expenditure of a Member State as set by the Council;

(5) 'national medium-term fiscal-structural plan' means the document containing the fiscal, reform and investment commitments of a Member State;

(6) 'annual progress report' means the document of a Member State reporting on the implementation of the net expenditure path, and of the reforms and investment commitments included in its national medium-term fiscal-structural plan;

(7) ‘adjustment period’ means the period of time over which the fiscal adjustment of a Member State takes place, covering a minimum adjustment period of 4 years of the national medium-term fiscal-structural plan and its possible extension;

(8) ‘control account’ means a record of the cumulated deviations of the actual net expenditure in a Member State from the net expenditure path;

(9) ‘structural balance’ means the cyclically adjusted general government balance net of temporary measures;

(10) ‘structural primary balance’ means the cyclically adjusted general government balance net of temporary measures and net of interest expenditure.

CHAPTER II

EUROPEAN SEMESTER

Article 3

The European Semester

In order to ensure closer coordination of economic policies and sustained convergence of the economic and social performance of the Member States, the Council and the Commission shall conduct multilateral surveillance within the European Semester in accordance with the objectives and requirements set out in the TFEU. Multilateral surveillance shall rely on high quality and independent statistics, produced in accordance with the principles laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council.

The European Semester shall include:

(a) the formulation, and the surveillance of the implementation, of the broad guidelines for the economic policies of the Member States and of the Union in accordance with Article 121(2) TFEU, of country-specific recommendations and of the recommendation on the economic policy of the euro area;

(b) the formulation, and the surveillance of the implementation, of the employment guidelines that are to be taken into account by Member States in accordance with Article 148(2) TFEU, including the European Pillar of Social Rights, and of the related country-specific recommendations;

(c) the submission, assessment and endorsement of Member States’ medium-term fiscal-structural plans, as well as their monitoring via the annual progress reports;

(d) the surveillance to prevent and correct macroeconomic imbalances pursuant to Regulation (EU) No 1176/2011;

(e) other multilateral surveillance procedures established by the European Parliament and the Council pursuant to Article 121(6) TFEU.

Article 4

Implementation of the European Semester

1. Where necessary, following the assessment pursuant to this Regulation of the medium-term fiscal-structural plans, the annual progress reports and the socio-economic situation of the Member States concerned, the Council shall, on the basis of recommendations from the

Commission, address recommendations to those Member States making full use of the legal instruments provided in Articles 121 and 148 TFEU and related secondary legislation.

2. Member States shall take due account of the broad guidelines for the economic policies of the Member States, of the employment guidelines and of the recommendations referred to in Article 3, second paragraph, points (a) and (b) before taking key decisions in the development of their economic, employment and budgetary policies. Progress shall be monitored by the Commission.

3. Failure by a Member State to act upon the guidance received may result in:

(a) further country-specific recommendations;

(b) a warning by the Commission or a recommendation by the Council pursuant to Article 121(4) TFEU;

(c) measures under this Regulation, Council Regulation (EC) No 1467/97[31] or Regulation (EU) No 1176/2011.

CHAPTER III

THE TECHNICAL TRAJECTORY

Article 5

Technical trajectory

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.

Article 6

Requirements for the technical trajectory

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;

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[31] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

(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

(e) national net expenditure growth remains below medium-term output growth, on average, as a rule over the horizon of the plan.

The technical trajectories shall be differentiated for each Member State. The criteria for setting the technical trajectories are set out in Annex I.

Article 7

Prior guidance by the Commission

1. By [1 March] of the year [xxxx] in which the Member States have to submit for the first time their medium-term fiscal-structural plans or, as appropriate, within 3 weeks from the request of the Member State to submit a new plan, the Commission shall publish:
   (a) the underlying medium-term public debt projection framework and results;
   (b) its macroeconomic forecast and assumptions;
   (c) the technical trajectory, if required under Article 5, and the corresponding structural primary balance.

2. For Member States having a government deficit below the 3% of GDP reference value and public debt below the 60% of GDP reference value, the Commission shall provide technical information regarding the structural primary balance necessary to ensure that the headline deficit is maintained below the 3% of GDP reference value without any additional policy measures over a 10-year period after the end of the national medium-term fiscal-structural plan.
3. The Commission shall update the technical trajectories and the quantitative guidance at least once every 4 years in time for the submission of the next cycle of medium-term fiscal-structural plans.

Article 8

Assessment of plausibility

To assess plausibility that the projected public debt ratio of the Member State concerned is on a downward path or remains at a prudent level, the Commission shall use the methodology referred to in Annex V. The Commission shall make public its analysis of plausibility and the underlying data.

CHAPTER IV

NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLANS

Article 9

Submission of the national medium-term fiscal-structural plans

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.

Article 10

Technical dialogue

Prior to the submission of its national medium-term fiscal-structural plan, the Member State concerned shall hold with the Commission a technical dialogue, with the objective of ensuring that the national medium-term fiscal-structural plan complies with Articles 11, 12 and 14.

Article 11

Content of the national medium-term fiscal-structural plan

1. The national medium-term fiscal-structural plan shall provide the information listed in Annex II. In particular, it shall present a net expenditure trajectory covering a period of at least 4 years, as well as the underlying macroeconomic assumptions and the planned fiscal-structural measures in order to demonstrate compliance with the requirements of Article 12.

The national medium-term fiscal-structural plan shall also describe the actions of the Member State concerned to address the country-specific recommendations, including those that are relevant for the Macroeconomic Imbalances Procedure, and the warnings by the Commission, where applicable, or the recommendations by the Council, where applicable, made pursuant to Article 121(4) TFEU.

2. Where the national-medium-term fiscal-structural plan includes a higher net expenditure trajectory than in the technical trajectory issued by the Commission pursuant to Article 5, the Member State shall provide in its plan sound and verifiable economic arguments explaining the difference.

Article 12

Requirements

The national medium-term fiscal-structural plan shall:

(a) ensure the fiscal adjustment necessary to put or keep public debt on a plausibly downward path by the end of the adjustment period at the latest, or remain at prudent levels, and to bring and maintain the government deficit below the 3% of GDP reference value over the medium term;

(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;

(c) if applicable, explain how it will ensure the delivery of a relevant set of reforms and investments referred to in Article 13, underpinning an extension of the Member State's adjustment period by 3 years at most;

(d) explain how it will ensure consistency with the Recovery and Resilience Plan of the Member State concerned during the period of availability of the Recovery and Resilience Facility in accordance with Regulation (EU) 2021/241.

Article 13

Conditions for an extension of the adjustment period

1. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in paragraph 2, the adjustment period may be extended by 3 years at most.
2. The set of reform and investment commitments underpinning an extension of the adjustment period, shall be commensurate with the degree of public debt challenges and challenges to medium-term growth in the Member State concerned.

The set of reforms and investment commitments shall fulfil, taken altogether, the following criteria:

(i) be growth enhancing;

(ii) support fiscal sustainability;

(iii) address the common priorities of the Union referred to in Annex VI;

(iv) address relevant country-specific recommendations addressed to the Member State concerned, including, where applicable, recommendations issued under the Macroeconomic Imbalances Procedure;

(v) ensure that the overall level of nationally financed public investment over the lifetime of the national medium-term fiscal-structural plan is higher than the medium-term level before the period of that plan.

3. Each of the reform and investment commitments underpinning an extension of the adjustment period shall be sufficiently detailed, front-loaded, time-bound and verifiable.
4. During the lifetime of the Recovery and Resilience Facility, in accordance with Regulation (EU) 2021/241, commitments included in the approved Recovery and Resilience Plan of the Member State concerned can be taken into account for an extension of the adjustment period.
5. The assessment of whether the set of reforms and investment commitments fulfil the criteria set out in paragraph 2 and of whether each of the reform and investment commitment fulfil the conditions set out in paragraph 3 shall be carried out in accordance with the assessment framework set out in Annex VII.

Article 14

Revised national medium-term fiscal-structural plan

1. A Member State may request to submit a revised national medium-term fiscal-structural plan to the Commission before the end of its adjustment period if there are objective circumstances preventing the implementation of the original national medium-term fiscal-structural plan or if the submission of a new national medium-term fiscal-structural plan is requested by a new government.
2. Prior to the submission of the revised national medium-term fiscal-structural plan, the Commission shall put forward, in a report to the Economic and Financial Committee, a new technical trajectory.
3. Taking into account the past adjustment of the Member State concerned or the lack thereof, the new technical trajectory shall not allow backloading of the fiscal adjustment effort and shall not lead to a lower fiscal adjustment effort.
4. Where a revised national medium-term fiscal-structural plan is submitted, Articles 12 and 15 to 19 shall apply.
5. The Commission shall in particular assess, if applicable, whether any extension of the adjustment period is to continue to apply under the revised national medium-term fiscal-structural plan, taking into account the implementation of the set of reform and investment

commitments underpinning the extension under the original plan and the changes in terms of public debt challenges under the revised national medium-term fiscal-structural plan.

Article 15

Assessment of national medium-term fiscal-structural plans by the Commission

1. The Commission shall assess each national medium-term fiscal-structural plan within 2 months of its submission. The Member State concerned and the Commission may agree to extend the period of assessment by a reasonable period if necessary.

2. When assessing the national medium-term fiscal-structural plan the Commission shall examine for all Member States:

(a) whether the national medium-term fiscal-structural plan ensures that public debt is put or kept on a plausibly downward path by the end of the adjustment period at the latest, or stays at prudent levels;

(b) whether the government deficit is maintained below the 3% of GDP reference value throughout the duration of the plan or whether the government deficit returns swiftly below the 3% of GDP reference value at the latest by the end of the adjustment period when the deficit is above this reference value at the time of submission of the national medium-term fiscal-structural plan;

(c) whether the government deficit is maintained below the 3% of GDP reference value in the absence of further budgetary measures over a period of 10 years;

(d) whether 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;

(e) whether for the years that the Member State concerned is expected to have a deficit above the 3% of GDP reference value, and the excess is not close and temporary, the fiscal adjustment is consistent with the benchmark referred to under Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation [X]; and

(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.

3. In addition the Commission shall examine for the Member State concerned:

(a) whether the set of reform and investment commitments underpinning an extension of the adjustment period fulfil the conditions set out in Article 13;

(b) whether the other reform and investment commitments contained in the plan comply with the requirements of Article 12, letter b.

Article 16

Endorsement of the national medium-term fiscal-structural plan by the Council

The Council, on a recommendation from the Commission, shall adopt a recommendation setting the net expenditure path of the Member State concerned and, if applicable, endorsing the set of reform and investment commitments underpinning an extension of the adjustment period included in its national medium-term fiscal-structural plan within four weeks of the adoption of the Commission recommendation as a rule.

Where the national medium-term fiscal-structural plan serves as the corrective action plan required for the correction of excessive macroeconomic imbalances, as provided for in Article 30, the Council shall also endorse in that recommendation the reforms and investment necessary to correct the imbalances.

Article 17

Council Recommendation for a revised national medium-term fiscal-structural plan

Where it considers that the plan does not comply with the requirements set out in Article 15 (2) and (3) point (a), the Council shall, on a recommendation from the Commission, recommend that the Member State concerned submits a revised national medium-term fiscal-structural plan.

Article 18

Council Recommendation in case of failure by the Member State

The Council shall, on a recommendation from the Commission, recommend to the Member State concerned that the technical trajectory issued by the Commission be the net expenditure path of the Member State where:

(a) the Member State concerned fails to submit a revised national medium-term fiscal-structural plan within one month of the recommendation by the Council;

(b) the Council considers that the revised national medium-term fiscal-structural plan does not comply with the requirements set out in Article 15(2) and (3), point (a);

(c) the Member State fails to submit a new national medium-term fiscal-structural plan at the end of the period covered by the previous national medium-term fiscal-structural plan.

Article 19

Failure by a Member State to satisfactorily comply with its commitments underpinning an extension of its adjustment period

Where a Member State has been granted an extension of its adjustment period but fails to satisfactorily comply with its set of reform and investment commitments underpinning the extension referred to in Article 13(1), the Council may on a recommendation from the Commission, recommend a revised net expenditure path with a shorter adjustment period.

CHAPTER V

IMPLEMENTATION OF THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLANS

Article 20

Progress report

1. Each Member State shall submit to the Commission an annual progress report on the implementation of its national medium-term fiscal-structural plan, by 15 April each year at the latest.

2. The annual progress report referred to in paragraph 1 shall contain in particular information about the progress in the implementation of the net expenditure path, the implementation of

broader reform and investment commitments in the European Semester context and, if applicable, in the implementation of the set of reform and investment commitments underpinning an extension of the adjustment period.

3. The annual progress report referred to in paragraph 1 shall also contain the information set out in Annex III.

4. Each Member State shall make its annual progress report public.

Article 21

Monitoring by the Commission

The Commission shall monitor the implementation of the national medium-term fiscal-structural plan, and in particular, the net expenditure path.

The Commission shall set up a control account, functioning in accordance with Annex IV, and shall keep track of cumulative upward and downward deviations of actual net expenditures from the net expenditure path.

Article 22

Role of independent fiscal institutions

Each national independent fiscal institution referred to in Article 8 of Council Directive […][32] [on the national budgetary frameworks] shall provide an assessment of compliance of the budgetary outturns data reported in the progress report referred to in Article 20 with the net expenditure path. Where applicable, each national independent fiscal institution shall also analyse the factors underlying a deviation from the net expenditure path.

Article 23

Commission warning and Council recommendation for policy measures

1. In the event of a significant risk of deviation from the net expenditure path or a risk that the government deficit may exceed the 3% of GDP reference value, the Commission may address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

2. On the basis of a Commission recommendation, the Council shall, within one month of the Commission warning referred to in paragraph 1, adopt a recommendation to the Member State concerned for the necessary policy measures, in accordance with Article 121(4) TFEU.

Article 24

Severe economic downturn in the euro area or the Union as a whole

On a recommendation from the Commission, the Council may adopt a recommendation allowing Member States to deviate from their net expenditure path, in the event of a severe economic downturn in the euro area or the Union as a whole, provided it does not endanger fiscal sustainability in the medium term. The Council shall specify a time-limit for such deviation.

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[32] Council Directive […] of […] [amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States] (OJ …., …, p,…)

As long as the severe economic downturn in the euro area or the Union as a whole persists, the Commission shall continue to monitor debt sustainability and ensure policy coordination and a consistent policy mix that takes into account the euro area and the Union dimension.

The Council, on a recommendation from the Commission, may extend the period during which Member States may deviate from the net expenditure paths, provided that the severe economic downturn in the euro area or the Union as a whole persists. An extension may be granted more than once. However, each extension shall be for an additional period of one year at most.

Article 25

Exceptional circumstances outside the control of the Member State leading to a major impact on the public finances of the Member State concerned

On a recommendation from the Commission, the Council may adopt a recommendation allowing a Member State to deviate from its net expenditure path where exceptional circumstances outside the control of the Member State lead to a major impact on the public finances of the Member State concerned, provided it does not endanger fiscal sustainability in the medium term. The Council shall specify a time-limit for such a deviation.

The Council, on a recommendation from the Commission, may extend the period during which the Member State may deviate from the net expenditure path, provided that the exceptional circumstances persist. An extension may be granted more than once. However, each extension shall be for an additional period of one year at most.

CHAPTER VI

ECONOMIC DIALOGUE

Article 26

European Semester Dialogue

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.

In order to enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure transparency and accountability, the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before it to discuss the policy guidance to Member States issued by the Commission, conclusions drawn by the European Council and the results of multilateral surveillance carried out under this Regulation.

The President of the Council, and the Commission in accordance with Article 121 TFEU, 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.

Article 27

Comply or explain rule

The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.

Article 28

Dialogue with a Member State

Where the Council addresses a recommendation to a Member State pursuant to Article 23(2) in the event of a significant risk of deviation from the net expenditure path, the European Parliament may offer the opportunity to that Member State, to participate in an exchange of views.

Article 29

Regular information of the European Parliament

1. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation.
2. The Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out pursuant to this Regulation.

CHAPTER VII

INTERACTION WITH REGULATION (EU) No 1176/2011

Article 30

Interaction with the Macro-Economic Imbalance Procedure

1. Where a Member State fails to implement the reform and investment commitments included in its national medium-term fiscal-structural plan to address the country-specific recommendations that are relevant for the Macroeconomic Imbalance Procedure established by Regulation (EU) No 1176/2011, and where the Commission considers that the Member State concerned is affected by excessive imbalances in accordance with Article 7(1) of that Regulation, the procedure laid down in Article 7(2) of Regulation (EU) No 1176/2011 shall apply.

2. In that case, the Member State for which an excessive imbalance procedure is opened in accordance with Article 7(2) of Regulation (EU) No 1176/2011, it shall submit a revised plan in accordance with Article 14 of this Regulation. The revised plan shall follow the Council recommendation adopted in accordance with Article 7(2) of Regulation (EU) No 1176/2011. The submission of the revised plan shall be subject to the endorsement by the Council in accordance with Articles 16 to 19 of this Regulation. The revised plan shall be assessed in accordance with Article 15 of this Regulation.

3. Where a Member State submits a revised medium-term fiscal-structural plan pursuant to paragraph 2, that revised plan shall serve as the corrective action plan required under Article 8(1) of Regulation (EU) No 1176/2011 and shall set out the specific policy actions the Member State concerned has implemented or intends to implement and shall include a timetable for those actions.

In that case, in accordance with Article 8(2) of Regulation (EU) No 1176/2011, the Council, on the basis of a Commission assessment, shall assess the revised plan within 2 months of its submission. The monitoring and assessment of the implementation of the revised plan shall be made in accordance with Article 21 of this Regulation and Articles 9 and 10 of Regulation (EU) No 1176/2011.

CHAPTER VIII

INTERACTION WITH REGULATION (EU) No 472/2013

Article 31

Interaction with the enhanced surveillance procedure

A Member State subject to enhanced surveillance under Article 2 of Regulation (EU) No 472/2013 of the European Parliament and of the Council[33] shall take into account any recommendations addressed to it under Article 23 of this Regulation when adopting measures aimed at addressing the sources or potential sources of difficulties pursuant to Article 3(1) of that Regulation.

Where a Member State is subject to a macroeconomic adjustment programme and the changes thereto in accordance with Article 7 of Regulation (EU) No 472/2013, it shall not be required to submit a medium-term fiscal-structural plan pursuant to Article 9 of this Regulation and an annual progress report pursuant to Article 20 of this Regulation.

CHAPTER IX

DELEGATED POWERS

Article 32

Amendment of the annexes

The Commission is empowered to adopt delegated acts in accordance with Article 33 to amend Annexes II to VII to adapt them to take due account of further developments or needs regarding the information in the national medium-term fiscal-structural plan (Annex II) or in the annual progress reports (Annex III), regarding the functioning of the control account (Annex IV), regarding the methodology for the assessment of plausibility (Annex V), regarding the common priorities of the Union (Annex VI) or regarding the assessment framework (Annex VII).

Article 33

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 32 shall be conferred for an indeterminate period of time from XXX.
3. The delegations of power referred to in Article 32 may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect on the day following the publication of the decision in

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[33] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

6. A delegated act adopted pursuant to Article 32 shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of one month of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by one month at the initiative of the European Parliament or of the Council.

CHAPTER X

COMMON PROVISIONS

Article 34

Dialogue with the Member States

The Commission shall ensure a permanent dialogue with Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the socio-economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

Article 35

In-depth surveillance missions

1. The Commission may undertake in-depth surveillance missions in Member States which are the subject of recommendations issued pursuant to Article 23 for the purposes of on-site monitoring.

2. When the Member State concerned is a Member State whose currency is the euro or a Member State that is participating in ERM2, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Article 36

Report

1. By [31 December 2030] and every 5 years thereafter, the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation accompanied, where appropriate, by a proposal to amend this Regulation. The Commission shall make that report public.

2. The report referred to in paragraph 1 shall review:

   (a) the effectiveness of this Regulation, particularly whether the provisions governing decision-making have proved sufficiently efficient in ensuring a downward path for public debt ratios or maintaining them at prudent levels in accordance with the relevant Council recommendations;

(b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States.

3. The report shall be forwarded to the European Parliament and the Council.

Article 37

Repeal of Regulation (EC) No 1466/97

Regulation (EC) No 1466/97 is repealed.

Article 38

Entry into force

This Regulation shall enter into force on the [twentieth] day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*