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## RESOLUTION OF THE 5TH STANDING COMMITTEE

(Economic planning, budget)

(Rapporteur MENNUNI)

*adopted at the sitting of 7 December 2023*

ABOUT

**PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON 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 PROCEDURES FOR THE IMPLEMENTATION OF THE EXCESSIVE DEFICIT PROCEDURE EXCESSIVE DEFICIT PROCEDURE (COM(2023) 241 FINAL)**

**PROPOSAL FOR A COUNCIL DIRECTIVE AMENDING COUNCIL DIRECTIVE 2011/85/EU ON REQUIREMENTS FOR BUDGETARY FRAMEWORKS OF THE MEMBER STATES BUDGETARY FRAMEWORKS OF THE MEMBER STATES (COM(2023) 242 FINAL)**

*pursuant to Rule 144(1) and (6) of the Rules of Procedure*



The Commission,

examined, pursuant to Rule 144 of the Rules of Procedure of the Senate,

the proposal for a regulation of the European Parliament and of the Council on effective coordination of economic policies and multilateral budgetary surveillance and repealing and replacing Council Regulation (EC) No 1466/97 (COM(2023) 240 final);

the 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);

the proposal for a Council Directive amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (COM(2023) 242 final);

WHEREAS:

on 26 April 2023, the European Commission presented the three legislative proposals to reform the EU economic *governance* rules framework, which essentially consists of the EU fiscal policy framework (Stability and Growth Pact and requirements for national fiscal frameworks) and the macroeconomic imbalances procedure, implemented in the context of the European Semester, as well as the framework for macroeconomic financial assistance programmes, and that

1) the proposal for a regulation COM(2023) 240 (and annexes) repealing and replacing Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (regulation establishing the European Semester and the so-called 'preventive arm' of the Stability and Growth Pact);

2) the proposal for a Council Regulation COM(2023) 241 amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (known as the 'corrective arm' of the Stability and Growth Pact);

3) Proposal for a Council Directive COM(2023) 242 amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States;

the proposals are the result of a wide-ranging and articulate discussion - which started more than three years ago and in which the various

steps, also the Italian Parliament - on the opportunity to reform the economic and budgetary rules of the European Union. This is to improve their comprehensibility and transparency, to adapt them to the macroeconomic context and to the new political priorities pursued by the European Union, such as the green and digital transitions, as well as to improve the effectiveness of their implementation;

In November 2022, having assessed the contributions submitted by a variety of actors, including EU institutions, national governments and parliaments, citizens, social partners, non-governmental institutions and academia, having considered the positions of the Member States and in an attempt to foster a convergence between them, the European Commission issued a communication (COM(2022) 583 final) containing reform guidelines, on which negotiations between the Member States and the European Commission continued;

also on the basis of the Commission's guidelines, the ECOFIN Council of 14 March 2023 set out in its conclusions some convergence lines for reform, while at the same time pointing out the issues that needed further consideration. The conclusions were endorsed by the European Council on 23 March;

the above-mentioned European Commission Communication of 9 November 2022 on the guidelines for reform of the EU economic *governance* framework was examined by both the Chamber of Deputies and the Senate of the Republic between February and March 2023;

In the Chamber of Deputies, the communication was assigned to the 5th Commission (Budget), as well as to the 14th Commission (European Union Policies), for its opinion. Similarly, in the Senate, the communication was assigned to the 5<sup>a</sup> Commission (Budget), as well as to the 4<sup>a</sup> Commission (European Union Policies) for its opinion, pursuant to Rule 144(1) and (6) of the Senate Rules of Procedure;

At the end of the round of hearings, the V Commission of the Chamber of Deputies, having taken note of the favourable opinion with conditions approved by the XIV Commission, adopted a final document on 8 March 2023, while the 5<sup>a</sup> Commission of the Senate adopted a resolution on 9 March 2023;

held that:

the Commission's proposal represents a step forward, as it focuses on the sustainability of public accounts in the medium term rather than on the annual calibration of budgetary policy, aiming to reduce the complexity of the framework of rules, increase national ownership and strike a better balance between prudence and realism in each country's adjustment path - while giving the Commission itself broad technical-discretionary powers

nals and a considerable influence on scenario and trajectory setting methodologies;

this proposal recognises, in its formal premise, that - although the risk of unequal treatment between countries must be minimised - in a complex and highly interdependent context such as the European one, budgetary rules can neither be defined precisely for all possible circumstances, nor based solely on numerical criteria; instead, it would be necessary to ensure adequate margins for adaptation, state by state, which would make their application more effective;

The declared greater flexibility of the rules - which in some cases provide for the automatic opening of an infringement procedure as a sanction - is matched by greater discretion on the part of the European institutions called upon to apply them, a profile that must be assessed very carefully. In particular, one must consider the nature of the proposal, which introduces a different and strengthened role for the sustainability analysis, which in turn reproduces some of the problems associated with estimating the growth of 'potential product';

In fact, the European Commission initially proposes a technical trajectory to indicate to the Member States a path of fiscal consolidation; this translates into a path of containment, in real terms, of net primary expenditure, aimed primarily at a gradual reduction of debt in relation to gross domestic product (GDP). Should this trajectory be considered binding, as at present would appear to be the case in light of the fact that in the event of a failure to reach agreement between the individual states and the Commission, the trajectory drawn up by the latter would in any case be applied, there could instead be a strengthening of the Commission's powers to direct economic policies and fiscal consolidation - within multiple and decisive "bilateral" relationships, even if they are then adopted by the Council, which is responsible for approving the plan. In this first phase, however, it would seem more appropriate for the Commission to limit itself to setting guidelines of a more general nature - and not excessively specific directives, strongly 'modelled' on technical-economic methodologies - for the individual States; and this similarly to what currently happens for the annual growth analysis, also in order not to interfere in the institutional relations between the Government and Parliament for the purposes of defining the national economic planning lines established through the Economic and Financial Document and the relative Update Note;

another element to be considered concerns the role of the debt sustainability analysis (DSA), which is used to define, in particular, the reference adjustment path; the DSA is very sensitive to the underlying assumptions and particular care must be taken when communicating the results of the exercise, as well as the 'signalling power', to the financial markets, where this 'ascertainment'

preliminary is resolved - as a sort of official *rating*, potentially conditioning, a priori, i.e. irrespective of subsequent adjustment efforts later agreed with the Commission, the degree of market access of individual Member States in the placement of their public debt;

the proposal, moreover, does not provide for an ambitious differentiated treatment of investment expenditure consistent with the development priorities and needs legislatively established at the European level, in particular the ecological and digital transition; Furthermore, there is a need for more in-depth treatment of expenditure of a social nature, the inclusion of which in the single aggregate of reference risks exacerbating the differences between individual states with regard to the implementation of effective social cohesion or, at any rate, anti-cyclical policies - in the face of a series of structural asymmetries that are already known and which are based on the manifest divergences in the fiscal room for manoeuvre allowed to the various states;

With regard to the system of sanctions, envisaged for Member States that are already in infringement proceedings and have not implemented effective corrective actions, incentive rewarding mechanisms to accompany the sanctions themselves - also taking greater account of the concrete phase of the economic cycle of the individual States - could be appropriately explored. The provision of a more automatic infringement procedure for the failure to comply, even partially, with the 'path' agreed between the State and the Commission and approved by the Council, runs the risk of being excessively afflictive, because it could jeopardise the achievement of investment objectives, and more generally of (socially) sustainable growth, which have always been declared at European level;

This in a framework in which, in any case, the surveillance procedure on macroeconomic imbalances is not sufficiently clarified at a regulatory level (in particular on the point of the rigidity of the agreed targets and parameters and their re-negotiation-ability in the light of the criterion *rebus sic stantibus*, i.e. of not insignificant and objective changed circumstances regarding growth conditions in an individual State), although there is an obvious interconnection between the latter and budgetary discipline;

The difficulties of revising the Treaties have been addressed in many institutional contexts, and the reform path proposed by the Commission does not envisage amending the Treaties; in fact, it is limited to intervention in secondary legislation and the implementation of the rules. However, even with this reductionist vision, justified in the name of an unclear speed of decision (given the almost simultaneous proposal to reform the fundamental treaty, with which it would have been appropriate to coordinate the discipline now under consideration), the disagreements between the founding countries of the European Union are persistent and manifest themselves as complex to resolve;

it is noted, in the outline of the draft reform, the unrealistic pace of public debt reduction required under the rule of 1/20 per year of the share exceeding the 60 per cent limit; However, in a not entirely consistent manner, the reform is set to correct economic imbalances and divergences between member states (i.e. macroeconomic and competitiveness divergences that go beyond the sole dimension of the annual deficit and public debt in relation to GDP), through the almost exclusive preservation of the 'solidity' of public finances, with a view to more intense fiscal surveillance exercised by the European Commission;

In this area, the Commission would seem to acquire, to the detriment of the Council, more regulatory, authorising and negotiating discretion;

in particular, low growth has been recorded in the euro area countries and, without questioning the actual causes of this phenomenon (linked, according to the most widespread economic criticism, to the pursuit of an economy mainly oriented towards exports), attention has focused on the need to prioritise a composition of public spending that increases 'growth and resilience' (albeit in the presence of constant fiscal consolidation); this emphatic objective would derive from pursuing reforms and investments in the areas of green and digital transition, defence and energy security. However, such a *one-size-fits-all* choice of industrial policy does not take into account the specialisation of production in general, and of an economic-industrial nature in particular, that has been created in the Union (as opposed to the desired "convergence" and allocative efficiency enunciated in Articles 119 and 120 of the Treaty on the Functioning of the European Union - TFEU); and this is not in harmony with the simplification intent, only theoretically geared to the needs of each Member State, that one would like to impart to the reform;

it emerges that the Commission, taking the experience of the National Recovery and Resilience Plans as a reference, proposes to outline medium-term national budgetary structural plans, whereby Member States should define their budgetary, reform and investment commitments, within a common EU framework; this approach to the dynamics of expenditure only partially increases investment in the autonomous productive capacity of EU countries, and, on the other hand, risks a substantial impact on current expenditure. On the whole, given the 'priority' industrial policy sectors at the Union level, the risk of an overall technological dependence on imports from areas and countries that are considerably more competitive in these same sectors is overlooked. On the other hand, there is a risk that the indispensable current expenditure interventions (which are inseparably linked to the management and maintenance of the same infrastructures and production units that should be increased, a problem already anticipated by the 'philosophy' that inspires the *Next Generation* EU-National *Plan for Recovery and Resilience*) will be depotentiated in an exacerbated manner:

With obvious predictability, these choices, together with the fiscal consolidation that is in any case considered a priority, would further limit the essential services provided to citizens, constitutionally envisaged as public and for universal use, such as health, transport, schooling, maintenance of the territory and infrastructure heritage, civil protection, road network, public safety, etc;

it must be considered central in this assessment, from the perspective of debt sustainability that should generate sustainable and inclusive growth, that we should not and cannot fall back on a revival of the idea of 'expansive austerity'; unfortunately, experience in the eurozone, on the other hand, has made it clear that growth has long disappeared and debt as a proportion of GDP has increased. And this, according to well-known data for all eurozone countries, even without the pandemic emergency;

Within this framework, and thus on the basis of assumptions such as the analysis of the sustainability of the respective public debt and the regulatory encouragement only of specific and rigid sectoral industrial policy lines, the provision that each Member State must enter into an agreement within precise guidelines on the medium-term national budget structure plan that is instrumental in achieving the main, if not sole, objective of a stable reduction in public debt in relation to GDP does not appear to be a suitable means of pursuing adequate growth (which has been lacking to date);

the surveillance of national plans, as we have seen, is essentially based on the indicator of 'net primary public expenditure' declined in growth rates (nominal and divorced from consideration of the level of inflation, and, even more so, its causes) that are annually insurmountable; in the event of their violation, there is also, in contrast to the declared greater fiscal flexibility, the automatic activation of the infringement procedure for excessive debt;

In the light of estimates by independent bodies, it can be deduced that - for a state such as Italy, considered, from the very first simulations of the methodology to be adopted, at high risk of public debt sustainability - the level of fiscal consolidation could be difficult to sustain and adverse to adequate growth;

With respect to the emphasised concept of *ownership of the plans* by the countries, on the basis of the '*assessment framework*' established by the Commission, the *deficit* or excessive debt procedures will in any case be activated; this centralised regulatory and assessment structure turns out to be the negation in terms of the affirmation that each State retains the availability of its fundamental social, economic and fiscal interests - a concept of *ownership* correctly understood, according to the common *ex bona fide* interpretation resulting from the principle of reasonableness and proportionality and from the international law of the treaties themselves;



additionally, and not secondarily, as things stand, the European Commission's proposal does not envisage a criterion for exempting public investments, or even just certain types of them, depending on the concrete economic cycle of a Member State, from the calculation of the annual deficit; what is expressly envisaged in the second part of Article 126(3) TFEU is still not being complied with, even in a reform that should have been born out of a well-considered experience of the errors and divergences that have been recorded to date;

noted that:

the ECOFIN Council of 8 December 2023 could endorse the general approach on EU economic *governance* reform, which could also inform the European Council of 14 and 15 December 2023;

noted the need for this final document to be transmitted to the European Commission in a timely manner, within the framework of the so-called political dialogue, as well as to the European Parliament and the Council,

commits the Government to continue negotiations at the European level, highlighting the following issues:

a) the contents and actual modalities for defining the technical trajectory, aimed at guiding the dialogue with the Member States for the identification of the path for containing the expenditure aggregate and the related decrease in the debt-to-GDP ratio, are better clarified, also providing that the identification of the modalities for implementing the plan is the responsibility of the Government and Parliament of the Member State;

b) it is envisaged that the medium-term structural and budgetary plan favours, in a verifiable manner and possibly by making transparent changes, an approach conducive to economic growth, providing incentives for investment so as to encourage a reduction in the debt/GDP ratio through policies designed to increase the denominator (and not just reduce the numerator of that ratio). The need for a gradual and realistic reduction in debt be reconciled with the provision of adequate fiscal space for policies to stabilise the economic cycle and for structural policies to support economic growth and sustainable development, in the medium- and long-term balance of payments balance (as prescribed, finally, in Article 119(3) TFEU). Adequate instruments should be provided to preserve and incentivise public investment in security, defence and programmes of European interest financed with national resources;

c) a constant and effective negotiating involvement, as such preventive, of the Member States is foreseen, also in the phase of determining the criteria underlying the elaboration of the nominal growth paths of the expenditure aggregate of reference, so that the objective of increasing the degree of national ownership is effectively achieved

of the new rules, in addition to the one already provided for in the draft regulations; the latter also implies, not secondarily, the provision of flexibility subsequent (to the initial agreement), which can be activated on the basis of significant objective circumstances that have arisen, affecting the economic situation of each Member State;

d) given the extreme sensitivity to the assumptions of the DSA (such as GDP growth, interest rates, inflation and public finance projections), it is considered of fundamental importance that the choice of these parameters be made with great care and, while respecting the equal treatment of member countries, be agreed between the European Commission and the latter on the basis of clear and transparent empirical evidence and widely shared and unambiguous technical arguments, to also take into account the realistically estimated effects of structural reforms on growth potential. The methodology for quantifying the impact of reforms and investments on medium-term growth must also be the result of a comparison that will have to define shared lines;

e) differentiated treatment is provided for certain types of investment expenditure, including those related to defence needs and national investment expenditure related to European investment programmes, and in particular interventions financed by NRP loans;

f) further reflection is initiated with the relevant European institutions on the need to move beyond an EU economic *governance* framework hinging on compliance with the 3% *deficit* and 60% debt parameters;

g) the possible introduction of debt and *deficit* reduction parameters to be achieved after the completion of the adjustment process based on the DSA is calibrated in such a way as to avoid these parameters turning into further stringent rules that overly complicate economic *governance* and excessively constrain the budgetary policies of European countries;

h) in the event of a failure to reach agreement at European level by the end of 2023, support the extension of the general safeguard clause of the Pact pending a proposal that obtains the consensus of the Member States, if the conditions are met.





