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REPORT

on 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)0241 – C9-0172/2023 – 2023/0137(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Esther de Lange, Margarida Marques

Symbols for procedures

- * Consultation procedure
- *** Consent procedure
- ***I Ordinary legislative procedure (first reading)
- ***II Ordinary legislative procedure (second reading)
- ***III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

Amendments to a draft act

Amendments by Parliament set out in two columns

Deletions are indicated in ***bold italics*** in the left-hand column. Replacements are indicated in ***bold italics*** in both columns. New text is indicated in ***bold italics*** in the right-hand column.

The first and second lines of the header of each amendment identify the relevant part of the draft act under consideration. If an amendment pertains to an existing act that the draft act is seeking to amend, the amendment heading includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend.

Amendments by Parliament in the form of a consolidated text

New text is highlighted in ***bold italics***. Deletions are indicated using either the **■** symbol or ~~strikeout~~. Replacements are indicated by highlighting the new text in ***bold italics*** and by deleting or striking out the text that has been replaced.

By way of exception, purely technical changes made by the drafting departments in preparing the final text are not highlighted.

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DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on 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)0241 – C9-0172/2023 – 2023/0137(CNS))

(Special legislative procedure – consultation)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2023)0241),
 - having regard to Article 126(14), second subparagraph, of the Treaty on the Functioning of the European Union, pursuant to which the Council consulted Parliament (C9-0172/2023),
 - having regard to Rule 82 of its Rules of Procedure,
 - having regard to the letter from the Committee on Budgets,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A9-0444/2023),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, in accordance with Article 293(2) of the Treaty on the Functioning of the European Union;
 3. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
 4. Asks the Council to consult Parliament again if it intends to substantially amend the Commission proposal;
 5. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

Amendment 1

AMENDMENTS BY THE EUROPEAN PARLIAMENT*

to the Commission proposal

2023/0137 (CNS)

Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(14), second subparagraph, 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 Parliament¹,

Having regard to the opinion of the European Central Bank,

Acting in accordance with a special 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 economic governance framework of the Union, which comprises an elaborate system of policy coordination and surveillance of Member States' economic policies, has guided Member States in achieving their economic and fiscal policy objectives. Since the Treaty of Maastricht of 1992, the framework has helped achieve

* Amendments: new or amended text is highlighted in bold italics; deletions are indicated by the symbol **■**.

¹ OJ C , , p. .

macroeconomic convergence, safeguard sound public finances and address macroeconomic imbalances. Together with a common monetary policy and a common currency in the euro area, the framework has created conditions for economic stability, sustainable and inclusive economic growth and higher employment for citizens of the Union.

- (3) The Stability and Growth Pact (SGP), which initially consisted of Council Regulation (EC) No 1466/97², Council Regulation (EC) No 1467/97 of 7 July 1997³ and the Resolution of the European Council of 17 June 1997 on the SGP⁴, 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 and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.
- (4) In stage three of the Economic and Monetary Union (EMU), the Member States are, according to Article 126(1) TFEU, under the obligation to avoid excessive government deficits.
- (5) The economic governance framework of the Union should be adapted to better take into account the growing heterogeneity of fiscal positions, sustainability risks and other vulnerabilities across Member States. The strong policy response to the COVID-19 pandemic proved effective in mitigating the economic and social damage of the crisis, but resulted in a significant increase in public- and private-sector debt ratios, underscoring the importance of reducing debt ratios to prudent levels in a gradual, sustained and growth-friendly manner and addressing macroeconomic imbalances, while paying due attention to employment and social objectives. At the same time, the economic governance framework of the Union should be adapted to help address the medium- and long-term challenges facing the Union, including achieving a fair digital and green transition, including the Climate Law⁵, 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 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) At the same time, to ensure a transparent and common Union framework based on the reference values referred to in Article 126(2) TFEU and Protocol No 12 on the excessive deficit procedure annexed to the TFEU and the Treaty on the European Union (TUE), stronger enforcement underpinning multilateral surveillance should be the necessary

² 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).

³ 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).

⁴ Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997 (OJ C 236, 2.8.1997, p. 1).

⁵ 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.

counterpart of a risk-based surveillance framework that allows for country-specific fiscal trajectories.

- (8) In order to simplify the Union fiscal framework and increase transparency, a single operational indicator anchored in debt sustainability should serve as a basis for setting the fiscal path and carrying out annual fiscal surveillance for each Member State. That single indicator should be based on nationally financed net primary expenditure, that is to say expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure, expenditure on Union programmes fully matched by revenue from Union funds, ***national expenditure on co-financing of programmes funded by the Union cap with a limit of 0.25% of GDP, cyclical elements of unemployed benefit expenditure, and costs related to the borrowing of funds for the loans related to the national Recovery and Resilience Facility Plans***. 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.
- (9) The excessive deficit procedure (EDP) for breaches of the deficit reference value of 3 % of gross domestic product (GDP) ('deficit-based EDP'), referred to in Article 126(2) TFEU and Protocol No 12 is a well-established element of the Union's fiscal surveillance framework that has been effective in influencing fiscal policy in the Member States.
- (10) To strengthen the EDP for breaches of the debt criterion of 60 % of GDP ('debt-based EDP'), referred to in Article 126(2) TFEU and Protocol No 12 the focus should be on departures from the fiscal path set by the Council under Regulation (EU) [...] of the European Parliament and of the Council⁶.
- (11) On the basis of Article 126(2) TFEU, the deficit criterion is also fulfilled where the excess over the reference value of 3 % of GDP is only exceptional and temporary and the ratio remains close to the reference value. Therefore, a temporary breach that remains close to the reference value should not lead to the opening of a deficit-based EDP if it results from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, which includes a severe economic downturn in the Member State concerned.
- (12) Moreover, in case of a severe economic downturn in the euro area or the Union as a whole, and following the application of Article 24 of Regulation (EU) [on the preventive arm], the Commission and the Council may decide not to conclude on the existence of an excessive deficit.
- (13) In accordance with Articles 24 and 25 of Regulation (EU) [on the preventive arm], the Council, following a recommendation from the Commission, can allow Member States to deviate from the net expenditure path set by the Council under that Regulation in the event of a severe economic downturn in the euro area or the Union as a whole, or in the event of exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, provided that it does not endanger fiscal sustainability in the medium term. As a consequence, such a deviation should not lead to the opening of a debt-based EDP.

⁶ Regulation (EU) [...] of the European Parliament and of the Council of [...] [on the effective coordination of economic policies and multilateral budgetary surveillance] (OJ L ..., ..., p....).

- (14) When assessing the existence of an excessive deficit in accordance with Article 126(3) TFEU, the Commission should take into account, as a key relevant factor, the degree of debt challenge in the Member State concerned. A substantial public debt challenge established according to the most recent Debt Sustainability Monitor should be considered a key factor leading to the opening of an EDP as a rule. Since, in accordance with Article 126(3) TFEU, the Commission is to take into account all other relevant factors, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned, that should include in particular the developments in the medium-term economic position and the developments in the medium-term budgetary position, and the ***delivery and commitment by the Member State on the implementation of the investments and reforms to address the common priorities of the Union as set out in Article 12 of Regulation (EU) [on the preventive arm], the reforms and investments committed in the national plans of the Recovery and Resilience Facility, Cohesion Funds and future EU investments instruments that serve the same purpose.*** In order to increase national ownership, the independent fiscal institutions referred to in Article 8 of Council Directive [on the national budgetary frameworks]⁷, should provide an opinion on the relevant factors.
- (15) To keep track of actual and planned annual deviations from the net expenditure path as set out in Annex IV to Regulation (EU) [on the preventive arm], the Commission should set up a control account for each Member State summing those deviations over time. The information in the control account should be the basis of enforcement actions, in particular of a report pursuant to Article 126(3) TFEU following a deviation from the net expenditure path. At the same time, the degree of ambition of the net expenditure path in the national medium-term fiscal-structural plan referred to in Regulation (EU) [on the preventive arm] should be considered when deciding on the opening of a debt-based EDP. In particular, if the Member State's net expenditure path set by the Council is more ambitious than the medium-term ***reference*** trajectory ■ in accordance with Regulation (EU) [on the preventive arm] and the deviation from the path is not significant when measured against this trajectory, the opening of an excessive deficit procedure should be avoided.
- (16) The corrective net expenditure path under the EDP should bring or keep the general government deficit durably below the reference value of 3 % of GDP referred to in Article 126(2) TFEU and Protocol No 12 by the deadline established by the Council. The corrective net expenditure path under the EDP should also ensure sufficient progress during the period covered by the recommendation regarding putting the projected debt ratio on a plausibly downward path or remaining at a prudent level. When setting the corrective net expenditure path under the EDP, the Council should also ensure that there is no back-loading of the required fiscal adjustment effort. The corrective net expenditure path under the EDP would in principle be the one originally set by the Council, while taking into account the need to correct the deviation from that path. In case the original path is no longer feasible, due to objective circumstances, the Council should be able to set a different path under the EDP.
- (17) For Member States under an EDP, the Council, on a recommendation from the Commission, should continue to be able to extend the deadline for the correction of the

⁷ Council Directive [...] of [...] [amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States] (OJ L ..., ..., p....).

excessive deficit where it establishes the existence of a severe economic downturn in the euro area or in the Union as a whole in accordance with Article 24 of Regulation (EU) [on the preventive arm], or in the case of exceptional circumstances outside the control of the government with a major impact on the public finances of an individual Member State and provided that it does not endanger fiscal sustainability in the medium term. Such extension should require that the overall size of the shock exceeds a normal range, for example costs of natural disasters should be anticipated within bandwidths.

- (18) Specific provisions of Regulation (EC) No 1467/97 related to the contributions to second pillar pension systems should be deleted since the net expenditure path set by the Council should already take into account the revenue loss related to such contributions.
- (19) 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.
- (20) Clear conditions should be laid down for abrogation of excessive deficit procedures. Abrogation should require the deficit to remain credibly below the reference value of 3 % of GDP referred to in Article 126(2) TFEU and Protocol No 12 and, for a debt-based EDP, that the Member State demonstrates compliance with the net expenditure path under the EDP.
- (21) The fines provided for in Article 126(11) TFEU should not provide for a minimum amount but they should accumulate until effective action is taken, in order to constitute a real incentive for compliance with the notices given to Member States under an EDP in accordance with Article 126(9) TFEU.
- (22) Provisions related to the United Kingdom should be deleted.
- (23) This Regulation is part of a package together with Regulation (EU) [on the preventive arm] and Directive (EU) [...] amending 2011/85/EU on requirements for budgetary frameworks of the Member States. 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 Union⁸, in accordance with Article 16 thereof. By building on the experience with the implementation of the TSCG by the Member States, the 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 on the Fiscal Compact's common principles proposed by the Commission⁹ 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 Regulation (EU) [on the preventive arm]. As in the Fiscal Compact, temporary deviations from the medium-term plan are allowed only in exceptional circumstances in Regulation (EU)

⁸ Treaty on Stability, Coordination and Governance in the Economic and Monetary Union of 2 March 2012.

⁹ Communication COM(2012) 342 final of 20 June 2012 from the Commission 'Common principles on national fiscal correction mechanisms'.

[on the preventive arm]. Similarly, 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 growth. The economic governance framework reform, thus, retains the fundamental objectives of budgetary discipline and debt sustainability set out in the TSCG.

- (24) Transitional provisions are needed for Member States that are under an EDP when the reformed framework enters into force. Recommendations under Article 126(7) TFEU and notices under Article 126(9) TFEU that have been adopted prior to the entry into force of this amending Regulation need to be revised in order to align them to the provisions of amended Article 3(4) and Article 5(1). This would allow the Council to set a corrective net expenditure path consistent with the new provisions for Member States that have taken action, without stepping up the excessive deficit procedure.
- (25) Regulation (EC) No 1467/97 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1467/97 is amended as follows:

- (1) Articles 1 and 2 are replaced by the following:

'Article 1

1. This Regulation lays down the provisions for speeding up and clarifying the implementation of the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.

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

- (a) 'participating Member States' means those Member States whose currency is the euro;
- (b) 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures and other budgetary variables outside the control of the government, ***expenditure on programmes of the Union fully matched by Union funds revenue, national expenditure on co-financing of programmes funded by the Union cap with a limit of 0.25% of GDP, cyclical elements of unemployed benefit expenditure, and costs related to the borrowing of funds for the loans related to the national Recovery and Resilience Facility Plans, as defined in Article 2, point (2) of Regulation (EU) of the European Parliament and of the Council [on the preventive arm]*;***
- (c) '***reference trajectory***' means ***for each Member State with public debt above the 60% of gross domestic product (GDP) reference value or government deficit***

above the 3% of GDP reference value, the net expenditure trajectory put forward by the Commission, *following an optional presentation of a proposal by each Member State concerned and the dialogue referred to in Article 7(1a) of Regulation (EU) [on the preventive arm]*;

- (d) ‘net expenditure path’ means the multi-annual trajectory for net expenditure of a Member State as set by the Council in accordance with Regulation (EU) [on the preventive arm];
- (e) ‘control account’ means a record of a Member State’s cumulated deviations of the actual net expenditure from the net expenditure path.

Article 2

1. The excess of a government deficit over the reference value shall be considered exceptional, in accordance with Article 126(2), second indent, point (a), of the Treaty on the Functioning of the European Union (TFEU), where the Council has established the existence of a severe economic downturn in the euro area or the Union as a whole in accordance with Article 24 of Regulation (EU) [on the preventive arm] or of exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, in accordance with Article 25 of Regulation (EU) [on the preventive arm].

In addition, the excess over the reference value shall be considered temporary where budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the severe economic downturn or the exceptional circumstances referred to in the first subparagraph.

1a. When it exceeds the reference value, the ratio of the government debt to gross domestic product (GDP) shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace in accordance with Article 126(2), point (b), TFEU if the Member State concerned respects its net expenditure path.

2. The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 126(3) to (6) TFEU, may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of Article 126(2), second indent, point (a), TFEU where the Council establishes the existence of exceptional circumstances in accordance with Article 25 of Regulation (EU) [on the preventive arm].

3. The Commission, when preparing a report under Article 126(3) TFEU, shall take into account as a key relevant factor the degree of debt challenges in the Member State concerned. In particular, where the Member State faces substantial public debt challenges according to the most recent Debt Sustainability Monitor, it shall be considered a key factor leading to the opening of an excessive deficit procedure as a rule.

The Commission shall also take into account *as a relevant factor the delivery and commitment by the Member State on the implementation of the investments and reforms to address the common priorities of the Union referred to in Article 12, point (ba), of Regulation (EU) [on the preventive arm], the reforms and investments*

committed in the national plans of the Recovery and Resilience Facility, Cohesion Funds and any future Union investment instruments that serve the same purpose, as well as all other relevant factors as indicated in Article 126(3) TFEU, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned.

The report shall reflect, as appropriate:

- (a) the developments in the medium-term economic position, in particular inflation developments and cyclical developments compared to the assumptions underlying the net expenditure path;
- (b) the developments in the medium-term budgetary positions, including, in particular, the size of the actual deviation from the net expenditure path, in annual and cumulative terms as measured by the control account, and the extent to which the deviation is due to a severe economic downturn in the euro area or in the Union as a whole or to exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned in accordance with Articles 24 and 25 of Regulation (EU) [on the preventive arm]. Where relevant, the deviation compared to the *reference* trajectory shall also be taken into account when considering the size of the deviation;
- (c) the evolution of the government debt position and its financing, and the related risk factors, in particular the maturity structure, the currency denomination of the debt and contingent liabilities;
- (d) the implementation of reforms and investments including, in particular policies to prevent and correct excessive macroeconomic imbalances and policies to implement the common growth and employment strategy of the Union including those supported by NextGenerationEU, and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks.

The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the policy goals of the Union. The opinion submitted to the Commission by the Member State concerned shall include the opinion of its national independent fiscal institution on relevant factors.

4. The Council and the Commission shall make a balanced overall assessment of all the relevant factors, specifically, the extent to which they affect the assessment of compliance with the deficit and/or the debt criteria as aggravating or mitigating factors.

When assessing compliance on the basis of the deficit criterion, if the ratio of the government debt to GDP exceeds the reference value, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit provided for in Article 126(4), (5) and (6) TFEU only if the double condition of the overarching principle — that, before these relevant factors are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met.

However, those factors shall be taken into account in the steps leading to the decision on the existence of an excessive deficit when assessing compliance on the basis of the debt criterion.

5. Where Member States are allowed to deviate from their net expenditure path in the event of a severe economic downturn in the euro area or in the Union as a whole pursuant to Article 24 of Regulation (EU) [on the preventive arm], the Commission and the Council, in their assessment, may decide not to conclude on the existence of an excessive deficit.

6. If the Council, acting under Article 126(6) TFEU, decides that an excessive deficit exists in a Member State, the Council and the Commission shall, in the subsequent procedural steps of that Article of the TFEU, take into account the relevant factors referred to in paragraph 3 of this Article, as they affect the situation of the Member State concerned, including as specified in Article 5(2) of this Regulation, in particular in establishing a deadline for the correction of the excessive deficit and eventually extending that deadline. However, those relevant factors shall not be taken into account for the decision of the Council under Article 126(12) TFEU on the abrogation of some or all of its decisions under Article 126(6) to (9) and (11) TFEU.’;

*Regulation (EU) [...] of [insert a date] [insert full title] (OJ L ...).

(2) Article 3 is replaced by the following:

‘Article 3

1. Within two weeks of the adoption by the Commission of a report issued in accordance with Article 126(3) TFEU, the Economic and Financial Committee shall formulate an opinion in accordance with Article 126(4) TFEU. The opinion of the Economic and Financial Committee shall be made public.

2. Taking fully into account the opinion referred to in paragraph 1 of this Article, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a proposal to the Council in accordance with Article 126(5) and (6) TFEU and shall inform the European Parliament thereof.

3. The Council shall decide on the existence of an excessive deficit in accordance with Article 126(6) TFEU, as a rule within four months of the reporting dates established in Article 3(2) and (3) of Regulation (EC) No 479/2009. When it decides that an excessive deficit exists, the Council shall at the same time make recommendations to the Member State concerned in accordance with Article 126(7) TFEU. The Council shall make its decisions and recommendations public.

4. The Council recommendation made in accordance with Article 126(7) TFEU shall establish a maximum deadline of six months for effective action to be taken by the Member State concerned. When warranted by the seriousness of the situation, the deadline for effective action may be three months. The Council recommendation shall also establish a deadline for the correction of the excessive deficit. In its recommendation, the Council shall also request that the Member State implements a corrective net expenditure path, which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline

set in the recommendation. For the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual adjustment of at least 0,5% of GDP as a benchmark.

The corrective net expenditure path shall also put the debt ratio on a plausibly downward path *leading to sustainable debt reduction* or keep it at a prudent level having regard to the criteria established in *Article 6* of Regulation (EU) [on the preventive arm]. The corrective net expenditure path shall ensure that the average annual fiscal adjustment effort in the first three years is at least as high as the average annual fiscal effort of the total adjustment period.

5. Within the deadline provided for in paragraph 4 of this Article, the Member State concerned shall report to the Council and the Commission on action taken in response to the Council's recommendation under Article 126(7) TFEU. The report shall include the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation, as well as information on the measures taken and the nature of those envisaged to achieve the targets. The report shall also include the opinion of the independent fiscal institution of the Member State concerned on the adequacy of the measures taken and envisaged with respect to the targets. The Member State shall make the report public.

6. Where effective action has been taken in compliance with a recommendation under Article 126(7) TFEU or where exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, including on the respect of the corrective net expenditure path recommended by the Council pursuant to paragraph 4 of this Article, occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU. The revised recommendation, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. In case the Council has established the existence of a severe economic downturn in the euro area or in the Union as a whole in accordance with Article 24 of Regulation (EU) [on the preventive arm], the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term. The revised recommendation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule.';

- (3) Article 4 is replaced by the following:

'Article 4

The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 126(7) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 3(5) of this Regulation and its implementation, as well as on any other publicly announced and sufficiently detailed decisions by the government of the Member State concerned.

Where the Council establishes, in accordance with Article 126(8) TFEU, that the Member State concerned has failed to take effective action, it shall report to the European Council accordingly.’;

(4) Article 5 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 126(9) TFEU shall be taken within two months of the Council decision under Article 126(8) TFEU establishing that no effective action has been taken. In the notice, the Council shall request that the Member State implements a corrective net expenditure path which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set in the notice. For the years where the general government deficit is expected to exceed the reference value, the corrective net expenditure path shall be consistent with a minimum annual adjustment of at least 0,5% of GDP as a benchmark.

The corrective net expenditure path shall also put the debt ratio on a plausibly downward path *leading to sustainable debt reduction* or keep it at a prudent level having regard to the criteria established in *Article 6* of Regulation (EU) [on the preventive arm]. The corrective net expenditure path shall ensure that the average annual fiscal adjustment effort in the first three years is at least as high as the average annual fiscal effort of the total adjustment period. The Council shall also indicate measures conducive to the achievement of the corrective net expenditure path.’;

(b) paragraph 2 is replaced by the following:

‘2. Where effective action has been taken in compliance with a notice under Article 126(9) TFEU or where exceptional circumstances outside the control of the government with major impact on the public finances of the Member State concerned, including on the respect of the corrective net expenditure path referred to in paragraph 1 of this Article, occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU. The revised notice, taking into account the relevant factors referred to in Article 2(3) of this Regulation may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule. In case the Council has established the existence of a severe economic downturn in the euro area or in the Union as a whole in accordance with Article 24 of Regulation (EU) [on the preventive arm], the Council may also decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU, on condition that it does not endanger fiscal sustainability in the medium term. The revised notice may, in particular, extend the deadline for the correction of the excessive deficit by one year as a rule.’;

(5) in Article 6, paragraph 1 is replaced by the following:

‘1. The Council, when considering whether effective action has been taken in response to its notice made in accordance with Article 126(9) TFEU, shall base its decision on the report submitted by the Member State concerned in accordance with Article 5(1a) of this Regulation and its implementation, as well as on any other publicly announced and sufficiently detailed decisions by the government of the Member State concerned. The outcome of the surveillance mission carried out by the Commission in accordance with Article 10a of this Regulation shall be taken into account.’;

(6) Article 8 is replaced by the following:

‘Article 8

1. Any Council decision under Article 126(11) TFEU to intensify sanctions shall be taken no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009.

2. Any Council decision under Article 126(12) TFEU to abrogate some or all of its decisions shall be taken as soon as possible and in any event no later than two months after the reporting dates pursuant to Regulation (EC) No 479/2009.

3. A Council decision shall only be taken pursuant to Article 126(12) TFEU where budgetary forecasts as provided by the Commission indicate that the deficit has been brought durably below the reference value and, where the excessive deficit procedure was opened on the basis of the debt criterion, the Member State concerned respected the corrective net expenditure path set by the Council in accordance with Article 3(4) or Article 5(1) of this Regulation over the previous 2 years and is projected to continue to do so in the current year on the basis of the Commission forecast.’;

(7) in Article 9, paragraph 1 is replaced by the following:

‘1. The excessive deficit procedure shall be held in abeyance:

- (a) where the Member State concerned acts in compliance with recommendations made in accordance with Article 126(7) TFEU;
- (b) where the participating Member State concerned acts in compliance with notices given in accordance with Article 126(9) TFEU.’;

(8) Article 10 is replaced by the following:

‘Article 10

1. The Council and the Commission shall regularly monitor the implementation of action taken:

- by the Member State concerned in response to recommendations made under Article 126(7) TFEU;

- by the participating Member State concerned in response to notices given under Article 126(9) TFEU.

2. Where action by a participating Member State is not being implemented or, in the Council's view, is proving to be inadequate, the Council shall immediately take a decision under Article 126(9) TFEU or Article 126(11) TFEU respectively.

3. Where actual data pursuant to Regulation (EC) No 479/2009 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified either in recommendations issued under Article 126(7) TFEU or notices issued under Article 126(9) TFEU, the Council shall immediately take a decision under Article 126(9) TFEU or Article 126(11) TFEU respectively.’;

(9) Article 10a is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. The Commission shall ensure a permanent dialogue with authorities of the 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 actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation and allow an exchange with other relevant stakeholders, including the national independent fiscal institutions.’;

(b) paragraph 2 is replaced by the following:

‘2. Following the adoption by the Council of a notice under Article 126(9) TFEU, the Commission shall carry out a dedicated **monitoring** mission to the Member State concerned to discuss the measures that the Member State intends to take in response to the measures judged necessary following the notice under Article 126(9) TFEU. Upon invitation by the parliament of the Member State concerned, the Commission may present its assessment of the economic and fiscal situation in the Member State. Enhanced surveillance may be undertaken for Member States which are the subject of recommendations and notices issued following a decision pursuant to Article 126(8) TFEU and decisions under Article 126(11) TFEU for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of the **monitoring** mission.’;

(10) Article 12 is replaced by the following:

Article 12

1. The amount of the fine shall amount to up to 0,05% of GDP for a 6-month period and be paid every 6 months until the Council assesses that the Member State concerned has taken effective action in response to the notice issued under Article 126(9) TFEU.

2. In each 6-month period following that in which a fine is imposed, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 126(9) TFEU. In this semi-annual assessment the Council shall decide, in accordance with Article 126(11) TFEU, to intensify the sanctions, unless the participating Member State concerned has complied with the Council's notice.

3. The cumulated amount of the fines referred to in paragraphs 1 and 2 shall not exceed 0,5 % of GDP.';

(11) Articles 14 and 15 are replaced by the following:

Article 14

1. In accordance with Article 126(12) TFEU, the Council shall abrogate the sanctions referred to in Article 126(11), first and second indent, TFEU depending on the significance of the progress made by the participating Member State concerned in correcting the excessive deficit.

Article 15

In accordance with Article 126(12) TFEU, the Council shall abrogate all outstanding sanctions if the decision on the existence of an excessive deficit is abrogated. Fines imposed in accordance with Article 12 of this Regulation will not be reimbursed to the participating Member State concerned.';

(12) Articles 16 and 17 are deleted.

(13) in Article 17a, paragraph 1 is replaced by the following:

'1. By 31 December **2028** and every five years thereafter, the Commission shall publish a report on the application of this Regulation.

That report shall review at least:

(a) the effectiveness of this Regulation;

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

2. Where appropriate, the report referred to in paragraph 1 shall be accompanied by a proposal for amendments to this Regulation.

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

(14) the following Article 17b is inserted:

‘Article 17b

The Council, on a recommendation from the Commission, shall adopt a revised recommendation under Article 126(7) TFEU or a revised notice under Article 126(9) TFEU to Member States subject to a recommendation under Article 126(7) TFEU or to a notice under Article 126(9) TFEU on [date of entry into force of amending Regulation], and that have taken effective action.

It shall adopt the revised recommendation or notice together with the adoption of the recommendation pursuant to Article 16 of Regulation (EU) [on the preventive arm] setting the net expenditure path.’;

(15) the Annex is deleted.

Article 2

Entry into force

This Regulation shall enter into force on the [...] 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 Council
The President*

9.11.2023

LETTER OF THE COMMITTEE ON BUDGETS

Ms Irene Tinagli
Chair
Committee on Economic and Monetary Affairs
BRUSSELS

Subject: Opinion on the Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (2023/0137(CNS))

Dear Chair,

The Coordinators of the Committee on Budgets decided at their meeting of 23 May 2023 to adopt an opinion in the form of a letter under Rule 56 concerning the *Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (2023/0137(CNS))*, which was presented as part of the legislative package on the Economic Governance Review on 26 April 2023.

In my capacity as BUDG Chair, I hereby provide you with the BUDG contribution on the Commission proposal.

The BUDG committee welcomes that the Commission proposed a legislative package and reminds its previous call for a revision of the Stability and Growth Pact “*in order to promote a just, sustainable and future-oriented economy*”.¹

Although the BUDG committee shares the overarching objective of the legislative package, it also stresses that the reform of the economic governance framework needs to go hand in hand with enhanced democratic accountability. In this regard, the BUDG committee deplores that the European Parliament is not involved in all aspects of the reform on equal footing with the Council, but is merely consulted on the proposed *Council Regulation* on speeding up and clarifying the implementation of the excessive deficit procedure.

As regards the content of the proposed Council Regulation, the BUDG committee strongly supports the Commission’s proposal to delete Article 16 of the legal act, which assigns the revenues of fines imposed on Member States in accordance with Article 12 of the Regulation to the European Financial Stability Facility. Making fines under the excessive deficit procedure available to the EU budget as ‘other revenue’ would be fully in line with Parliament’s long-

¹ see the BUDG opinion on the European Semester for economic policy coordination 2023 (2022/2150(INI))

standing position that fines should be used as additional revenue for the Union budget.² Should the proposal be taken up in the final act, the BUDG committee stands ready to ensure that the required legislative changes to the Financial Regulation³, namely in Article 21(2), are adopted without delay.

Finally, the BUDG committee is concerned that a conclusion of the negotiations before the end of 2023 may not be possible and urges for a speeding up of the discussions.

The BUDG committee asks the ECON committee, as the committee responsible for the file, to take due account of the suggestions mentioned in this opinion in the form of a letter, pursuant to Rule 56, in its report on the proposal on speeding up and clarifying the implementation of the excessive deficit procedure.

Yours sincerely,

Johan van Overtveld

² European Parliament Resolution of 10 May 2023 on own resources: a new start for EU finances, a new start for Europe (2022/2172(INI)).

³ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (*OJL 193, 30.7.2018, p. 1*).

ANNEX: ENTITIES OR PERSONS FROM WHOM THE RAPORTEURS HAVE RECEIVED INPUT

Pursuant to Article 8 of Annex I to the Rules of Procedure, the rapporteur Esther de Lange and the rapporteur Margarida Marques declare that they have received input from the following entities or persons in the preparation of the report, until the adoption thereof in committee:

Table 1. Input received by **Esther de Lange**

Entity and/or person
European Trade Union Confederation
European Environmental Bureau
Finance Watch
Social Platform
Business Europe
Sustainable Finance Lab
European Commission
European Central Bank
Dutch Ministry of Finance / Permanent Representation to the EU
German Ministry of Finance / Permanent Representation to the EU
Spanish Ministry of Finance / Permanent Representation to the EU
Portuguese Ministry of Finance / Permanent Representation to the EU
Danish Ministry of Finance / Permanent Representation to the EU
French Ministry of Finance / Permanent Representation to the EU
European Fiscal Board
Slovakian Ministry of Finance / Permanent Representation to the EU
Representation of Flanders to the EU
European Economic and Social Committee
Belgian Ministry of Finance / Permanent Representation to the EU

Table 2. Input received by **Margarida Marques**

Entity and/or person
EU PRES SPAIN
EU PRES BELGIUM
European Commission
Council of the European Union
PERM REP ES / Finance Ministry
PERM REP BE / Finance Ministry
PERM REP FR / Finance Ministry
PERM REP SK / Finance Ministry
PERM REP PT / Finance Ministry
PERM REP NL / Finance Ministry
PERM REP DE / Finance Ministry
Bruegel

Dezernat Zukunft
European Fiscal Board
Conselho de Finanças Publicas (PT Independent Financial Institution)
Foundation for European Progressive Studies
CEPS Think Tank
European Trade Union Confederation
Solidar
Finance Watch
Climate Action Network
German Council on Foreign Relations
Friedrich-Ebert Foundation

The lists above are drawn up under the exclusive responsibility of the rapporteurs.

PROCEDURE – COMMITTEE RESPONSIBLE

Title	Amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure	
References	COM(2023)0241 – C9-0172/2023 – 2023/0137(CNS)	
Date Parliament was consulted	12.5.2023	
Committee responsible Date announced in plenary	ECON 12.6.2023	
Committees asked for opinions Date announced in plenary	BUDG 12.6.2023	EMPL 12.6.2023
Not delivering opinions Date of decision	EMPL 29.6.2023	
Rapporteurs Date appointed	Esther de Lange 30.5.2023	Margarida Marques 30.5.2023
Discussed in committee	7.11.2023	
Date adopted	11.12.2023	
Result of final vote	+: 36 -: 22 0: 1	
Members present for the final vote	Rasmus Andresen, Anna-Michelle Asimakopoulou, Manon Aubry, Isabel Benjumea Benjumea, Stefan Berger, Gilles Boyer, Engin Eroglu, Markus Ferber, Jonás Fernández, Giuseppe Ferrandino, Frances Fitzgerald, José Manuel García-Margallo y Marfil, José Gusmão, Eero Heinäluoma, Michiel Hoogeveen, Danuta Maria Hübner, Billy Kelleher, Georgios Kyrtos, Aurore Lalucq, Philippe Lamberts, Aušra Maldeikienė, Pedro Marques, Csaba Molnár, Siegfried Mureşan, Caroline Nagtegaal, Denis Nesci, Luděk Niedermayer, Lefteris Nikolaou-Alavanos, Piernicola Pedicini, Kira Marie Peter-Hansen, Sirpa Pietikäinen, Eva Maria Poptcheva, Antonio Maria Rinaldi, Dorien Rookmaker, Joachim Schuster, Ralf Seekatz, Marco Zanni	
Substitutes present for the final vote	Fabio Massimo Castaldo, Esther de Lange, Valérie Hayer, Eugen Jurzyca, Chris MacManus, Margarida Marques, Erik Poulsen, Bogdan Rzońca, Eleni Stavrou	
Substitutes under Rule 209(7) present for the final vote	João Albuquerque, François Alfonsi, Theresa Bielowski, Sara Cerdas, Marie Dauchy, Andor Deli, Daniel Freund, Łukasz Kohut, Jeroen Lenaers, Lydie Massard, Maria Veronica Rossi, Vera Tax, Carlos Zorrinho	
Date tabled	15.12.2023	

FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

36	+
ECR	Bogdan Rzońca
PPE	Anna-Michelle Asimakopoulou, Isabel Benjumea Benjumea, Stefan Berger, Markus Ferber, Frances Fitzgerald, José Manuel García-Margallo y Marfil, Danuta Maria Hübner, Esther de Lange, Jeroen Lenaers, Aušra Maldeikienė, Siegfried Mureşan, Luděk Niedermayer, Sirpa Pietikäinen, Ralf Seekatz, Eleni Stavrou
Renew	Gilles Boyer, Giuseppe Ferrandino, Valérie Hayer, Billy Kelleher, Georgios Kyrtosos, Caroline Nagtegaal, Eva Maria Poptcheva, Erik Poulsen
S&D	João Albuquerque, Theresa Bielowski, Sara Cerdas, Jonás Fernández, Eero Heinäluoma, Łukasz Kohut, Margarida Marques, Pedro Marques, Csaba Molnár, Joachim Schuster, Vera Tax, Carlos Zorrinho

22	-
ECR	Michiel Hoogeveen, Eugen Jurzyca, Denis Nesci, Dorien Rookmaker
ID	Marie Dauchy, Antonio Maria Rinaldi, Maria Veronica Rossi, Marco Zanni
NI	Fabio Massimo Castaldo, Lefteris Nikolaou-Alavanos
Renew	Engin Eroglu
S&D	Aurore Lalucq
The Left	Manon Aubry, José Gusmão, Chris MacManus
Verts/ALE	François Alfonsi, Rasmus Andresen, Daniel Freund, Philippe Lamberts, Lydie Massard, Piernicola Pedicini, Kira Marie Peter-Hansen

1	0
NI	Andor Deli

Key to symbols:

+ : in favour

- : against

0 : abstention