

## III

*(Preparatory acts)*

## EUROPEAN CENTRAL BANK

## OPINION OF THE EUROPEAN CENTRAL BANK

of 5 July 2023

on a proposal for economic governance reform in the Union

(CON/2023/20)

(2023/C 290/03)

**Introduction and legal basis**

On 12 May and 27 June 2023 the European Central Bank (ECB) received requests from the Council of the European Union and the European Parliament, respectively, for an opinion on a 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 (hereinafter, the ‘proposed new Stability and Growth Pact (SGP) preventive arm Regulation’) <sup>(1)</sup>. On 12 May 2023 the ECB received requests for an opinion from the Council of the European Union on a proposal for a Council Regulation amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (hereinafter, the ‘proposed amendments to the SGP corrective arm Regulation’) <sup>(2)</sup> and on a proposal for a Council Directive amending Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (hereinafter, the ‘proposed amendments to the budgetary frameworks Directive’) <sup>(3)</sup> – the latter, together with the proposed new SGP preventive arm Regulation and the proposed amendments to the SGP corrective arm Regulation hereinafter referred to as the ‘Commission proposals’.

The ECB’s competence to deliver an opinion on the proposed new SGP preventive arm Regulation and on the proposed amendments to the budgetary frameworks Directive is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union, since the effective coordination of economic policies and multilateral budgetary surveillance are relevant to the primary objective of the European System of Central Banks (ESCB) to maintain price stability under Articles 127(1) and 282(2) TFEU and Article 2 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the ‘Statute of the ESCB’).

The ECB’s competence to deliver an opinion on the proposed amendments to the SGP corrective arm Regulation is based on the second subparagraph of Article 126(14) TFEU, which provides that the Council shall, after consulting, inter alia, the ECB, adopt the appropriate provisions on the excessive deficit procedure, which is also relevant to the abovementioned primary objective of the ESCB.

In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

**General observations**

The ECB welcomes the Commission proposals on the reform of the Union’s economic governance framework. The reform aims to safeguard the sustainability of public debt, the countercyclicality of fiscal policy, to adopt a medium-term approach to budgetary policies, as well as to achieve simplification and increased national ownership of the framework. It also recognises that reforms, investment and fiscal sustainability are mutually reinforcing and should therefore be fostered with

<sup>(1)</sup> COM (2023) 240 final.

<sup>(2)</sup> COM (2023) 241 final.

<sup>(3)</sup> COM (2023) 242 final.

an integrated approach. Finally, the reform aims to ensure more effective enforcement. To support the achievement of these objectives, the ECB offers some specific, technical observations and suggestions on the Commission proposals, with a view to further enhance the new framework and ensure it will be more transparent and predictable.

A robust Union framework for economic and fiscal policy coordination and surveillance is in the profound and overwhelming interest of the European Union, the Member States and, in particular, the euro area <sup>(4)</sup>. The ECB emphasises the importance of sustainable fiscal positions for price stability and sustainable growth in a smoothly functioning Economic and Monetary Union (EMU) <sup>(5)</sup>. The reform of the Union's economic governance framework can offer a realistic, gradual and sustained adjustment of public debt, combined with facilitating necessary national structural policies.

The ECB urges the Union legislators to come to an agreement on the reform of the Union's economic governance framework as soon as possible, and at the latest by the end of 2023. As the general escape clause contained in the SGP will be deactivated by then <sup>(6)</sup>, such an agreement would be critical in order to anchor expectations for debt sustainability and sustainable and inclusive growth. Failure to swiftly agree on and put in place a credible, transparent and predictable fiscal framework could create uncertainty and unduly delay necessary fiscal adjustment and the impetus for reforms and investment.

The ECB emphasises the following reasons for a reformed economic governance framework. First, increased government debt ratios and debt heterogeneity in the aftermath of the coronavirus pandemic reinforce the need for effective coordination of fiscal positions via the SGP. A realistic, gradual and sustained adjustment of public debt taking into account the prevailing outlook for growth and inflation is important to ensure fiscal sustainability and in order to rebuild fiscal space ahead of eventual downturns. Second, it is essential to make fiscal policy more countercyclical. Determined action during recessions is required to avoid adverse economic developments, but it is also crucial that buffers are rebuilt once the economy is firmly back on track, to ensure debt sustainability. By effectively contributing to macroeconomic stabilisation in times of large shocks, countercyclical fiscal policy supports monetary policy in achieving price stability over the medium term. Third, it is essential that the economic governance framework sets preconditions for economic policies to become more growth friendly. Structural reforms, investment, and fiscal sustainability should be better integrated into fiscal and macroeconomic surveillance, including under the macroeconomic imbalance procedure (MIP) <sup>(7)</sup>. Moreover, addressing the challenges of the green and digital transitions, in particular meeting the Union's and Member States' climate commitments under international and EU law <sup>(8)</sup>, will require significant private and public investment, facilitated by complementary structural policies. A credible stabilisation of public debt ratios requires growth friendly economic policies, including public investment, which need to be appropriately incentivised in the reformed economic governance framework of the Union. Indeed, if effectively implemented, NextGenerationEU, and in particular the Recovery and Resilience Facility, will support Member States in addressing these challenges and demonstrate the potential of Union-wide action. But greater resources and investment at Union level will be needed, as well as sustained, nationally financed investment, requiring either additional sources of revenue or a reprioritisation of expenditure, notably in Member States with elevated debt ratios. Fourth, going forward the ECB would welcome further progress on euro area-related aspects of the Union's economic governance framework, such as a more effective coordination of the euro area fiscal stance and the establishment of an appropriately designed permanent central fiscal capacity. More broadly, completing the economic and institutional architecture of the EMU remains essential to strengthen the euro area's shock-absorption capacity and to foster stability and growth <sup>(9)</sup>.

<sup>(4)</sup> See paragraph 1.1 of Opinion CON/2018/25 of the European Central Bank of 11 May 2018 on a proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States (OJ C 261, 25.7.2018, p. 1). All ECB opinions are available on EUR-Lex.

<sup>(5)</sup> See Eurosystem reply to the Communication from the European Commission 'The EU economy after COVID-19: implications for economic governance', 1 December 2021, available on the ECB's website at [www.ecb.europa.eu](http://www.ecb.europa.eu)

<sup>(6)</sup> See European Commission, 'Fiscal policy guidance for 2024: Promoting debt sustainability and sustainable and inclusive growth', 8 March 2023.

<sup>(7)</sup> 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).

<sup>(8)</sup> Paris Agreement adopted under the United Nations Framework Convention on Climate Change (OJ L 282, 19.10.2016, p. 4). Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

<sup>(9)</sup> See 'Completing Europe's Economic and Monetary Union', Report by Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015, p. 4, available on the Commission's website at [www.ec.europa.eu](http://www.ec.europa.eu). See also General Observations of Opinion CON/2018/51, of the European Central Bank of 9 November 2018 on a proposal for a Regulation on the establishment of a European Investment Stabilisation Function (OJ C 444, 10.12.2018, p. 11); paragraph 1.3 of Opinion CON/2019/37 of the European Central Bank of 30 October 2019 on a proposal for a Regulation on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area (OJ C 408, 4.12.2019, p. 3).

## Specific observations

### 1. Public debt sustainability and fiscal adjustment

#### 1.1. The role of debt sustainability analysis

1.1.1. The ECB understands that under the proposed new SGP preventive arm Regulation, the Debt Sustainability Analysis (DSA) prepared by the Commission will play an important role in designing the technical trajectories for net government expenditure put forward by the Commission to provide guidance to the Member States <sup>(10)</sup>. The Commission's DSA is a valuable tool in identifying fiscal risks that are not sufficiently captured in recorded debt levels, for example, future costs related to ageing, contingent liabilities, and the maturity composition of debt. To ensure the replicability, predictability and transparency of the DSA and a consistent implementation of the framework across Member States and time, the ECB emphasises the need to specify the methodology underpinning the Commission's DSA in consultation with, and supported by, the Member States. Moreover, the ECB would also see merit in consulting the European Fiscal Board on this methodology.

1.1.2. The ECB welcomes that the Commission's technical trajectory focuses on a net expenditure path which would, in principle, not rely on annual real-time estimates of the unobservable output gap. This has the potential to improve the countercyclicality of fiscal policy, including the fluctuation of revenues arising from cyclical conditions. To further enhance the clarity of the Commission proposals, the ECB recommends that the definition of 'net expenditure' is further specified <sup>(11)</sup> to clarify the following aspects. The definition should: (a) explain whether the net expenditure path would be defined in nominal terms or in real terms; (b) clarify and evaluate the methodology to calculate discretionary revenue measures that are to be deducted from gross expenditure and (c) clarify the extent to which the indicator's computation would rely on observable items, in particular by clarifying the methodology to compute the cyclical elements of unemployment benefit expenditure.

1.1.3. The proposed new SGP preventive arm Regulation requires that the technical trajectory for net expenditure ensures that the public debt ratio is put or remains on a plausibly downward path or stays at prudent levels <sup>(12)</sup>. The Commission is required to assess and publish its analysis of plausibility and the underlying data <sup>(13)</sup>. The ECB recommends that the key parameters and assumptions underlying the methodology for the assessment of plausibility should be further elaborated in the Commission proposals <sup>(14)</sup>. Moreover, the ECB welcomes and supports the fact that the Commission's report to the Economic and Financial Committee, containing the technical trajectories, will be made public prior to the preparation by the Member States of their national medium-term fiscal-structural plans (hereinafter, the 'national plans') <sup>(15)</sup>. In addition, the ECB recommends that a common framework is developed in respect of the 'sound and verifiable economic arguments' that Member States must put forward in their national plans whenever they include a net expenditure trajectory higher than the one put forward by the Commission <sup>(16)</sup>.

#### 1.2. Safeguards

The ECB recalls that Article 126(2), point (b), TFEU refers to situations where the ratio of government debt to gross domestic product (GDP) is 'sufficiently diminishing and approaching the reference value at a satisfactory pace' <sup>(17)</sup>. In view of the need to avoid that debt stabilises at high levels, the ECB welcomes the fact that the Commission proposals include some safeguards that support debt and deficit reduction, notably by ensuring that the fiscal

<sup>(10)</sup> See Articles 5 and 6 and Annex I of the proposed new SGP preventive arm Regulation. See also, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee of the Regions, 'Communication on orientations for a reform of the EU economic governance framework', COM (2022) 583 final, 9 November 2022.

<sup>(11)</sup> For instance, in Article 2, point (2), and/or in Annex II, point (a), of the proposed new SGP preventive arm Regulation.

<sup>(12)</sup> See Article 6, point (a), of the proposed new SGP preventive arm Regulation.

<sup>(13)</sup> See Article 8 and Annex V of the proposed new SGP preventive arm Regulation.

<sup>(14)</sup> In particular, this could be included in Annex V of the proposed new SGP preventive arm Regulation.

<sup>(15)</sup> See Article 5 of the proposed new SGP preventive arm Regulation.

<sup>(16)</sup> See Article 11(2) of the proposed new SGP preventive arm Regulation.

<sup>(17)</sup> See also Article 1, point (1), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 2(1a) of 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).

trajectory envisages a lower public debt ratio at the end of the planning horizon than at the start of the technical trajectory, by avoiding backloading of the fiscal adjustment to the outer years of the adjustment period, and by proposing a minimum adjustment for the years in which the deficit is expected to exceed the 3 % reference value <sup>(18)</sup>. The ECB understands that the issue of safeguards is subject to ongoing discussions and considers that a balance is needed between complexity and ownership on the one hand and effectiveness of debt reduction on the other hand to ensure that debt is put on a sufficiently diminishing path that is appropriately differentiated.

## 2. National medium-term fiscal-structural plans

### 2.1. Reforms and investments

Productive investment is a prerequisite for economic growth which would support the long-term sustainability of public finances. Hence, it is crucial that fiscal adjustment should not be to the detriment of investment, especially investment that supports the common priorities of the Union. To this end, the level and quality of public investment should also be effectively monitored. In addition, the ECB agrees that there is an urgent need to foster growth-friendly reforms. For that reason, national ownership of Member States' national plans is essential. The ECB emphasises that the technical dialogue between the Member State and the Commission under the proposed new SGP preventive arm Regulation, <sup>(19)</sup> which is an important element of national ownership, should be conducted in a smooth, transparent, and predictable manner. The technical dialogue should be properly structured and detailed to help clearly specify the content of national plans. Hence, the ECB recommends that the proposed new SGP preventive arm Regulation includes a higher level of detail on the requirements for the reforms and investment commitments to be included in all national plans <sup>(20)</sup>.

### 2.2. Adjustment period

The proposed new SGP preventive arm Regulation provides that the Member States' national plans must present a net expenditure trajectory covering a period of at least four years <sup>(21)</sup>. Where a Member State commits to a relevant set of reforms and investments, the adjustment period may be extended by up to three years <sup>(22)</sup>. Such a time horizon is long and stretches beyond a typical electoral cycle and might therefore hinder compliance with those commitments. Therefore, the ECB supports a prudent use of the extensions of national plans and stresses the need for commitments for additional reforms and investments to fully materialise. Moreover, the ECB has two suggestions in respect of the adjustment period and its extension. First, the ECB welcomes the requirement that each of the reform and investment commitments underpinning an extension of the adjustment period must be sufficiently detailed, front-loaded, time-bound and verifiable <sup>(23)</sup>. To ensure that the methodology is sufficiently clear and transparent, the ECB suggests that the assessment framework for assessing Member States' commitments <sup>(24)</sup> is developed further. In particular, it should be ensured that such commitments are conducive to enhancing potential growth and, therefore, debt sustainability. Moreover, the ECB recommends that further safeguards be included to ensure an increase in investment for critical policy priorities such as the green and digital transitions, and that reform and investment commitments are sufficiently frontloaded, similarly to the safeguards already in place for fiscal adjustment <sup>(25)</sup>. Second, until 2026 the reform and investment commitments included in the approved recovery and resilience plans of the Member States can be taken into account for an extension of the adjustment period <sup>(26)</sup>. While welcoming consideration of the recovery and resilience plans, the ECB recommends that the assessment framework ensures that a substantial share of the reforms and investments put forward by the Member States are in addition to pre-existing commitments.

<sup>(18)</sup> See Article 6, points (c) and (d), Article 15(2) and Annex I, point (c), of the proposed new SGP preventive arm Regulation. See Article 1, point (2), of the proposed amendments to the SGP corrective arm Regulation, which amends Articles 3 (4) of Council Regulation (EC) No 1467/97; see Article 1, point (4), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 5(1) of Council Regulation (EC) 1467/97.

<sup>(19)</sup> See Article 10 of the proposed new SGP preventive arm Regulation.

<sup>(20)</sup> See Articles 11, 12 and 14 and Annex II of the proposed new SGP preventive arm Regulation.

<sup>(21)</sup> See Article 5 and Article 11(1) of the proposed new SGP preventive arm Regulation.

<sup>(22)</sup> See Article 13(1) of the SGP preventive arm Regulation.

<sup>(23)</sup> See Article 13(3) of the proposed new SGP preventive arm Regulation.

<sup>(24)</sup> See Article 13(5) and Annex VII of the proposed new SGP preventive arm Regulation.

<sup>(25)</sup> See Article 6, points (c) and (d), and Article 15(2) of the proposed new SGP preventive arm Regulation.

<sup>(26)</sup> See Article 13(4) of the proposed new SGP preventive arm Regulation.

### 2.3. *Revised national plans*

The proposed new SGP preventive arm Regulation sets out the possibility for Member States to submit a revised national plan if there are objective circumstances preventing the implementation of the original plan, or if the submission of a new national plan is requested by a new government <sup>(27)</sup>. The ECB recommends that the proposed new SGP preventive arm Regulation specifies the objective circumstances that would be considered relevant and clarifies how the Commission considers the past adjustment of the Member State concerned, or the lack thereof, in preparing its new technical trajectory. In addition, the ECB recommends that the proposed new SGP preventive arm Regulation ensures that the revised plan does not permit the backloading of reforms and investments.

## 3. **Interaction with the macroeconomic imbalance procedure**

3.1. The ECB welcomes the holistic monitoring of national structural reform commitments, together with investments and fiscal policies, as part of the national plans, for all national structural policies, specifically those that can facilitate the prevention and correction of macroeconomic imbalances, as monitored under the MIP <sup>(28)</sup>.

3.2. The ECB welcomes the requirement for national plans to address the Union's country-specific recommendations, including those related to macroeconomic imbalances identified under the MIP <sup>(29)</sup>. The ECB recommends that the national plans focus on addressing the main risks of macroeconomic imbalances to fiscal sustainability, sustained losses of competitiveness, and large external imbalances.

3.3. The proposed new SGP preventive arm Regulation provides that where a Member State fails to implement the reform and investment commitments included in its national plan to address country-specific recommendations relevant to the MIP, and the Member State concerned is affected by excessive imbalances, an excessive imbalance procedure (EIP) can be opened, in accordance with Article 7(2) of Regulation (EU) No 1176/2011 of the European Parliament and of the Council <sup>(30)</sup> <sup>(31)</sup>. In that case, the Member State must submit a revised national plan, which also serves as the corrective action plan required under Article 8(1) of Regulation (EU) No 1176/2011. The ECB has two comments in this regard. First, given the evolving nature of macroeconomic challenges, the ECB considers that it would be helpful if the framework could also facilitate adjustments to the national plans irrespective of whether or not an EIP is opened. This ensures that relevant reforms and investments can be adjusted to address all newly emerging macroeconomic imbalances and macroeconomic challenges more extensively in a timely and effective manner. Second, the ECB notes that enforcement in respect of macroeconomic imbalances has been a key concern under the existing economic governance framework. The ECB emphasises that the procedures for the prevention and correction of macroeconomic imbalances should be determined by transparent and effective trigger mechanisms, including detailed communication of the procedural decisions <sup>(32)</sup>. To ensure that Member States address macroeconomic imbalances in a timely and effective manner, and as noted by the Council <sup>(33)</sup>, the ECB highlights that the MIP should be used to its full potential and in a transparent and consistent way, ensuring Member States' ownership of the procedure, including the activation of the EIP where applicable.

## 4. **Compliance and enforcement**

4.1. *Satisfactory compliance by Member States with the commitments underpinning an extension of an adjustment period*

The proposed new SGP preventive arm Regulation provides that where a Member State has been granted an extension of the applicable adjustment period but fails to satisfactorily comply with its set of reform and investment commitments underpinning the extension, the Council may, acting upon a recommendation from the Commission, recommend a revised net expenditure path with a shorter adjustment period <sup>(34)</sup>. In that context, the

<sup>(27)</sup> See Article 14(1) of the proposed new SGP preventive arm Regulation.

<sup>(28)</sup> See Article 11(1), Article 12, point (b), Article 13(2) and Articles 16 and 30 of the proposed new SGP preventive arm Regulation.

<sup>(29)</sup> See Article 11(1) and Article 12, point (b), of the proposed new SGP preventive arm Regulation.

<sup>(30)</sup> 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).

<sup>(31)</sup> See Article 30 of the proposed new SGP preventive arm Regulation.

<sup>(32)</sup> See paragraph 18 of Opinion CON/2011/13 of the European Central Bank of 16 February 2011 on economic governance reform in the European Union (OJ C 150, 20.5.2011, p. 1).

<sup>(33)</sup> See the Council's press release of 12 July 2022, 'Macroeconomic imbalance procedure: Council adopts conclusions', available on the Council's website at [www.consilium.europa.eu](http://www.consilium.europa.eu)

<sup>(34)</sup> See Article 19 of the proposed new SGP preventive arm Regulation.

ECB emphasises the need to ensure timely, adequate and transparent monitoring and enforcement of Member States' compliance with their reform and investment commitments to ensure fiscal and macroeconomic stability. Thus, it may be preferable that, in this case, the proposed new SGP preventive arm Regulation obliges the Council to act upon a recommendation from the Commission, in accordance with the 'comply-or-explain' principle <sup>(35)</sup>, to recommend a revised net expenditure path with a shorter adjustment period <sup>(36)</sup>. In this vein, the ECB notes the reference by the Commission to forthcoming work to develop a new enforcement tool <sup>(37)</sup>. The ECB would welcome further details of the new enforcement tool, which do not yet form part of the Commission proposals.

#### 4.2. *Assessment of substantial public debt sustainability challenges and other relevant factors in the context of the Commission's report under Article 126(3) TFEU*

The ECB welcomes the fact that the degree of public debt sustainability challenges of the Member State concerned is included as a key relevant factor for the opening of an excessive deficit procedure (EDP) <sup>(38)</sup>. Given the importance of the assessment of relevant factors for the implementation of the EDP, the ECB calls for a well-defined and transparent methodological approach for the assessment of these factors to be included in the proposed amendments to the SGP corrective arm Regulation.

#### 4.3. *Design of the corrective net expenditure path*

The ECB stresses the need for a gradual but swift correction of excessive debt and deficits. In this context it acknowledges that safeguards intended to limit the risk of backloading the fiscal adjustment were introduced in respect of how the corrective net expenditure path must address the debt ratio <sup>(39)</sup>. The ECB welcomes the numerical requirement in relation to deficits, affirming that for the years when the general government deficit is expected to exceed the reference value, the corrective net expenditure path must be consistent with a minimum adjustment. However, it should be clarified how this adjustment is measured. The ECB notes however that the proposed amendments to the SGP corrective arm Regulation <sup>(40)</sup> would remove the current requirement that the Council recommendation under Article 126(7) TFEU must establish a specific deadline for the correction of the excessive deficit, 'which shall be completed in the year following its identification unless there are special circumstances' <sup>(41)</sup>.

#### 4.4. *The control account*

The ECB welcomes the requirement for the Commission to set up a control account to keep track of cumulative deviations, both upward and downward, of actual net expenditure from the net expenditure path <sup>(42)</sup>. This is a crucial element to ensure compliance and support the countercyclicality of the rule through the possibility of building fiscal buffers in economic good times which can be used in economic bad times. The information in the control account is taken into account in the context of the Commission's report under Article 126(3) TFEU <sup>(43)</sup>, and is thus an important factor relevant to the opening of an EDP. For that reason, the ECB recommends that the functioning and key parameters of the control account should be specified further. Moreover, the ECB recommends that the country-specific computations and the status of each Member State under the control account should be

<sup>(35)</sup> See Article 27 of the proposed new SGP preventive arm Regulation.

<sup>(36)</sup> See Article 19 of the proposed new SGP preventive arm Regulation. The drafting could be amended to state: '[...] the Council shall on a recommendation from the Commission, recommend a revised net expenditure path with a shorter adjustment period'.

<sup>(37)</sup> See Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions 'Communication on orientations for a reform of the EU economic governance framework', COM (2022) 583 final, 9 November 2022

<sup>(38)</sup> Article 1, point (1), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 2(3) of Council Regulation (EC) No 1467/97.

<sup>(39)</sup> See Article 1, point (2), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 3(4) of Council Regulation (EC) No 1467/97; see Article 1, point (4), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 5(1) of Council Regulation (EC) 1467/97.

<sup>(40)</sup> See Article 1, point (2), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 3(4) of Council Regulation (EC) No 1467/97

<sup>(41)</sup> See Article 3(4) of Council Regulation (EC) No 1467/97.

<sup>(42)</sup> See Article 21, second paragraph, and Annex IV of the proposed new SGP preventive arm Regulation.

<sup>(43)</sup> See Article 1, point (1), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 2(3), point (b), of Council Regulation (EC) No 1467/97.

published on the Commission's website, preferably alongside the Commission's spring and autumn forecasts. Finally, the ECB would recommend the introduction of a threshold for deviations of actual net expenditures from the net expenditure path, which would trigger a requirement for the Commission to prepare a report under Article 126(3) TFEU <sup>(44)</sup>.

## 5. The role of independent fiscal institutions and the European Fiscal Board

- 5.1. Reinforcing the role of the independent bodies in the fiscal surveillance process can help to reduce the procyclical tendencies inherent in fiscal policymaking while also supporting national ownership, which is essential for sustained implementation of the framework <sup>(45)</sup>. The ECB therefore supports the provisions of the proposals which aim to strengthen the role of independent fiscal institutions (IFIs) <sup>(46)</sup> by including requirements related to their governance and independence and assigning them tasks <sup>(47)</sup> that go beyond their existing tasks under Regulation (EU) No 473/2013 of the European Parliament and of the Council <sup>(48)</sup>. Notably, the ECB welcomes the anchoring of the 'comply-or-explain' principle in Union legislation. The ECB supports the strengthening of the role of the IFIs, provided that their overall capacity is also improved commensurately with their additional tasks, and that their own adequate and stable resources to carry out their mandate in an effective manner are ensured <sup>(49)</sup>.
- 5.2. The ECB recommends that, subject to the abovementioned strengthening of capacity and without prejudice to the role of the Commission under the Treaties, the role of IFIs under the proposed new SGP preventive arm Regulation could be further enhanced by giving them a role in the preparation of Member States' national plans and the assessment of non-quantifiable targets (for example, on the impact of reforms). IFIs could provide an assessment of the underlying assumptions, the consistency of the national plan with the Commission's technical trajectory and, where relevant, the plausibility of reform and investment commitments. Likewise, the ECB recommends that the involvement of IFIs under the proposed amendments to the SGP corrective arm Regulation could be further strengthened by requiring the IFI to also prepare an opinion on the Commission's analysis of relevant factors for the purposes of the report under Article 126(3) TFEU.
- 5.3. Finally, the ECB acknowledges the work of the European Fiscal Board <sup>(50)</sup> and fully supports the Commission's intention to explore measures to strengthen it. To that end, without prejudice to the competence of the Commission, the ECB supports a significant role of the European Fiscal Board in the economic governance framework of the Union <sup>(51)</sup>. In particular, the ECB welcomes the possibility for the European Fiscal Board to provide an opinion to inform the Council recommendation on activating or extending the general escape clause in accordance with the proposed new SGP preventative arm Regulation <sup>(52)</sup>. As noted above in paragraph 1.1.1 above, the ECB also sees merit in consulting the European Fiscal Board on the methodology underlying the DSA. Furthermore, the role of the European Fiscal Board in assessing the appropriate euro area fiscal stance should also be enhanced.

<sup>(44)</sup> For instance, under Article 1, point (1), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 2 of Council Regulation (EC) 1467/97.

<sup>(45)</sup> See Eurosystem reply to the Communication from the European Commission 'The EU economy after COVID-19: implications for economic governance' of 19 October 2021, 1 December 2021.

<sup>(46)</sup> See paragraph 2.4.1 of Opinion CON/2018/25.

<sup>(47)</sup> See Article 1, point (8), of the proposed amendments to the budgetary frameworks Directive, which amends Article 8 of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41). See Article 22 of the proposed new SGP preventive arm Regulation. See Article 1, point (1), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 2(3) of Council Regulation (EC) No 1467/97, and Article 1, point (3), of the proposed amendments to the SGP corrective arm Regulation, which amends Article 3(5) of Council Regulation (EC) No 1467/97.

<sup>(48)</sup> 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).

<sup>(49)</sup> See Article 1, point (8), of the proposed amendments to the budgetary frameworks Directive, which amends Article 8(3), point (c), of Council Directive 2011/85/EU.

<sup>(50)</sup> Commission Decision (EU) 2015/1937 of 21 October 2015 establishing an independent advisory European Fiscal Board (OJ L 282, 28.10.2015, p. 37).

<sup>(51)</sup> See paragraph 22 of Opinion CON/2011/13.

<sup>(52)</sup> See Article 24 of the proposed new SGP preventive arm Regulation.

## 6. Commission delegated powers to amend the annexes

- 6.1. The proposed new SGP preventive arm Regulation empowers the Commission to adopt delegated acts for the purpose of amending Annexes II to VII, to adapt them in order to take due account of further developments or needs <sup>(53)</sup>.
- 6.2. As the Annexes form an integral part of the proposed new SGP preventive arm Regulation, the ECB recommends that the Annexes already include further details and specifications *ex ante*. In particular, as noted above, further detail could be provided on the information in the national medium-term fiscal-structural plan (Annex II), the control account (Annex IV), the methodology for the assessment of plausibility (Annex V), and the assessment framework for the set of reform and investment commitments underpinning an extension of the adjustment period (Annex VII).
- 6.3. Moreover, the ECB wishes to stress the importance of consulting it on all delegated and implementing legal acts that fall in its field of competence, and in a timely manner, pursuant to Article 127(4) first indent, and Article 282(5) TFEU <sup>(54)</sup>.

## 7. Relationship with the Treaty on Stability, Coordination and Governance

The ECB welcomes the objective of the Commission proposals to integrate the substance of the Treaty on Stability, Coordination and Governance (TSCG) into the Union legal framework, in accordance with Article 16 thereof <sup>(55)</sup>. The substance of the TSCG has been interpreted by the Commission to correspond to the Fiscal Compact (Title III of the TSCG). Moreover, the ECB notes that Article 2 of the TSCG ensures that the adoption of the Commission proposals does not necessitate the amendment or repeal of the TSCG. Article 2(1) of the TSCG requires that the TSCG must be applied and interpreted by the contracting parties in conformity with the Treaties on which the European Union is founded, in particular Article 4(3) of the Treaty on European Union and with Union law, including procedural law whenever the adoption of secondary legislation is required. Moreover, Article 2(2) of the TSCG states that the TSCG applies insofar as it is compatible with the Treaties on which the European Union is founded and with Union law, and that it must not encroach upon the competence of the Union to act in the area of the economic union. Thus, the ECB understands that when the Commission proposals are adopted and enter into force, the TSCG will apply and be interpreted in accordance with the new economic governance framework.

## 8. Completing Europe's Economic and Monetary Union

Given the importance of a robust Union framework for economic and fiscal policy coordination in the context of monetary union, the ECB emphasises that further progress on euro-area specific aspects is needed. The development of a framework to monitor and steer the aggregate euro-area fiscal stance is important to provide a counterpart to monetary policy, as it can help ensure that monetary and fiscal policy better complement each other. Moreover, the need for a permanent central fiscal capacity remains. Such a tool, if appropriately designed, could play a role in enhancing macroeconomic stabilisation and convergence in the euro area in the longer run, including through investment, thereby also supporting the single monetary policy. To that end, a permanent central fiscal capacity would need to be sufficient in size and have permanent funding <sup>(56)</sup>.

<sup>(53)</sup> See Article 32 of the proposed new SGP preventive arm Regulation.

<sup>(54)</sup> See Opinion CON/2011/42 of the European Central Bank of 4 May 2011 on a proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority; see paragraph 8 of Opinion CON/2011/44 of the European Central Bank of 19 May 2011 on the proposal for a Regulation of the European Parliament and of the Council on the European system of national and regional accounts in the European Union; see paragraph 4 of Opinion CON/2012/5 of the European Central Bank of 25 January 2012 on a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and a proposal for a Regulation on prudential requirements for credit institutions and investment firms; see paragraph 1.9 of Opinion CON/2018/1 of the European Central Bank of 2 January 2018 on a proposal for a Regulation of the European Parliament and of the Council on European business statistics amending Regulation (EC) No 184/2005 and repealing 10 legal acts in the field of business statistics.

<sup>(55)</sup> See paragraph 1.2 of Opinion CON/2018/25. Article 16 of the TSCG envisages that within five years, at most, of the date of entry into force of the TSCG, i.e. by 1 January 2018, the necessary steps shall be taken with the aim of incorporating the substance of the TSCG into the Union legal framework.

<sup>(56)</sup> See Eurosystem reply to the Communication from the European Commission 'The EU economy after COVID-19: implications for economic governance' of 19 October 2021, 1 December 2021. See also General Observations of Opinion CON/2018/51 and paragraph 1.3 of Opinion CON/2019/37.



Done at Frankfurt am Main, 5 July 2023.

*The President of the ECB*  
Christine LAGARDE

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