



Council of the
European Union

Brussels, 7 February 2023
(OR. en)

5915/23

LIMITE

ECOFIN 92
UEM 26

NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (part 2)/Council
Subject: Economic Governance Review
- Presidency Issues Note

Delegations will find attached the Presidency Issues Note on “Economic governance review – Towards a convergence of views” for the ECOFIN Council meeting on 14 February 2023.

Presidency Issues Note for the ECOFIN

Economic governance review – Towards a convergence of views

The EU's **economic governance framework** has been instrumental in safeguarding macroeconomic stability and growth in the Union and has helped Member States achieve their economic and fiscal policy goals. Our common rules serve to ensure the sustainability of public finances and promote macroeconomic convergence while addressing imbalances.

During recent years, Member States have had many exchanges on a possible reform of the framework which would aim to better equip it to face current and future challenges. The **Commission's orientations for a reform** from November 2022 have provided a fruitful basis for discussions. In time for the European Council of 23-24 March, we should aim for convergence on the most pressing issues and provide guidance for the next steps.

Member States' views converge in several key areas. For example, on the goals of the economic governance framework, we should deliver on the objective of ensuring sustainable public finances through a combination of **more gradual fiscal adjustment and growth-enhancing reforms and investments**. In addition, there is a need for the framework to include a greater medium-term focus, while maintaining appropriate annual coordination and surveillance.

In this light, there appear to be shared views that national **fiscal-structural plans** could be prepared by Member States and outline a medium-term fiscal adjustment path and be accompanied by priority reforms and investments. Member States' fiscal adjustment would be calibrated to reflect country-specific public finance challenges. The plans would be assessed by the Commission and be discussed in the EFC. They would then be endorsed by the Council. Additionally, there appears to be a common understanding on the scope of the plans and the need for flexibility to revise them to reflect changes of government and national electoral processes.

There are, however, some important areas where further discussion among Member States is needed. One area concerns **the relationship between country-specific fiscal adjustment paths and maintaining multilateral surveillance anchored in common EU fiscal rules and benchmarks**. It is essential that the fiscal adjustment path is underpinned by the political commitment of national authorities. This will improve implementation and support successful outcomes. At the same time, fiscal rules which derive from a common EU framework are indispensable to ensuring predictability, transparency, equal treatment, and policy coherence in the Union.

The role of **analysis of public debt challenges** is another area that warrants discussion. An enhanced role for the Commission's well-established toolkit for assessing public debt challenges could allow the economic governance framework to become more focused on ensuring sustainable public finances. This would also enable us to remove the current uniform rule for debt reduction and instead take a more country-specific approach. At the same time, the sensitivity of analyses of public debt dynamics to changing assumptions about the economy raises questions.

Member States agree that the **Macroeconomic Imbalance Procedure** should remain the main framework for macroeconomic surveillance at EU level. However, there is also cause for reflection on how the procedure can be improved. Member States broadly agree on the need for more dynamic macroeconomic surveillance which would be better equipped to detect emerging imbalances before they become aggravated. Nevertheless, questions remain on issues such as how to incorporate measures to reduce imbalances in the medium-term plans and how these should relate to the fiscal side.

Ministers now have the opportunity to steer further technical discussions and work towards reaching a sufficient convergence of views to **guide forthcoming legislative proposals** from the Commission. An economic governance framework which reinforces both stability and growth, which has strong ownership by Member States and which will be robust to challenges in the decade to come is in the interests of all.

Questions for discussion:

1. How can we best ensure country-specific fiscal adjustment while maintaining multilateral surveillance anchored in common EU fiscal rules and benchmarks?
2. Do Ministers agree with the aim of increased focus on medium-term planning while avoiding backloading? Should medium-term plans be aligned with national government formation and electoral cycles? When and under what conditions should revisions of plans be required?
3. How do you see the role of a risk-based analysis of public debt developments in identifying country-specific challenges and helping Member States design their fiscal paths?