BACKGROUND NOTE

HU24EU PARLIAMENTARY DIMENSION

INTERPARLIAMENTARY CONFERENCE ON STABILITY, ECONOMIC COORDINATION AND GOVERNANCE IN THE EUROPEAN UNION

SESSION II: THE REFORM OF THE ECONOMIC GOVERNANCE FRAMEWORK

The economic governance framework established in the Stability and Growth Pact in 1997 was meant to coordinate the Member States' economic policies and to achieve the economic objectives. The framework is aimed at monitoring, preventing and correcting economic trends that may weaken the economies of individual Member States, with spill-over effects on other economies as well. The framework has been amended several times since its establishment, and in the current review, the Commission presented its proposal on 26 April 2023, consisting of two Regulations [Regulation (EU) 2024/1263 and Regulation (EU) 2024/1264] and one Directive [Directive (EU) 2024/1265]. The adopted legislative package was published in the Official Journal of the European Union on 30 April 2024.

The main objectives of the reform are to ensure sound and sustainable public finances, to gradually reduce debt ratios and budget deficits in a realistic, durable and growth-friendly manner, and to promote sustainable and inclusive growth through structural adjustments and investment. According to the adopted package, the new framework will provide sufficient room for manoeuvre to implement counter-cyclical policies and will help in addressing macroeconomic imbalances while taking into account employment and social objectives. In addition, the reform introduces a strengthened country-specific dimension to the framework to enhance national ownership.

Under the rules reforming the preventive arm of the framework, in the future, each Member State will prepare its national medium-term fiscal-structural plan for four or five years, depending on its parliamentary cycle. During the preparatory process, Member States will engage in a technical dialogue with the European Commission and will conduct a consultation with civil society, social partners and other relevant partners. In the plan, Member States will commit themselves to a net expenditure path and will set out investment projects and reforms that respond to the challenges identified in the country-specific recommendations forming part of the European Semester. The Commission will assess and the Council will approve the plan, and the Member States will report to the Commission on its implementation in an annual progress report.

The European Commission will monitor the implementation of the national medium-term fiscal-structural plans, and will record deviations from the net expenditure path on a control account.

For Member States with a government debt exceeding sixty per cent of the GDP or those with a deficit above three per cent of the GDP, the European Commission, after consulting the Member State, will determine a four-year risk-based and country-specific reference trajectory with the aim of putting the government deficit or government debt on a reasonably downward trajectory. For the reference trajectory, safeguard measures will ensure a minimum reduction in the debt level and the creation of a budgetary safety margin. The adjustment period may be extended to a maximum of seven years if the Member State commits to reforms or investment projects that sustainably improve its growth potential and budget balance or aim at achieving a common EU-level priority, such as a fair digital and green transition. In case of an objective obstacle to implementation or the appointment of a new government, the national plan may be reviewed.

The new framework also clarifies the rules regarding the general and national escape clause. As an amendment to the corrective arm of the framework, the new rules update the excessive deficit procedure, as the debt-based excessive deficit procedure incorporates the rules of the new multiannual framework. Failure to implement the recommendations received in the course of the procedure may result in a fine, which will accumulate every six months until the Member State takes the necessary measures.

The Hungarian presidency gives priority to translating the new rules of the reformed economic governance framework into practice, with particular attention to the guidelines that will facilitate the effective preparation and assessment of the national medium-term fiscal-structural plans to be submitted by Member States in Autumn 2024. ◆

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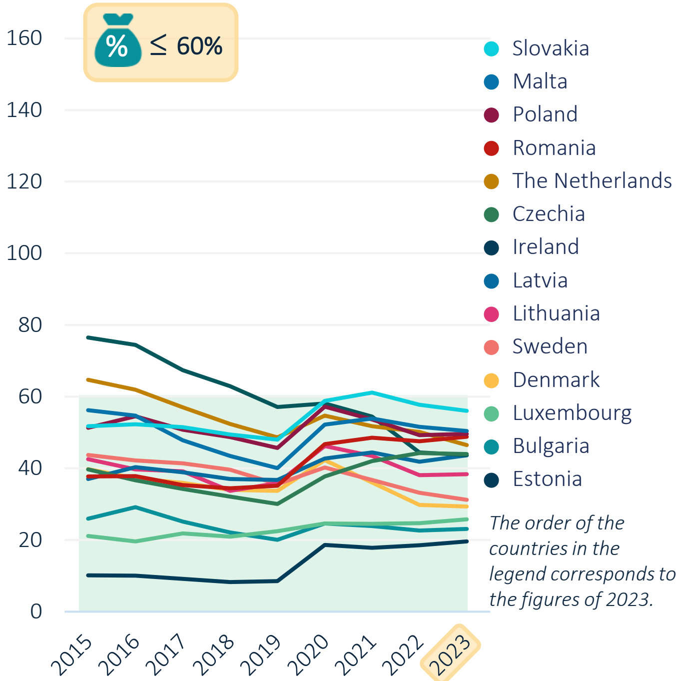
GOVERNMENT DEBT AS A PERCENTAGE OF GDP
2023 value ≤ 60%



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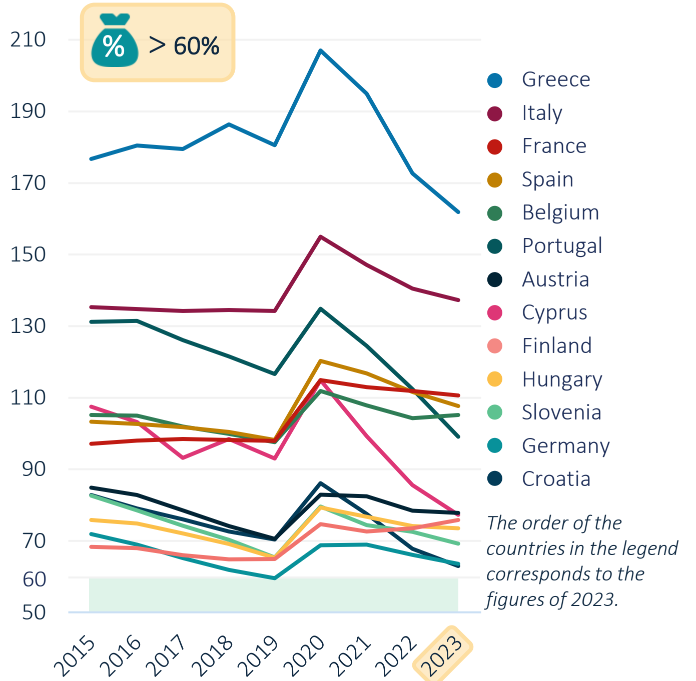
GOVERNMENT DEBT AS A PERCENTAGE OF GDP
2023 value > 60%



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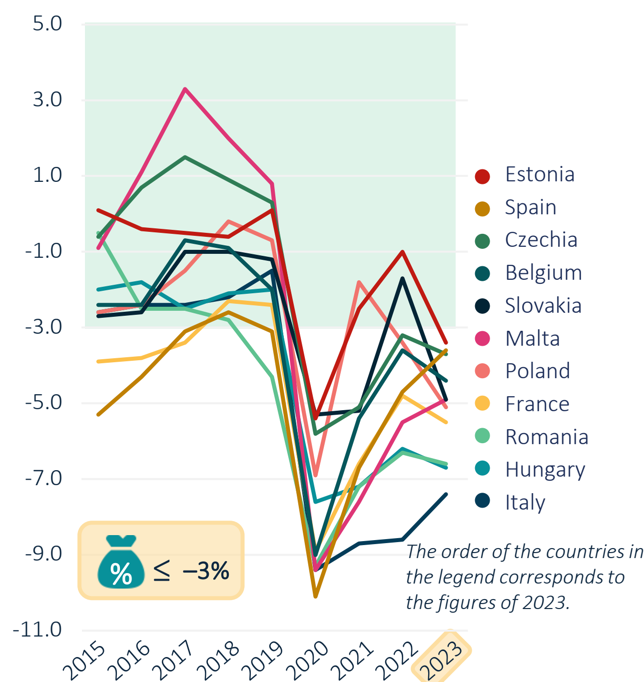
GENERAL GOVERNMENT BALANCE AS A PERCENTAGE OF GDP (2023 value ≤ –3%)



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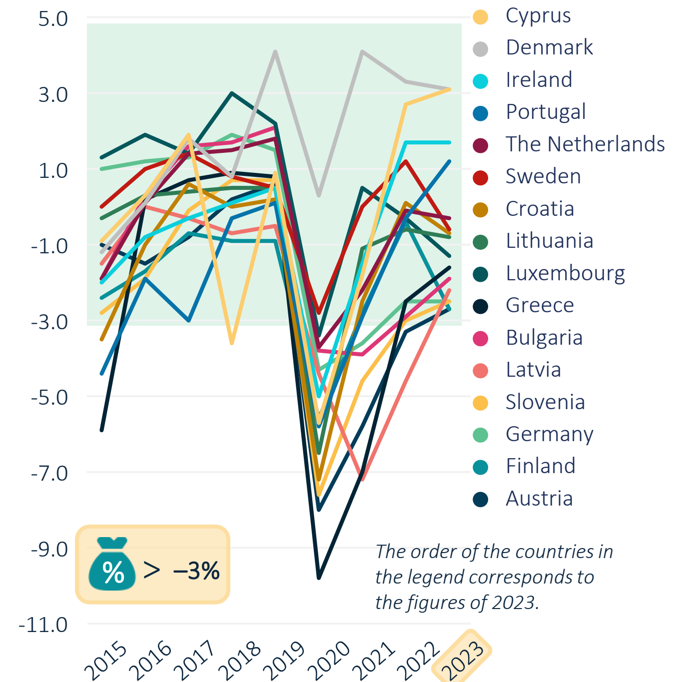
GENERAL GOVERNMENT BALANCE AS A PERCENTAGE OF GDP (2023 value > –3%)



SOURCES

1 | 2 | 3 | 4 Eurostat: [gov_10dd_edpt1]