

Towards a realistic and result oriented  
European economic governance

Table of contents

Towards a realistic and result oriented economic governance .....	1
Table of contents.....	1
Main objectives of the reform .....	2
Regulations/directives to be amended .....	2
A 10 points reform .....	2
Merger and reorientation of budget and reform programmes.....	2
Procedure to prevent economic, ecological, and social imbalances .....	3
Horizontal reports initiating the European Semester .....	3
Implications for the excessive deficit procedure (corrective arm - Article 126 of the Treaty on the Functioning of the EU) .....	4
Box: Evaluating national programs .....	5



### Main objectives of the reform :

The coordination of economic and fiscal policies is realistic and guided by results. Procedures and documentation are streamlined.

### Regulations/directives to be amended

The directives and regulations whose legal basis is Article 121 of the Treaty (preventive budgetary procedure and macroeconomic imbalance procedure) will be amended. These amendments are subject to co-decision by the Council (qualified majority) and the Parliament (majority). The regulations/directives to be amended/replaced as necessary are the legislative acts 1466/97 as amended by 1175/2011, 1173/2011, 1174/2011, 1176/2011, 472/2013 and 473/2013.

### A 10 points reform

#### Merger and reorientation of budget and reform programmes

1. In the framework of the European Semester member states are due two present in Spring two programs: one focusing on budgetary aggregates, the other on planned policies and policy reforms<sup>1</sup>. It is proposed that member states present only a single national "Transition and Budgetary Guidance Programme" (TBGP) for a coherent representation of budgetary commitments and public policy measures, either regulatory or administrative. The TBGP will be a five-year rolling programme and be adjustable annually to take account of uncertainties linked to cyclical variations or implementation difficulties as well as possible changes in political majorities. The core of the TBGP will, however, consist of a medium/long-term programme of financial commitments promoting a just ecological transition as well as a commitment to a sustained reduction of expenditures that are unfavourable to it.
2. Each national programme will be validated annually by the Council on a proposal from the Commission and after receiving the opinion of the European Parliament.
3. The evaluation of the national programmes will focus on the contribution to the resilience and solidarity of the European Union. This will include an assessment of the sustainability of the public debt path, the response to cyclical economic fluctuations and the contribution to the convergence of European economies. The assessment will also cover compliance with the European objectives of full employment and the fight against poverty, the Green Pact for Europe, the realisation of the European set of fundamental social rights and a just transition<sup>2</sup> (for more details on the assessment criteria, see box).

---

<sup>1</sup> These are the "national reform programme" and the stability programme (or convergence programme for non-euro area Member States) which are presented each year by the Member States before the end of April.

<sup>2</sup> Unobservable variables whose estimation is questionable and contested, such as "potential output" or "non-inflationary unemployment rate" are no longer used.



## GREENINTERVENTION

### Procedure to prevent economic, ecological, and social imbalances

4. The procedures for the prevention of excessive budget deficits and for the prevention and correction of macroeconomic imbalances will be replaced by a single procedure for "economic, social and environmental sustainability"<sup>3</sup>.
5. The "economic, social and environmental sustainability" procedure will be based on indicators alerting to the emergence of imbalances or risks endangering the economic and financial stability and convergence of European economies as well as social and environmental sustainability and compliance with the European objectives listed above (point 3).
6. The exceeding of alert thresholds will trigger an in-depth dialogue between the European Commission and the national authorities. At the end of the dialogue, the European Commission will submit to the Council and the European Parliament draft conclusions on the appropriateness of corrective measures and amendments to the national Transition and Budgetary Guidance Programme.
7. The dialogue will include in the country concerned a phase of public debate with the participation of the social partners and all relevant stakeholders, particularly in the environmental field. The debate will be informed by data on the assessment of imbalances and risks.

### Horizontal reports initiating the European Semester

8. Horizontal reports<sup>4</sup> initiating the European Semester will be streamlined and, as far as possible, merged. In addition to an analysis of progress towards the European objectives listed under point 2 above, they will principally include a structured analysis of the evolution of short, medium and long-term social, environmental and financial risks to the European economy and to the euro area.
9. The recommendations for the euro area will pay particular attention to the risks of persistent or widening imbalances between the euro area economies, the need for counter-cyclical action, the relative effectiveness of fiscal, monetary and prudential policies and the coordination of these three policies. The need for intervention by a central and European fiscal and financial instrument will be assessed.

---

<sup>3</sup> There is no rationale for treating macroeconomic imbalances and fiscal policies, which are a major instrument for their correction, in different procedures.

<sup>4</sup> Annual Strategy for Sustainable Growth, Report on the Early Warning Mechanism, Draft EU Council Recommendations on Economic Policy in the Euro Area, Draft Joint Employment Report.



Implications for the excessive deficit procedure (corrective arm - Article 126 of the Treaty on the Functioning of the EU)

10. When the level of government deficits and debt exceeds the reference values provided for in the Treaty on the Functioning of the European Union (Protocol No. 12 of the TFEU), the conclusions and analyses of the new "procedure for the prevention of economic, ecological and social imbalances" will make it possible to determine the relevant factors to be taken into consideration by the European Commission in concluding on the opening of an excessive deficit procedure.

---

Complements:

- [Budgetary rules fit for the European Green deal](#)
- [Réformer le Pacte de Stabilité : par le site compagnon Theothereconomy](#)



## Box: Evaluating national programs

1. The need for counter-cyclical action and convergence will be fully considered in the assessment of all programs. In particular, the analysis will be framed by a range of cyclical indicators, including inflationary pressures, employment trends, pressures on productive capacity and external imbalances between EU countries and with third countries.
2. The sustainability of national public debt paths and, if necessary, the speed of convergence of debt and deficit ratios towards a norm will be analyzed considering the characteristics of each country. The main criterion will be an analysis of the risk of an unsustainable evolution of the interest burden in different scenarios.
3. The debt sustainability analysis will consider the risks of under-investing in the transition. Where appropriate, the speed of reduction of the government debt-to-GDP ratio is modulated by considering this risk as well as the volume of transition investments needed to mitigate it. A sustainable increase in the public debt-to-GDP ratio will not be taboo if it goes hand in hand with expenditure and policies with a proven transition impact.
4. Where the national program provides for a rule linking budgetary expenditure growth to projected GDP growth, transition-critical expenditure will be safeguarded by a social and ecological golden rule. The safeguarded expenditures are identified by their expected contribution to the achievement of the European transition objectives. The growth projection is based on an ambitious objective of full employment.
5. The expected contribution of expenditure and policies to the achievement of the European transition objectives and the conditions of feasibility and acceptability will be assessed by :
  - outcome indicators based on physical and social data relating to the fight against climate change, the protection of biodiversity, the fight against pollution and the preservation of natural resources through the circularity of the economy (e.g. greenhouse gas emissions from a given sector, use of chemical products, land artificialization, air and water pollution); indicators of employment, income and monetary and non-monetary inequality;
  - physical, structuring parameters that constitute the main levers to be mobilized to achieve the ecological and social objectives in a given sector. For examples, some of these parameters are defined at the European level, such as the share of public buildings to be renovated annually as provided for in the "energy efficiency" directive. Others are adapted to the national context: for France, three parameters to control to reduce CO2 emissions in housing have been identified, the number of dwellings insulated over a given period, the number of gas-fired dwellings and the number of oil-fired dwellings;
  - public policy measures, either of regulatory or administrative nature or taxation in the field of environment, employment, public service provision or redistribution measures, impacting these structuring parameters. It is indeed important to use an approach that includes all measures and not only the financing flows.

