POLITICAL OPINION ON THE REFORM OF THE STABILITY AND GROWTH PACT

① The Senate European Affairs Committee,

② Having regard to Article 88-4 of the French Constitution,

③ Having regard to Articles 121 and 126 of the Treaty on the Functioning of the European Union and annexed Protocol No 12 on the excessive deficit procedure,

④ Having regard to the Treaty on Stability, Coordination and Governance within the Economic and Monetary Union of 2 March 2012,

⑤ Having regard to 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 (known as the preventive arm),

⑥ Having regard to Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (known as the corrective arm),

⑦ Having regard to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States,

⑧ Having regard to Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area,

⑨ Having regard to Regulation (EU) 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area,

⑩ Having regard to Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies,

⑪ Having regard to 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,

⑫ Having regard to Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure,

⑬ Having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability,

⑭ Having regard to 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,

⑮ Having regard to the Communication from the European Commission of 5 February 2020 entitled "Economic governance review - Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU" (COM (2020) 55 final),

⑯ Having regard to the Communication from the European Commission of 9 November 2022 on orientations for a reform of the EU economic governance framework (COM (2022) 583 final),

⑰ Having regard to the Proposal for a Regulation of the European Parliament and of the Council of 26 April 2023 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (COM (2023) 240 final),

⑱ Having regard to the Proposal for a Council Regulation of 26 April 2023 amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (COM (2023) 241 final),

⑲ Having regard to the Proposal for a Council Directive of 26 April 2023 amending Council Directive 2011/85/EU on the requirements for budgetary frameworks of the Member States (COM (2023) 242 final),

⑳ Having regard to the reports of 15 December 2023 of the European Parliament Committee on Economic and Monetary Affairs (ECON) 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 and on the proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States,

㉑ Having regard to the European Court of Auditors' Review of October 2023 entitled "Reforming the EU’s economic governance: Opportunities with risks and challenges",

㉒ *On the need to reform the Stability and Growth Pact:*

㉓ Whereas the rules of the Stability and Growth Pact suffer from widely identified shortcomings: procyclicality, complexity, a reliance on unobservable variables, a lack of appropriation by Member States, an inability to provide sufficient support for public investment,

㉔ Whereas the heavy penalties provided for in the Pact's corrective arm have never been applied, undermining their credibility and discouraging compliance,

㉕ Whereas the economic context has changed significantly since the Pact's rules were introduced, notably because of the economic shock caused by the Covid-19 pandemic, the Russian invasion of Ukraine and the climate crisis, and whereas the current framework is now proving inadequate to support the major public investments needed in the digital and environmental transitions and in defence,

㉖ Whereas the serious deterioration in public finances in many Member States makes it impossible to apply the rules that were in force before the Covid-19 pandemic, with public debt in six Member States exceeding 100% of GDP in the second quarter of 2023,

㉗ Whereas the European Commission expects debt levels in 2024 to remain well above pre-crisis levels, i.e. above 60% of GDP in half of the Member States,

㉘ Supports the principle of the Commission's proposed legislative package consisting of two proposals for regulations and a proposal for a directive, which aims at a far-reaching reform of the European budgetary governance framework,

㉙ *On the urgent need to adopt a new budgetary governance framework quickly:*

㉚ Whereas the general escape clause suspending the Pact's obligations, triggered in March 2020, ends on 31 December 2023,

㉛ Whereas 2024 will inevitably be a transitional year in which the budgetary governance rules that were in effect before the Covid crisis will apply, since their revision for the preventive arm requires an agreement between the two co-legislators, the European Parliament and the Council of the European Union,

㉜ Whereas the European Parliament should be out of session as from April 2024, limiting the time available to complete the legislative process for revising the budgetary governance rules before the European elections in June 2024,

㉝ Whereas the lack of adoption in the Council on this revision by the end of 2023 would certainly prevent its definitive adoption before the new European Parliament is elected, undoubtedly making 2025 another transitional year during which the flawed and obsolete rules of the Pact would continue to apply,

㉞ Calls for a rapid adoption of the reform in the Council by the end of 2023 so that trilogues can be held in the first half of 2024 and a reformed framework for budgetary governance can be adopted and applied from 2025,

㉟ *On the introduction of national medium-term fiscal-structural plans:*

㊱ Whereas the national fiscal-structural plans that set out the Member States' budgetary, reform and investment commitments are the cornerstone of reform,

㊲ Endorses the rationale behind these plans, which are intended to replace the current stability and convergence and national reform programmes and to allow Member States to set their own fiscal paths, as this will help both to strengthen national appropriation of efforts and to allow for genuine differentiation according to the Member States' specific characteristics, 38 Supports the use of net expenditure as an indicator instead of the structural budget balance, which is not observable and is based on estimates; points out that net public spending covers an aggregate of public expenditure net of interest, the cyclical component of unemployment spending and discretionary revenue measures,

39 Welcomes the possibility of extending the budgetary adjustment period from four to seven years when a Member State commits to a relevant set of reforms and investments; welcomes the fact that each of the commitments justifying an extension of the adjustment period must be sufficiently detailed, front-loaded, time-bound and verifiable; warns, however, of the need for a sufficiently clear and transparent methodology for determining the investments and reforms justifying an extension of the adjustment trajectory,

40 *On the debt sustainability analysis:*

41 Whereas the debt sustainability analysis (DSA) will play a central role in establishing the technical trajectories for net public spending presented by the Commission to provide guidance to the Member States,

42 Notes that the European Commission's DSA methodology is comparable to that used by international bodies such as the IMF and OECD and is based on a broad set of assumptions including interest rates, deficit levels, potential growth and ageing projections,

43 Regrets, however, that the Commission is proposing to apply this analysis over a long-term period of 14 to 17 years; considers it impossible to carry out serious economic forecasts over such a lengthy period, as pointed out by the European Court of Auditors,

44 Calls for a working group to be set up, bringing together experts from the Commission as well as representatives of Member States, to ensure the transparency of the DSA and the consistent implementation of the framework in all Member States,

45 *On the introduction of safeguard clauses:*

46 Stresses that the guidelines presented by the Commission in November 2022 did not provide for the introduction of common numerical criteria for fiscal governance so as not to apply uniform numerical rules to different national situations,

㊼ Welcomes the abandonment of the 1/20th rule for reducing the debt ratio, which was introduced in the Six Pack and required Member States with a public debt exceeding 60% of GDP to reduce the difference between their average debt level over the last three years and the 60% reference threshold by 1/20th each year; stresses that applying the 1/20th rule would lead countries such as Italy and Greece to reduce their debt by 4 to 5 percentage points in one year, which seems unrealistic,

㊽ Regrets that the Commission's proposals of April 2023 introduced a common quantitative criterion with a safeguard clause for the deficit requiring it to be reduced by at least 0.5 points of GDP per year if it remains above 3% of GDP, whether the country concerned is subject to an excessive deficit procedure (EDP) or not,

㊾ Regarding the latest proposals under consideration

㊿ Whereas the recent compromise proposals made by the Spanish Presidency of the Council aim to incorporate two new safeguard clauses: firstly, a safeguard clause on debt requiring a reduction in the debt ratio of 1 point on average over the adjustment period when debt exceeds 90% of GDP and 0.5 point when debt is between 60% and 90% of GDP; secondly, a safeguard clause on the deficit to ensure a "margin of resilience" below 3% of GDP, setting the ratio at 1.5% of GDP,

51 Denounces these additions, which do not respect the spirit of the reform, which is intended to allow for a differentiation of fiscal trajectories by abandoning arbitrary uniform requirements for all Member States, which are likely to produce pro-cyclical effects that amplify the effects of the current economic situation,

52 Regarding the position to be adopted

53 Calls nevertheless, if introducing such safeguard clauses is needed to reach a compromise that reconciles the need for differentiated trajectories and the need for common guarantees, for them to be paired with flexibility for investment and reform,

54 Supports the solution proposed by the European Parliament's Committee on Economic and Monetary Affairs (ECON), which consists of a safeguard clause on debt but no "margin of resilience" for the deficit, nor any other common numerical rule for reducing the public deficit below the threshold of 3% of GDP,

55 Calls, with regard to the corrective arm, for flexibility to be introduced with regard to the minimum adjustment rule of 0.5 points in the event of a deficit above 3% of GDP; would like interest charges on the debt and spending on green investment to be temporarily excluded from the adjustment calculation; insists that this temporary exclusion should apply for the years 2025, 2026 and 2027,

56 *On the relationship between the plans and electoral deadlines and the involvement of national parliaments*

57 Whereas, while the Commission's proposal allows for a new government to present a revised national fiscal-structural plan following a national election, in such a case the Commission would propose "a new technical trajectory (...) that does not postpone the fiscal adjustment effort to the end of the period and does not lead to a smaller fiscal adjustment effort",

58 Whereas the relationship between national medium-term fiscal-structural plans and electoral deadlines is awkward since the plans could be projected over periods of up to 17 years, with an adjustment period of between four and seven years; such durations seem incompatible with the frequency of parliamentary elections in EU countries,

59 Whereas the national parliaments are mentioned only very briefly in the Commission's proposals and whereas future European rules will *de facto* govern the budgets that national parliaments are responsible for adopting,

60 Worries about the room for manoeuvre left to a new government regarding the plan already agreed by its predecessor,

61 Calls, therefore, for vigilance regarding the relationship between the plans and electoral deadlines, as otherwise the people of Europe will reject these plans, and calls for guarantees to be provided as to the plans' sustainability while allowing them to be revised in the event of political changes,

62 Insists that national parliaments be more actively involved in implementing the reformed European fiscal governance framework,

63 Calls, to this end, for each national parliament to be given, in advance, all the information needed to assess the trajectories devised by the Member States, including the technical trajectory drawn up by the Commission and details of the debt sustainability analysis (DSA).