

Coordination and Surveillance of Budgetary Policies of Euro Area Member States during the Autumn Cycle



This note gives a short overview of the main steps in the framework of euro area Member States' budgetary policy coordination and surveillance during the autumn cycle of the European Semester. This enhanced monitoring and surveillance of euro area Member States' budgetary policies is done in accordance with EU law. It aims to identify and correct at an early stage during the Semester cycle any risks of deviation from fiscal policy recommendations agreed by the Member States, ultimately by asking an updated national draft budgetary plan.

The [EU Regulation 473/2013](#) (subsequently called "DBP-Regulation") establishes provisions for enhanced monitoring and surveillance of euro area Member States budgetary policies with the objective to ensure that national budgets are consistent with the policy guidance provided under the Stability and Growth Pact (SGP) and the European Semester (including the macroeconomic imbalances procedure as set out in [Regulation EU 1176/2011](#)).

In particular, the DBP-Regulation complements the above mentioned frameworks by establishing a common budgetary timeline for all euro area Member States, rules on the monitoring and assessment by the Commission and discussions by the Eurogroup of all euro area Member States' draft budgetary plans (DBPs) and more stringent assessment and reporting provisions for euro area Member States under the Excessive Deficit Procedure (EDP).

De facto, Member States under a macroeconomic adjustment programme are not subject to the DBP-Regulation.

Common budgetary timeline

Figure 1: Common Budgetary Timeline
Normal Process



Source: EGOV



The common budgetary timeline, as shown above in Figure 1, defines the key procedural steps of the autumn cycle within the annual cycle of economic policy coordination¹:

Step 1: In accordance with Article 4(1) of the DBP-Regulation, Member States make public their national medium-term fiscal plans (MTFPs) along the Stability programmes (SPs) and National Reform Programmes (NRPs), preferably by 15 April but not later than 30 April. The MTFPs and SPs may be the same document;

Step 2: In accordance with Article 4(2) and Article 6:

i) Member States publish their draft budgets for the central government for the forthcoming year and the main parameters of the draft budgets for the other subsectors of the general government **by 15 October**;

ii) Member States submit their DBPs for the forthcoming year to the European Commission (Commission) and the Eurogroup **by 15 October**. These plans shall be consistent with the Council recommendations issued in the context of the SGP and, where applicable, with the Country Specific Recommendations;

Step 3: In accordance with Article 7(1), the Commission adopts an opinion on DBPs **by 30 November** at the latest in the case of normal procedure (see overleaf section for the case of particularly serious non-compliance with SGP obligations);

Step 4: As set out in Article 4(3), Member States adopt and make public the central government budget **by 31 December at the latest** (except for objective reasons beyond the control of the government - in which case reversionary budget procedures are to be applied).

During periods when the **general escape clause is active**, the underlying fiscal policy recommendations are more of qualitative nature (i.e. not quantitative fiscal targets), notably in the annual Country Specific Recommendations.

This implies that the surveillance of the DBPs in content is of more general nature. However, they allow an **assessment of the qualitative recommendations**, such as relating to national fiscal support measures in the case of high energy prices (e.g. the [Commission autumn 2022 forecast](#) estimates that these kind of mitigating measures have in 2022 a net budgetary cost of 1,2% of GDP in the EU), and the **related euro area level coordination of such measures** (according to the commission assessments these fiscal support measures were not very targeted to the most vulnerable in the society). See also separate EGOV document on [SGP implementation under exceptional times](#).

All annual DBPs and related Commission opinion are available, on the Commission homepage ([here](#)).

Box 1: Role of the independent fiscal bodies

[EU Regulation 473/2013](#) (part of the "2-pack") stipulates that euro area Member States (1) should have in place independent bodies which produce or endorse **national medium-term fiscal plans** and **draft budgets** as well as their underpinning **macroeconomic forecasts** and (2) they should indicate whether those fiscal plans were produced or endorsed by independent fiscal bodies or not. In accordance with the same Regulation, the independent bodies shall be endowed with functional autonomy vis-à-vis the budgetary authorities of a Member State. The principles on the tasks and status of the monitoring institutions are included in recital 15 of the Regulation.

¹ The annual cycle of economic policy coordination starts in November when the priorities for the cycle are established. It ends in October of the following year with the submission of Draft Budgetary Plans in line with the Council country specific recommendations adopted in July. It comprises the European Semester and the National Semester: during the European Semester, Member States agree to policy recommendations they will reflect on their national budgets. The European Semester is based in article 2-a of [Regulation 1466/97](#).

Assessments of the DBPs

As previously mentioned, the Commission is to assess the DBPs² and adopt the related opinion by 30 November at the latest. In accordance with Articles 6 and 7 of the DBP-Regulation, the Commission considers in its assessment:

- 1) for Member States under the preventive arm of the Pact, the extent to which they have implemented the Country-Specific Recommendations and in particular their compliance with [Medium-Term Objectives \(MTO\)](#) or the adjustment path towards the MTO;
- 2) for Member States subject to the [Excessive Deficit Procedure \(EDP\)](#), compliance with the EDP recommendation is a central aspect of the assessment.

In accordance with the "[Two Pack Code of Conduct](#)" (14928/14) endorsed by the Council, the Commission opinion will either indicate a positive assessment of the plan or point out risks which could stem from its implementation ("particularly serious non-compliance" situations are explained below).

The Commission opinions on the DBPs are made public and presented to the Eurogroup (Article 7(3) of the DBP-Regulation). At the request of the national parliament concerned (by a Commission opinion) or the European Parliament, the Commission presents its opinion to the parliament making the request (Article 7(3) of the Regulation).

Furthermore, Article 7 of the DBP-Regulation includes *inter alia* the following provisions:

- (i) The Commission also makes an overall assessment of the budgetary situation and prospects in the euro area as a whole, on the basis of the national budgetary prospects and their interaction across the area, relying on the most recent economic forecasts of the Commission services;
- (ii) The Eurogroup discusses the Commission opinions on the DBPs and the budgetary situation and prospects of the euro area as a whole. The results of these discussions are made public, where appropriate.

Further procedural consequences are stipulated by the Regulation only in case the country is in an EDP (see below).

Particularly serious non-compliance

In case the Commission identifies "particularly serious non-compliance" with the budgetary obligations of a Member State, Article 7 of the DBP-Regulation provides that the Commission shall request the Member State concerned to submit a revised DBP in accordance with a specific timeline and procedure:

Figure 2: Indicative timeline in case of particularly serious non-compliance



Source: EGOV

² In accordance with Article 6 of the Regulation (EU) 473/2013, the DBP is to contain the following elements: 1) targeted budget balance for the general government and each subsector; 2) the corresponding expenditure and revenue projections under no policy change scenario; 3) the targeted expenditure and projections; 4) information on the general government expenditure by sector (and when possible indication on the expected distributional impact); 5) description and quantification of the expenditure and revenue measures to be included in the draft budget so as to bridge the gap between budgetary targets and projections at unchanged policies; 6) the main assumptions underpinning the independent macroeconomic forecasts; 7) an annex outlining the methodology, economic models as well as assumptions and relevant parameters underpinning projections; and finally, 8) indications on how reforms and measures in DBP address policy recommendations provided under SGP and the European Semester.

- The Commission consults³ the Member States concerned within one week of the DBP submission (→ *indicative: by **22 October** at the latest*);
- If the particularly serious non-compliance is not addressed by the Member States concerned following the consultation, the Commission adopts its opinion within two weeks of submission of the DBP (→ *indicative: by **29 October** at the latest*), requesting a revised DBP as soon as possible and in any event within three weeks of the date of its opinion (→ *indicative: not later than **19 November***). Commission's request shall be motivated and shall be made public;
- The Commission adopts a new opinion on the revised DBP as soon as possible and **in any event** within three weeks of submission of the revised DBP by the Member States concerned (→ *indicative: at the latest on **10 December***). The DBP-Regulation does not specify the consequences of a non-submission of a revised DBP nor of the submission of a revised DBP non-compliant with the Commission's opinion. In any event, the Commission's opinion will be considered as part of an overall assessment of the Member State stance (see also Box 2 for significant deviation procedure under the preventive arm of the SGP).

The consolidated "Two Pack Code of Conduct" (page 9) provides a non-exhaustive list of situations of "*particularly serious non-compliance*". This list includes:

- 1) If an obvious breach of the deficit and/or debt criteria laid down in Article 126(2) of the TFEU would follow from the implementation of the DBP;
- 2) For Member States in the preventive arm of the SGP, if the fiscal effort envisaged in the DBP falls clearly short of the fiscal effort recommended by the Council in accordance with the existing Council recommendation based on the Article 121(4) of the TFEU;
- 3) For Member States in the corrective arm of the SGP, if the fiscal effort envisaged in the DBP, i.e. the forecast change in the structural balance, falls clearly short of the recommended fiscal effort by the Council in accordance with Article 126(7) or 126(9) TFEU;
- 4) Where the implementation of the initial budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardizing the proper functioning of the Economic and Monetary Union.

Besides the above mentioned stipulations of the Regulation 473/2013, it should be noted that the preventive arm of the SGP ([Regulation \(EC\) 1466/97](#)) includes

Box 2: Significant deviation under the preventive arm of the SGP

As defined in Articles 6(3) and 10(3) of Regulation (EC) 1466/97, the assessment of whether the deviation from the MTO or the adjustment towards the MTO is significant shall, in particular, include the following criteria:

- 1) for a Member State that has not reached the MTO: A significant deviation is defined as a deviation of at least 0.5% of GDP in a single year or at least 0.25% of GDP on average per year in two consecutive years;
- 2) when assessing expenditure developments net of discretionary revenue measures: The deviation is significant if it has a total impact on the government balance of at least 0.5% of GDP in a single year or cumulatively in two consecutive years.

Where a conclusion of overall significant deviation (taking into account additional deviations allowed by the clauses pertaining to the flexibility under the SGP) based on an overall assessment and on **validated data**, it triggers a **Significant Deviation Procedure** (SDP), which starts with a COM warning to the Member State in question and can lead to an interest-bearing deposit being required, for euro area Member States. Based on revised data for the previous year(s) (in accordance with [Council Regulation \(EC\) No 479/2009 of 25 May 2009](#)) which are usually made public by Eurostat end of October of the current year (see [Eurostat website](#)), the triggering of a SDP is also possible in autumn, if the revised structural balance data for the previous year show a deterioration compared to the COM assessment of spring of the current year.

³ According to publicly available information, this consultation takes place in the form of letter(s) by the Commission to the Member States concerned.

procedural consequences in the case of a significant deviation from the MTO, which can also occur during the autumn based on revised data for the previous year(s).

Impact on the Excessive Deficit Procedure

Euro area Member States found to be at risk of non-compliance with their obligations under the EDP are subject to the following procedural steps (Articles 11 and 12 of the DBP-Regulation):

- The Commission addresses a recommendation to the Member States concerned regarding (a) the full implementation of existing obligations within a timeframe consistent with the deadline for the correction of its excessive deficit, (b) adoption of other measures or (c) both;
- The recommendation by the Commission shall be made public and shall be presented to the Member States in the Economic Financial Committee (EFC);
- At the request of the parliament of the Member States concerned, the Commission presents the recommendation to that parliament;
- The Member State concerned reports to the Commission on measures adopted to address the recommendations, including information on the impact of all discretionary measures taken, targets for government expenditure and revenues and additional information on the measures adopted.

Box 3: Assessment on the existence of an excessive deficit - relevant factors

[Regulation 1467/97](#) gives details on the relevant factors to be taken into account within a report under Art. 126(3) of the TFEU, presenting a list that falls under three headings: developments in the medium-term economic position, developments in the medium-term budgetary position and developments in the medium-term government debt position.

However, the Regulation provides that the list is not exhaustive and that *"The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission. In that context, particular consideration shall be given to financial contributions to fostering international solidarity and achieving the policy goals of the Union, the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability, and the debt related to financial stabilisation operations during major financial disturbances."*

Article 12 stipulates that the extent to which the Member State concerned has taken into account the Commission's opinion on the DBP shall be considered:

- (a) when the Commission carries out a (regular) monitoring on the correction of an excessive deficit, including the assessments of effective action;
- (b) when the Commission prepares a report under Article 126(3) TFEU on the existence of an excessive deficit;
- (c) when the Commission recommends the imposition of a non-interest bearing deposit for countries which fail to take action in an EDP, in accordance with Article 5 of Regulation (EU) No 1173/2011;
- (d) by Council when deciding whether an excessive deficit exists in accordance with Article 126(6) TFEU.

The Commission opinion on the DBP can, therefore, have an effect on an Art. 126(3) report (assessing the existence of excessive deficit) which takes into account all the relevant factors (see box 3).

For the other Member States, Article 3 of the DBP-Regulation only stipulates that the Member States' budgetary procedure shall be consistent with the recommendations issued in the context of the SGP (i.e. also the preventive arm), so that it can be assumed that future SGP recommendations will take into account the Commission opinions on the DBPs.

Involvement of the European Parliament and national Parliaments

The EP and national Parliaments have the right to request the Commission to present its opinion on the DBP (Article 7(3) of the DBP-Regulation).

As referred to above, the parliament of a Member State found to be at risk of non-compliance with the deadline to correct its excessive deficit can request the Commission to present its recommendations issued in accordance with Article 11(2).

Additionally, as provided for in Article 15 of the DBP-Regulation, the EP may invite, where appropriate, the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup to appear before the competent committee in the framework of an [Economic Dialogue](#) to discuss inter alia:

- The results of the discussion of the Eurogroup on the Commission opinions issued in accordance with Article 7(1) to the extent that they have been made public;
- The overall assessment of the budgetary situation and prospects in the euro area as a whole made by the Commission,
- Council decisions taken in accordance with Article 126(8) or (11) of the TFEU (stepping up of the EDP, namely leading to imposing fines).

The EP may also offer the opportunity to the Member State that is the subject of a Commission recommendation in the case of a risk of non-compliance with the deadline to correct an excessive deficit to participate in an [exchange of views](#).

The review of the framework

In its review⁴ of February 2020 of the EU economic governance framework, the Commission concluded as regards this specific Regulation that the annual examination of euro-area Member States' DBPs has allowed the Commission to inform Member States' budgetary processes earlier, but has also highlighted the challenges of making Member States change their plans, at the end of the year and of sparking a genuine discussion on the euro area fiscal stance in the Eurogroup.

On 9 November 2022, the Commission published its **orientations⁵ for a reform of the EU economic governance framework**. In this context, the Commission does not propose any changes to the surveillance framework for DBPs. It states, however, the following: *"assessments of compliance and enforcement would be carried out on a continuous basis, in particular based on the annual progress reports and EDP data notifications. For euro area Member States, the Commission would also assess compliance of the draft budgetary plans with the agreed multiannual net primary expenditure path in the autumn. There would no longer be a need for annual fiscal recommendations for Member States that comply with their medium-term plans. At the same time, the Commission/Council could issue recommendations with early warnings before the conditions for opening an EDP are reached, namely, if they see strong risks of breaching the 3% of GDP threshold or in case of deviations from the agreed multiannual net primary expenditure path that do not lead to the opening of an EDP."* In this respect, the Commission reform orientations would not imply major reforms to the surveillance framework of DBPs, while the underlying fiscal rules would be reformed.

⁴ [Commission Communication](#) on 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.

⁵ [Commission Communication](#) on orientations for a reform of the EU economic governance framework.

Further EGOV briefings on public finances:

- [Implementation of the Stability and Growth Pact under exceptional times](#)
- [Public Finances in Euro Area Member States: selected indicators](#)
- [Country-Specific Recommendations for 2019, 2020, 2021 and 2022](#)

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