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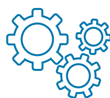

Towards a much-needed reform of EU fiscal rules: the European Commission's proposals

In view of the consensus among economists concerning the need to overhaul the EU governance framework, the European Commission has taken advantage of the suspension of fiscal rules to reflect upon proposals for reform. Following its proposal of November 2022, on 26 April 2023, the Commission published legislative proposals that could come into force in early 2024, once they have been agreed with stakeholders. The main objective is to ensure public debt sustainability while preserving conditions for macroeconomic stabilisation. The Commission's goal is to provide the EU with straightforward, easy-to-understand and effective mechanisms based around differentiated and economically-relevant recommendations. The success of the system will depend on national ownership and on effective coordination of macro-fiscal and monetary policies conducive to growth and investment. This article analyses the trade-offs the Commission has had to make and the areas it has chosen not to address.

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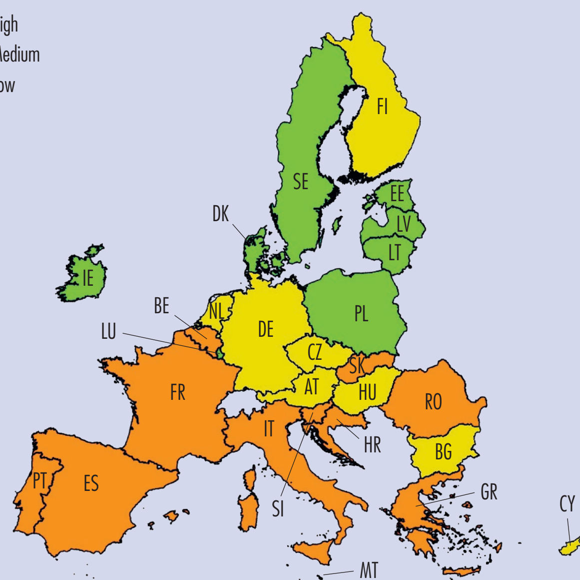
JEL codes
E02, E63,
H63

4 years
the period of fiscal adjustment proposed by the European Commission to bring down the public debt ratio.

31 December **2023**
end of activation of the general escape clause allowing for temporary deviation from standard fiscal rules for EU Member States

95%
the average public debt-to-GDP ratio in the euro area in 2021

Medium-term public debt sustainability risks in the European Union in 2021



Source: European Commission (2022).

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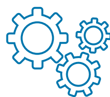


The fiscal rules enshrined in the Stability and Growth Pact (SGP) are no longer suitable: they are lacking in effectiveness and poorly adapted to the current economic climate and need to be largely overhauled. There is broad consensus among economists concerning the need for reform (Bénassy-Quéré, 2022; Blanchard et al., 2022; Cahen and Larosière, 2022; Martin et al., 2021).

1 A much-needed reform of EU fiscal rules

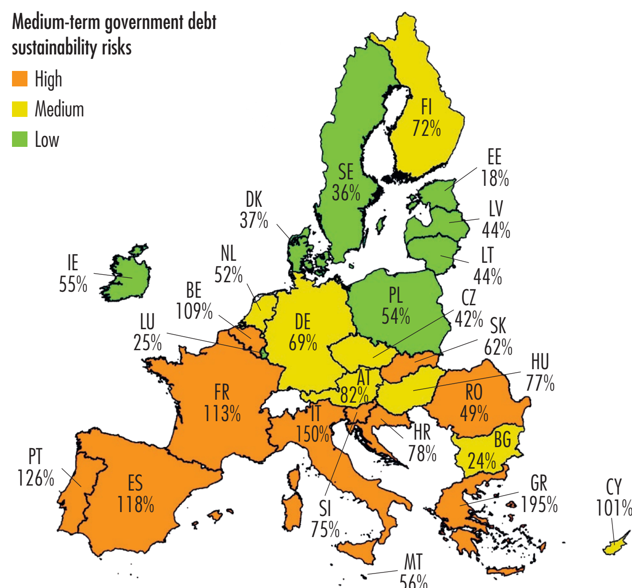
Fiscal discipline is absolutely essential in a monetary union like the European Union (EU) because of the negative externalities that a debt crisis would have on other Member States. Because fiscal policies are defined at national level, coordination is needed to forge the most effective macroeconomic policy mix (i.e. national fiscal policy and single monetary policy) and reduce the risks of a systemic crisis by safeguarding public debt sustainability among Member States. The prohibition on any type of monetary financing in the EU means that any risk of payment default by a weakened country must be prevented by means of prudent fiscal policy. A suitably adapted governance framework for the euro area as a whole therefore makes it possible to preserve the single currency, while supporting medium-term growth.

Moreover – and this is probably the key element from a central bank perspective – sound public finances help avoid the risks of fiscal dominance, whereby monetary policy decisions would be constrained by the need to ensure government solvency (Barthélémy et al., 2021). The central bank would then have to arbitrate between public debt sustainability and monetary stability, which is not part of its mandate. For example, when the central bank has to raise interest rates to stabilise inflation, this leads to a *de facto* increase in the public debt, which can have a destabilising impact when public debt is very high. This gives rise to two risks and both would result in an undesirable outcome: either the public debt becomes unsustainable or the central bank abandons its inflation target. EU fiscal rules[1] are designed to prevent just such a situation.

However, the current rules have only partly fulfilled their role in providing a national fiscal policy framework. Their shortcomings have been clearly identified, namely complexity, lack of transparency, use of unobservable variables, procyclicality, limited effectiveness, low national ownership, insufficient investment support and poor coordination between Member States (Schmidt and Sigwalt, 2022).

In addition, the current economic climate, characterised by high levels of debt (see map), strong fiscal and macroeconomic heterogeneity across Member States and major geopolitical uncertainty, means that we need to reassess the usefulness of a governance framework that has become unsuitable.

Medium-term public debt sustainability risks and current debt-to-GDP ratios in the European Union in 2021



Sources: European Commission (2022), Eurostat.
Key: The colours represent the degree of debt sustainability risk in 2021 and the percentages reflect the gross debt-to-GDP ratio in 2021 (as defined in the Maastricht Treaty). A low level of debt may present a high sustainability risk (Romania), while a debt of over 60% may present a moderate risk of unsustainability (Austria).

1 Member States also have national rules that are compatible with and – most importantly – complementary to European rules.

The suspension of the current rules through to the end of 2023 (see Box 1) has provided a window of opportunity for developing a new framework. Numerous proposals have been made by several institutions, including the European Commission, which published its legislative proposals on 26 April 2023, based largely on its initial proposal of November 2022. Additional safeguards have been added to ensure that fiscal adjustments will be made (see Box 3 below).

This article analyses the Commission's proposal, highlighting in particular the trade-offs it has had to make between a number of objectives and options. The Commission seeks to ensure long-term debt sustainability while preserving the conditions for short-term macroeconomic stabilisation, without running the risk of pro-cyclical fiscal adjustments. It seeks to come up with a combination of straightforward, transparent and easy-to-understand mechanisms, which is a necessary albeit ambitious goal. It also aims for effective deployment based on carefully tailored, economically relevant recommendations that avoid the risk of circumventing the rules. Lastly, because accepting and owning the rules is essential for the success of the system, the Commission wishes to involve the Member States in order to achieve overall coherence and effective coordination of macro-fiscal and monetary policies that are conducive to growth and investment. Achieving all of these objectives represents a real challenge.

BOX 1

The general escape clause

The general escape clause was introduced in 2011 as part of the Six-Pack, a set of measures introduced to reform the Stability and Growth Pact (SGP) in the wake of the financial crisis. The clause does not suspend SGP procedures, however it allows for temporary deviation from standard fiscal rules for EU Member States in response to a generalised crisis situation caused by a severe economic downturn in the euro area or the European Union. However, any deviation must not compromise medium-term fiscal sustainability.

On 20 March 2020, the European Commission activated the escape clause for the first time to allow Member States to respond to the COVID-19 health crisis. Deactivation of the clause was initially scheduled for the end of 2022 before being pushed back a year in response to the economic consequences of Russia's invasion of Ukraine. This postponement also allows more time to reach an agreement on the reform of current fiscal rules. The reform process was relaunched in autumn 2021, with the aim of having new rules ready for fiscal year 2023. The new rules would now apply from the beginning of 2024, provided that Member States reach a compromise.

2 The European Commission is proposing a new governance framework that it considers to be more transparent, straightforward and integrated

Under the current governance framework, fiscal, macroeconomic and, more recently, long-term public investment policy are treated virtually separately (see Figure 1 below). Fiscal measures (i.e. the SGP) have become more complex over time, with added flexibility and exceptions to the rule in response to specific circumstances. Reliance on highly controversial quantitative rules and the failure of Member States to buy into the measures have limited the effectiveness of the system. Macroeconomic measures (i.e. the Macroeconomic Imbalance Procedure, MIP) have suffered from poor coordination and, despite partial implementation by certain Member States – some wishing to correct their imbalances through structural reforms, others appearing less determined to do so – no excessive imbalance procedure has ever been initiated. However, the European Recovery and Resilience Facility (RRF) – the key instrument of the 2020 European Recovery Plan (NextGenerationEU, NGEU), designed to tackle the aftermath of the pandemic and facilitate both the digital and the green transition – has worked well and it has even served as the template for the European Commission Communication[2] concerning the reform of the governance framework, published on 9 November 2022.

2 *https://economy-finance.ec.europa.eu/*

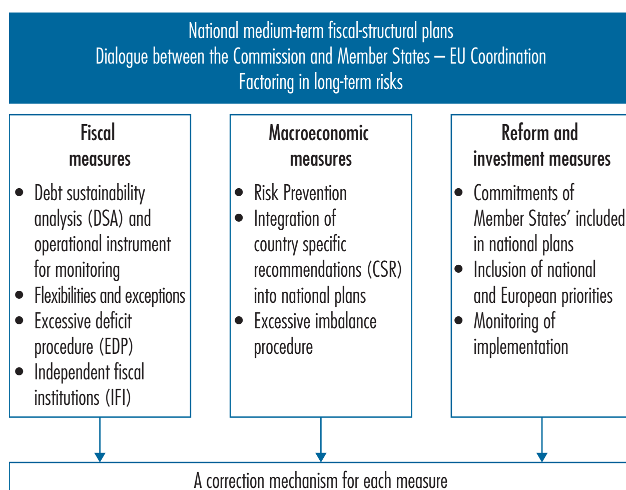
F1 Current economic governance framework in the European Union

Stability and Growth Pact (SGP)	Macroeconomic Imbalance Procedure (MIP)	Recovery and Resilience Facility (RRF)
• Thresholds of 3% and 60% • A number of quantitative rules • Flexibilities and exceptions • Excessive deficit procedure (EDP) • Sanctions • Independent fiscal institutions (IFI)	• Scoreboard • In depth review (IDR) • Country specific recommendations (CSR) • Excessive imbalance procedure	• Cornerstone of NextGenerationEU (NGEU) • National plans adopted by the Council of the European Union • Macroeconomic conditionality (digital and green transition)

Source: Authors' illustration.

The proposed reform of the EU's economic governance framework is based around increased interaction between the Member States and the Commission, and more effective coordination throughout the Union (see Figure 2). This time round, the budget framework, macroeconomic supervision and proposed reforms and investments will be dealt with as a whole in the national medium-term fiscal-structural plan. The plan will be underpinned by an assessment of risks and the integration of long-term strategies. Three separate correction mechanisms, corresponding to the three areas covered by the national plan (i.e. fiscal, macroeconomic and structural) would coexist.

F2 New economic governance framework proposed by the European Commission



Source: Authors' illustration.
Note: EU, European Union.

The macroeconomic strand would change little when compared with the current rules. **However, the focus will be more on risk and prevention.** In the event of non-correction of macroeconomic imbalances highlighted by an in-depth review, activation of the current excessive imbalance procedure will remain in force to allow the defaulting Member State to present a revised medium-term plan that includes corrective measures.

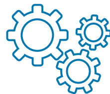
In the event of structural default (i.e. failure to implement the reforms and investments announced), a new correction instrument that could result in a more stringent fiscal adjustment would be activated by the European Commission.

The most substantial changes concern fiscal measures. The main goal is to simplify the framework by basing it on **a single operational indicator, a net primary public expenditure aggregate** (see Box 2 below), chosen because it is entirely under the control of governments. The fiscal adjustment reflected in the public expenditure path aims to set the debt ratio of countries whose debt exceeds 60% of GDP on an individual, plausible and continuous path to reduction. **The determination of the target path would be based around a comprehensive debt sustainability analysis** (DSA). The Commission will develop this analysis using a broad set of assumptions and it will assess debt ratios over at least a ten-year period following the end of the four-year adjustment period. It will use this assessment to gauge the budgetary response required to make the debt ratio begin to fall in at least 70% of the cases covered in the projections.

The Commission is proposing a three-stage mechanism. Its aim is to strengthen national ownership of the new European governance framework and to persuade Member State governments to buy into medium-term strategies:

- **The Commission will provide baseline four-year expenditure paths** (or seven-year paths for countries with moderate debt risk), and these will be made public for each Member State;
- The Member State, armed with the advisory opinion of its independent fiscal institution (IFI),[3] **will then**

3 In France's case, this is the Haut Conseil des finances publiques (HCFP).



submit to the Commission a national medium-term fiscal-structural plan that includes a four-year expenditure path,[4] **macroeconomic imbalance correction procedures, and long-term reforms and public investment programmes**;

- Once a consensus has been reached between the Commission and the Member State, **the EU Council will adopt the plan**. The plan will then be binding on the government concerned, unlike the current multi-annual programmes, which are merely indicative. The plan will represent a formal commitment that may not be revised for four years, except in exceptional circumstances.

In the event of deviation from the expenditure path, activation of an excessive deficit procedure (EDP) would still be possible, either based on the deficit criterion (if this exceeds 3% of GDP), or on the debt criterion, if the observed expenditure adjustment path did not adhere to the predefined path and there was no explanation for this. In this second case, the procedure would depend on the country's situation:

- For states whose debt represents a "substantial" challenge in terms of their public debt, deviation from the pre-approved expenditure path would trigger an EDP "by default";
- For states whose debt represents a "moderate" challenge in terms of their public debt, deviation could trigger an EDP in the event of a "clear deviation" from the path.

Aside from the obligation to get back on the predefined path, the Member State could be in line for **financial sanctions** (not as high as at present but more frequent) and reputational sanctions (hearing of finance ministers before the European Parliament). They could also temporarily lose access to structural funds and RRF funding. For countries whose debt sustainability represents a substantial challenge, another negative side effect of this mechanism could be the loss of access to the Transmission Protection Instrument (TPI), created in July 2022 by the Governing Council of the European Central Bank (ECB), which is contingent on compliance with the EU fiscal framework, in particular the absence of any ongoing EDP.

3 The Commission's position in the academic and institutional debate concerning reform of the EU's governance framework

The Commission's proposals partly reflect recent recommendations made by many economists and international institutions.

First, **the reference values of 3% (government deficit) and 60% (debt ratio)** enshrined in Protocol 12 to the Treaty on the Functioning of the European Union (TFEU) would continue to apply: a deficit of more than 3% would still trigger an EDP; the 60% target would remain a convergence value for debt ratios, **but over a distant, individualised and unspecified period**. The decision not to define a clear time horizon for debt ratio convergence has been the subject of much criticism. **The 60% threshold no longer has any role**, and in particular any operational role, in the Commission's proposal, notably as grounds for activating an EDP. What is really being sought after is a path that will bring the debt ratio down. Lastly, the one twentieth per annum adjustment rule for public debt, enshrined in the Treaty on Stability, Coordination and Governance (TSCG), would be abandoned. In other proposals, the 60% target remains the long-term anchor for reducing public debt (European Fiscal Board [EFB], 2020; Council of Economic Analysis [CEA], 2021; European Central Bank [ECB], 2022). Certain mechanisms (European Stability Mechanism [ESM], 2021)[5] propose increasing this reference value to 100% in order to be closer to the current average debt ratio in the euro area (95% in 2021).

Second, the new framework would be built around a **single operational instrument**, a **public expenditure**

4 May be extended to seven years in the event that reforms or investments enhance debt sustainability and are in line with European priorities, particularly those concerning the digital and green transition.

5 Francová et al. (2021), "EU fiscal rules: reform considerations", *Discussion Paper Series*, No. DP17, European Stability Mechanism (ESM), October. For the sake of convenience, we refer below to the "proposal contained in the working document published by the ESM", which appears under the acronym ESM (2021) in Figure 3.

BOX 2

The expenditure aggregate used in the European Commission's proposal

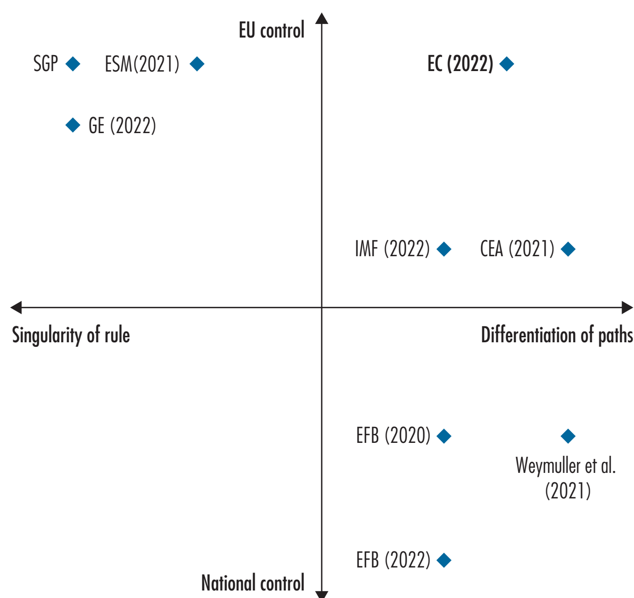
The single operational instrument chosen is aggregate public expenditure net of interest, the cyclical component of spending on unemployment benefits and discretionary revenue measures. This is the same aggregate as that currently used in the preventive arm of the Stability and Growth Pact (SGP).

Public expenditure is adjusted by subtracting:

- Interest paid on past indebtedness, i.e. the debt burden;
- The cyclical component of unemployment benefit expenditure, an unobservable variable that isolates the share of unemployment benefits that is due to fluctuations in the business cycle;
- Discretionary revenue measures, in other words, the impact of changes in taxation that increase or decrease public revenues. This means that the expenditure aggregate used does not include expenditure financed out of new revenues.

aggregate (see Box 2), as proposed in numerous recent publications (CEA, 2021; ESM, 2021; ECB, 2022). This instrument would replace the multiple indicators used under the current framework, which were largely based on unobservable variables (i.e. output gap, structural balance,[6] etc.) and subject to diverging interpretations. In principle, this indicator would be easier for governments to measure and oversee. However, the way it would be used by the Commission differs from other proposals: the Commission would calculate the instrument in such a way as to ensure that, following the initial adjustment (of four years for highly indebted countries, seven years for more moderately indebted countries), the debt ratio would begin a downward path lasting at least ten years. Other proposals favour the use of an expenditure ceiling that should not be exceeded (e.g., by limiting the growth in primary spending to that of medium-term GDP growth). Maintaining common automatic thresholds on deficits, debt and public expenditure lies at the heart of the debate that divides countries that favour fiscal discipline from those that want more flexibility and adaptation to circumstances.

F3 Positioning of the European Commission's proposal in relation to those of other institutions



Source: Authors' illustration.
Note: SGP, Stability and Growth Pact; ESM, European Stability Mechanism; EC, European Commission; GE, German Federal Ministry of the Economy and Climate Protection; IMF, International Monetary Fund; CEA, Council of Economic Analysis; EFB, European Fiscal Board.

6 The structural fiscal balance is equal to the difference between public revenues and expenditure, adjusted for the effects of the economic cycle (measured by the growth differential) and one-off events. Under current SGP rules, Member States subject to an EDP are required to gradually reduce their structural fiscal balance.

The Commission has adopted an original position both by taking the individual situations of Member States into account and in the implementation of control over the new governance framework (see Figure 3 above).

The new framework proposed by the Commission would differentiate sovereign debt trajectories. The diversity of Member States' initial fiscal positions raises questions concerning the relevance of a single path for reducing public debt ratios (see Figure 3, horizontal axis). The Commission would therefore build expenditure paths that have a high probability of bringing down each country's debt ratio based on a debt sustainability analysis (DSA). **The aim would no longer be a numerical target for the debt ratio, but a downward trajectory over the medium term, which would vary from one country to another. This approach therefore differs from other proposals** that favour, for example, modulating the pace of adjustment towards a common anchor (EFB, 2020), defined most frequently by a debt ratio target of 60%. Other institutions favour differentiating debt targets between Member States (CEA, 2021) while others prefer to maintain a single rule (i.e. same target, same pace of adjustment) in the same spirit as under current SGP rules (German Ministry of the Economy, 2022; ESM, 2021).

As regards ex-post compliance checks that may be performed by European or national institutions (the vertical axis assesses the institutional positioning of this control and not its intensity), **the Commission intends to retain a central role in the system**, similar to its role under the current system and the proposal contained in the working paper published by the ESM. Bilateral interactions with Member States would be stepped up – notably for drawing up the four-year national plans – throughout the European Semester. However, the role of the independent fiscal institutions (IFI) would only be partially strengthened (assessing the macroeconomic assumptions used in the national plans on behalf of the national government and annual monitoring of their implementation on behalf of the Commission) and would remain a consultative one. Conversely, many other proposals argue for a more important and prescriptive role for these national agencies (International Monetary Fund, 2022; EFB, 2022) or for the European Fiscal Board (GE, 2022; CEA, 2021).

4 The main contributions of the Commission's proposal

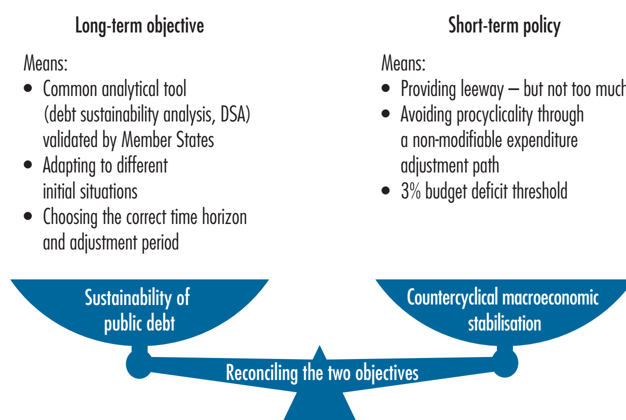
Reconciling long-term debt sustainability and short-term macroeconomic stabilisation

Effective fiscal rules need to be sufficiently binding to force Member States to incorporate long-term dynamics into their fiscal strategy, and sufficiently flexible to enable fiscal policy to absorb shocks, particularly asymmetric short-term shocks (see Figure 4).

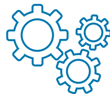
Sustainability implies a return to a level of debt that allows the Member State to maintain creditor confidence and finance future expenditure. **The Commission's proposal reflects a long-term perspective by separating expenditure and debt paths.** The challenge will be to effectively calibrate the effort and speed involved in reducing the debt ratio in the medium-term fiscal-structural plan. Whether the rule is "restrictive" or "loose" with respect to the long-term objective will depend on the detailed calculations underpinning the debt sustainability analysis (DSA) and, as is currently the case, on negotiations between the Commission and the Member States on the assessment of compliance with the macroeconomic paths and commitments.

In the short term, the rules should avoid implementing fiscal policies that destabilise the euro area as a whole, while facilitating national democratic choices and short-term adjustment to shocks, especially of an

F4 Reconciling the objectives of debt sustainability and macroeconomic stabilisation



Source: Authors' illustration.



asymmetric nature. In particular, the rules should not force Member States to make budgetary adjustments at a time when the economic recovery actually needs to be supported. Nor should they prevent Member States from regaining fiscal leeway during a period of robust activity. For this to happen, **the Commission proposes that the expenditure path should be fixed for a four-year period,** regardless of the prevailing economic situation. However, questions remain over the resilience of this rule faced with changes of government in Member States or adverse national or global circumstances.

Do not sacrifice the effectiveness of the system to excessive simplicity and individualisation

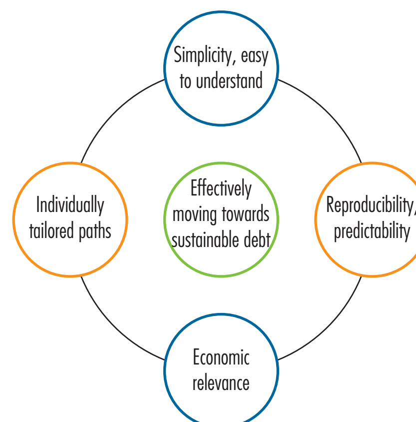
The effectiveness of the new fiscal framework can only be ensured if the rule meets two sets of conditions (see Figure 5):

- It must be simpler and easier to understand than the current framework, without being simplistic, so that recommendations remain economically relevant;

- It must be adapted to the individual situations of Member States but still be predictable and replicable in order to guarantee equal treatment between Member States (each country must have the assurance that it will be held to the same high standards or granted the same degree of flexibility as the others) and acceptability of the recommendations (the consistency of the chain of logic from the assessment through to the resulting recommendations helps convince the Government of the validity of the Commission's recommendations).

The Commission will propose a "technical trajectory" for each Member State's public expenditure that ensures a reduction in its medium-term debt ratio. The advantage of this expenditure aggregate is that it can be overseen by the government and understood by the public. The fact that this path is based on a debt sustainability analysis (DSA) should in theory allow the adjustments requested from each country to factor in all available economic information. However, the DSA is based on complex

F5 Trade-offs necessary to achieve an effective system



Source: Authors' illustration.

and often contested calculations, notably because it uses numerous assumptions and unobservable variables, such as potential growth.[7] However, the Commission believes that it can **at least guarantee clarity and transparency** by publishing all of the methods and parameters used, notably so that the Member States can replicate its analyses. The aim is to avoid any suspicion of unfair treatment and to allow a transparent debate on the adjustments required from each Member State.

National ownership as a guarantee of effective implementation of the framework?

Weak national ownership of the requirements of fiscal responsibility has been widely identified as the major problem with the current system. The lack of genuine political will to comply with the rules has led to instrumentalisation of the flexibilities and exceptions in the existing framework, rendering it partially ineffective. The Commission has explicitly attempted to address this problem by proposing **a highly individualised bottom-up approach** (medium-term fiscal-structural plan, and investment and reform priorities defined by Member States), similar to that of the European Recovery and Resilience Facility (RRF). **The emphasis on dialogue at all stages of the process** (i.e. when drawing up, monitoring and implementing the plans), within the framework of the European Semester, should also strengthen national

7 DSA methodology is already well known: it is the methodology used by the Commission for analysing the fiscal position of Member States (see European Commission, 2014). Depending on the path, the use of a large number of assumptions and short- and long-term macroeconomic variables for this calculation may produce very different results and conclusions. It should be noted that other institutions, such as the ECB and the IMF, have developed their own DSA methodologies.

ownership of the need to make adjustments. However, this approach raises a number of concerns: firstly, that the ramping up of bilateral discussions between Member States and the Commission could lead to unfair treatment; secondly, that the emphasis on 'positive' incentives could ultimately result in an insufficiently binding framework.

5 Limitations and necessary additions to the proposal

Although the Commission's proposal contains some undeniable strengths, such as the initiative to get Member States to buy into the project, and certain shortcomings that need to be addressed, such as the processes for implementing the debt sustainability analysis (DSA), there are also some notable omissions:

- **The quality and composition of national public expenditure** is not addressed. There is complete national sovereignty over fiscal policies so long as European rules are complied with and Member States participate in long-term European priorities. Ideally, these two constraints, i.e. national choices and European priorities, should result in priority being given to public expenditure that is conducive to long-term growth;[8]

- **The role of the national fiscal councils** is virtually unchanged in the Commission's proposal and their advisory opinion is simply extended from the analysis of macroeconomic projections to monitoring compliance with fiscal rules. Given the Commission's broad discretionary role, the national committees or the European Fiscal Board (EFB) could have played a counterpoint role and been more involved in building the expenditure path and analysing debt sustainability;

- Unlike many other proposals for reforming the governance framework (IMF, ESM, CEA), **the Commission does not address the whole issue of creating a common "fiscal capacity"** financed by common debt *inter alia*. There is still little consensus in the EU around the issuance of common debt and Germany in particular remains very reluctant to support it. However, this type of instrument would boost European public investment, strengthen the EU's sovereignty and facilitate both the digital and the green transition, just as the RRF has done.

The fact that the Commission has produced an interesting proposal to kick-start discussions with the Member States is a step in the right direction. Indeed, as certain national viewpoints differ strongly, intensive dialogue between institutions is urgently needed to overcome divisions and deploy a new effective governance framework before the deactivation of the general escape clause at the end of 2023.

A new milestone was reached on 14 March 2023 when the Council finalised its conclusions[9] concerning "the orientations for a reform of the EU economic governance framework". These contain political guidelines indicating the areas in which there is convergence between Member States and those where further work is needed. The ensuing consultations enabled the Commission to publish its legislative proposals[10] on 26 April 2023 (see Box 3). These are largely based on the original November proposal plus a number of additional common safeguards in response to comments received from certain countries: (i) the public debt ratio will have to be lower at the end of the period covered by the plan than at the start of that period; (ii) a minimum fiscal adjustment of 0.5% of GDP per year as a benchmark will have to be implemented so long as the deficit remains above 3% of GDP; and (iii) the overall level of public investment in each Member State over the life of a plan should be higher than in the previous period.

The amendments made in the legislative proposals published by the European Commission partly take account of the expectations of certain Member States. Nevertheless, significant differences of opinion remain: some countries insist on the need to incorporate a high degree of flexibility and individualisation into the new

8 This point was reiterated by the Governor of the Banque de France in April 2023 in his most recent Letter to the President of the French Republic. *https://publications.banque-france.fr/letter-president-republic*

9 *https://www.consilium.europa.eu/fr/press/*

10 European Commission (2023), "Commission proposes new economic governance rules fit for the future". *https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2393*

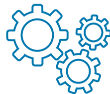
governance framework, whereas others wish to maintain guarantees in the form of common minimum fiscal adjustment thresholds to secure the path towards public debt reduction for countries with excessive levels of debt. While there is still a conceivable possibility of finalising new legislation before the end of 2023, this assumes that outstanding disagreements between Member States can quickly be overcome.

BOX 3

Main differences between the Commission's initial proposal and the legislative proposals of 26 April 2023

Although the European Commission's legislative proposals of 26 April 2023 draw largely on its proposal of 9 November 2022, a number of **common safeguards** have been added. The Commission justifies these as consideration for the greater leeway now available to Member States in setting their own fiscal adjustment paths.

- **The ratio of public debt to GDP** will have to be lower at the end of the period covered by the plan than at the start of that period;
- **A minimum fiscal adjustment of 0.5% of GDP per year as a benchmark will have to be implemented so long as the deficit remains above 3% of GDP**, regardless of whether the Member State concerned is subject to an excessive deficit procedure (EDP);
- In order to monitor actual and planned annual deviations from net expenditure paths, the Commission will track a **control account for each Member State** over time. The level of ambition of the net expenditure path included in the national medium-term fiscal-structural plan should be taken into account before any EDP is activated;
- **The overall level of public investment** in each Member State over the life of a plan should be higher than in the previous period;
- For each Member State with a government deficit above 3% of GDP or public debt above 60% of GDP, the Commission will issue a country-specific "**technical trajectory**" (instead of a baseline trajectory as per the initial proposal). This trajectory must meet a number of requirements, notably **the increase in net national expenditure should remain below the medium-term GDP growth rate**, on average, and as a general rule over the fiscal-structural plan horizon. Although this formulation does not explicitly employ the term potential growth, it does actually refer to this term as calculated by the Commission.



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