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Brussels, 3 July 2013

Dear Colleagues

During past years, expenditure cuts enacted in the context of fiscal consolidation strategies have happened to some extent at the cost of more productive expenditure categories, and particularly public investments. At the same time, the current economic situation in most of the EU would rather call for prioritising spending in investments which support sustainable growth, as stressed also under the 2013 European Semester, within a broader strategy aimed at enhancing the quality (i.e. growth-friendliness and efficiency) of public expenditure.

In this context, the Commission stated in its Communication on a "Blueprint for a deep and genuine economic and monetary union", that it would "*explore further ways within the preventive arm to accommodate investment programmes in the assessment of Stability and Convergence Programmes. Specifically, under certain conditions, non-recurrent, public investment programmes with a proven impact on sustainability of public finances could qualify for a temporary deviation from the medium-term budgetary objective or the adjustment path towards it.*" Government investment in projects co-financed with the EU was given as an example of potentially eligible expenditure.

The intention was transformed into a legal requirement in the "Two-Pack" (Article 16(2) of the Regulation 473/2013) which requests the Commission to report by 31 July 2013 on the results of this exercise. This commitment has been supported by the Heads of State or Government in the conclusions of the European Council in October and December 2012 as well as in March and June 2013.

The Commission has accordingly explored various options for devising an investment clause to be applied in the preventive arm of the SGP, while fully respecting the EU fiscal surveillance framework. As a result, in view of the current economic circumstances, we intend to implement article 5(1) of the Regulation 1466/97 on the preventive arm of the Stability and Growth Pact as follows:

> In the preventive arm of the SGP, the Commission will consider allowing temporary deviations from the structural deficit path towards the Medium-Term Objective (MTO) set in the country specific recommendations, or the MTO for Member States that have reached it, provided that:
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> (1) the economic growth of the Member State remains negative or well below its potential;
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> (2) the deviation does not lead to a breach of the 3% of GDP deficit ceiling, and the public debt rule is respected; and
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> (3) the deviation is linked to the national expenditure on projects co-funded by the EU under the Structural and Cohesion policy, Trans-European Networks (TEN) and Connecting Europe Facility (CEF) with positive, direct and verifiable long-term budgetary effect.
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> This application of the provisions of the SGP concerning temporary deviations from the MTO or the adjustment path towards it is related to the current economic conditions of large negative output gap. Once these temporary conditions are no longer in place and the Member State is forecast to return to positive growth, thus approaching its potential, any deviation as the above must be compensated so that the time path towards the MTO is not affected.

The above elements will first be implemented when assessing the national budgets for 2014 and the budgetary outcomes for 2013. They will be reviewed on a yearly basis in time for the submission of stability and convergence programmes.

Sincerely,