Economic governance: strengthening of surveillance of budgetary positions and surveillance and coordination of economic policies. 'Six pack'

2010/0280(COD) - 07/10/2010 - Legislative proposal

PURPOSE: the reform of the preventive part of the Stability and Growth Pact with a view to strengthening the EU's economic governance.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: the global economic and financial crisis revealed gaps and weaknesses in the existing instruments and methods of co-ordination and surveillance of economic policies in the Economic and Monetary Union (EMU). There is broad agreement that the framework for EMU should be urgently strengthened in order to anchor macroeconomic stability and the sustainability of public finances.

The key instrument for fiscal policy co-ordination and surveillance is the Stability and Growth Pact (SGP), which implements the Treaty provisions on budgetary discipline. **Strengthening the Pact** is important for both increasing the credibility of the agreed co-ordinated fiscal exit strategy and avoiding a repetition of past mistakes.

This proposal is part of **legislative package** comprising six texts which seeks to strengthen the pact by improving its provisions in the light of experience, not least of the crisis:

1) A **Regulation** amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97);

2) A Regulation amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97);

3) A Regulation on the effective enforcement of budgetary surveillance in the euro area;

4) A new Council Directive on requirements for the budgetary framework of the Member States;

5) A new Regulation on the prevention and correction of macroeconomic imbalances;

6) A Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

The outlines of these proposals were announced by the Commission in two communications on economic governance: "Reinforcing economic policy coordination" (12 May 2010) and "Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance" (30 June 2010).

In June 2010, the European Council agreed on the urgent need to reinforce the coordination of economic policies. In particular, it agreed on:

-

- strengthening both the preventive and corrective parts of the SGP, including with sanctions and taking due account of the particular situation of euro-area Member States;
- giving, in budgetary surveillance, a much more prominent role to levels and evolutions of debt and overall sustainability;
- ensuring that all Member States have national budgetary rules and medium term budgetary frameworks in line with the SGP;
- ensuring the quality of statistical data.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASE: Article 121(6) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the preventive part of the SGP is meant to ensure that Member States follow prudent fiscal policies so that there is no need to adopt more stringent forms of coordination to avoid public finance sustainability being put at risk, with potential negative consequences for EMU as a whole.

Accordingly, Member States are required to present stability and convergence programmes outlining their plans to achieve medium-term budgetary objectives (MTOs), which are defined as a percentage of GDP in structural terms (i.e. adjusting for the effect of the cycle and excluding one-off and temporary measures) and are differentiated across countries around a close-to-balance position to reflect the level of public debt and liabilities related to ageing. Member States not having reached their MTO are expected to converge towards it at an annual pace of 0.5% of GDP in structural terms.

However, progress towards MTOs in the medium term has been generally insufficient. In a number of countries, even apparently sound budgetary positions before the crisis masked a strong reliance on windfall revenues to finance expenditure, the reversal of which contributed to soaring budget deficits.

To respond to these shortcomings the **reform of the preventive part** that is being proposed, while retaining the current MTOs and the 0.5% of GDP annual convergence requirement, makes them operational in terms of a **new principle of prudent fiscal policy-making**. This new principle will provide the benchmark against which countries' fiscal plans in the stability and convergence programme will be examined.

A prudent fiscal policy implies that the rate of growth of public expenditure does not exceed, in principle, a prudent medium-term rate of growth of GDP, unless the MTO has been significantly overachieved or the excess of expenditure growth over the prudent medium-term rate is matched by discretionary measures on the revenue side.

Failure to keep to the agreed rate of growth of expenditure, in conjunction with the stipulated revenue measures, will make the Member State concerned liable to **a warning from the Commission** and, if persistent and/or particularly serious, a **Council recommendation** to take corrective action.

A **temporary departure** from prudent fiscal policy-making should be allowed in case of severe economic downturn of a general nature in order to facilitate economic recovery.

Special attention shall be paid to **pension reforms** introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the net cost of the reform to the publicly managed pillar, under the condition that the deviation remains temporary and that an appropriate safety margin with respect to the deficit reference value is preserved.

BUDGETARY IMPLICATION: the proposal relates to the extension of an existing action and does not require any additional human or financial resources.