

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 07/10/2010 - Legislative proposal

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

PROPOSED ACT: Council Regulation.

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;
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- 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: the second subparagraph of Article 126(14) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the corrective part of the SGP is meant to avoid gross errors in budgetary policies, which might put at risk the sustainability of public finances and potentially endanger EMU. This translates into the obligation for Member States to avoid excessive government deficits, which are defined against a numerical threshold for deficit (3% of GDP) and debt (60% of GDP or sufficiently declining toward it).

The excessive deficit procedure (EDP) that implements the ban on excessive deficits provides for a sequence of steps, which, for euro-area countries, include the eventual imposition of financial sanctions.

The EDP has been regularly applied in line with the relevant provisions, even against the background of the exceptional circumstances of the financial crisis, thereby contributing to anchoring expectations of its orderly resolution. However a number of shortcomings have emerged.

This **proposal to reform the corrective part of the SGP** seeks to address these shortcomings. It is proposed to amend Regulation No 1467/97 in such a way that the decision to implement the excessive deficit procedure will give a more prominent role to **the evolution of debt**, placing it on an equal footing with the evolution of the deficit.

The proposal provides for the **debt criterion of the EDP to be made operational** notably through the adoption of a numerical benchmark to gauge whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold.

More specifically, a debt-to-GDP ratio above 60% is to be considered sufficiently diminishing if its distance with respect to the 60% of GDP reference value has reduced over the previous three years at a rate of the order of one-twentieth per year.

Non-compliance with this numerical benchmark is not, however, necessarily expected to result in the country concerned being placed in excessive deficit, as this decision would need to take into account all the factors that are relevant, in particular for the assessment of debt developments, such as whether very low nominal growth is hampering debt reduction, together with risk factors linked to the debt structure, private sector indebtedness and implicit liabilities related to ageing.

In line with the greater emphasis on debt, more consideration should be given to relevant factors in the event of non-compliance with the deficit criterion if a country has a debt below the 60% of GDP threshold.

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