

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

2010/0276(CNS) - 28/09/2011 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 363 votes to 268, with 37 abstentions, under a special legislative procedure (consultation of the European Parliament), a legislative procedure on the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

The report was sent back to the committee responsible to be re-examined on 23 June 2011.

The main amendments made to the proposal are as follows:

Stability pact: the Stability and Growth Pact and the Union's economic governance framework as a whole should complement and be compatible with a Union strategy for **growth and job creation** that boosts the Union's competitiveness. Environmental responsibility, social progress and stability, and the development and strengthening of the Single Market should also be envisaged by this framework. As a general principle, these interlinkages should not provide for exemptions to the provisions of the Stability and Growth Pact. National budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact.

Strengthening governance: the amended text states that experience gained and mistakes made during the first decade of functioning of the economic and monetary union show a need for improved economic governance in the Union, which should be built on stronger national ownership of commonly agreed rules and policies and on a more robust surveillance framework at the Union level of national economic policies. Strengthening economic governance should include a **closer and more timely involvement of the European Parliament and the national parliaments**.

According to the new Regulation, the improved economic governance framework should rely on **several inter-linked policies** for sustainable growth and jobs, which need to be coherent with each other, in particular a Union strategy for growth and jobs, with particular focus upon development and strengthening of the internal market, fostering international trade and competitiveness, an effective framework for preventing and correcting excessive government deficit (the Stability and Growth Pact), a robust framework for preventing and correcting macro-economic imbalances, minimum requirements for national budgetary frameworks, enhanced financial market regulation and supervision including macro-prudential supervision by the European Systemic Risk Board.

Stronger role for Commission in surveillance: Parliament states that the Commission should have a **stronger and more independent role** in the enhanced surveillance procedure. This concerns Member-State-specific assessments, monitoring, missions, recommendations and warnings.

Economic dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the **competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss the Council decision and the Council recommendation based on the Treaty on the Functioning of the European Union. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such **recommendation**, notice and decisions to participate in an exchange of views.

Excessive deficit procedure: the Commission and the Council should when applying this Regulation appropriately take into account all relevant factors and the economic and budgetary situation of the concerned Member States. The amended text states that implementing the existing excessive deficit procedure on the basis of both the deficit criterion and the debt criterion requires a **numerical benchmark that takes into account the business cycle** against which to assess whether the ratio of government debt to gross domestic product is sufficiently diminishing and approaching the reference value at a satisfactory pace. A **transition period** should be introduced in order to allow Member States subject to an excessive deficit procedure at the date of adoption of this regulation to adapt their policies to the numerical benchmark for debt reduction. This should equally apply to Member States which are subject to a European Union/International Monetary Fund adjustment programme.

Non-compliance with the numerical benchmark for debt reduction **should not be sufficient** for the establishment of an excessive deficit, which should take into account the whole range of relevant factors covered by the Commission. In particular, the assessment of the effect of the cycle and the composition of the stock-flow adjustment on debt developments may be sufficient to exclude the establishment of an excessive deficit on the basis of the debt criterion.

In taking into account **systemic pensions reforms** among the relevant factors, the central consideration should be whether they enhance the long-term sustainability of the overall pension system, while not increasing risks for the medium-term budgetary position.

Correction of excessive deficits: in order to support the monitoring of compliance with Council recommendations and notices for the correction of situations of excessive deficit, there is a need that these specify annual budgetary targets consistent with the required fiscal improvement in cyclically adjusted terms, net of one-off and temporary measures. In this context, **the 0.5% of GDP annual benchmark should be understood as annual average basis.**

In assessing the case for an extension of the deadline for correcting the excessive deficit, special consideration should be given to severe economic downturns for the euro area or the EU as a whole on condition that this does not endanger fiscal sustainability in the medium term.

If a participating Member State fails to act in compliance with the successive decisions of the Council, the decision of the Council to impose **sanctions** shall be taken as a rule within **sixteen months** of the reporting dates established in Regulation (EC) No 479/2009. An **expedited procedure** shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

Surveillance missions: the Commission shall maintain a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Fines: fines shall constitute other revenue and shall be assigned to the European Financial Stability Facility. By the moment another stability mechanism to provide financial assistance is created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole, the fines shall be assigned to that last mechanism.

Reporting: within three years after the entry into force of this Regulation and every five years thereafter, the Commission shall publish a report on the application of this Regulation. That report shall evaluate, inter alia: (a) the effectiveness of the regulation; (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.