

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

2010/0276(CNS) - 08/11/2011 - Final act

PURPOSE: to strengthen economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the current difficulties on sovereign debt markets (corrective arm of the Stability and Growth Pact).

LEGISLATIVE ACT: Council Regulation (EU) No 1177/2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

CONTENT: on the basis of a compromise reached with the European Parliament, the Council adopted a package of **six legislative proposals** (“six-pack”) aiming to strengthen economic governance in the EU – and more specifically in the euro area.

The measures set out to ensure the degree of coordination necessary to avoid the accumulation of excessive imbalances and to ensure sustainable public finances. This will help the EU's monetary union to function properly in the long term.

They consist of:

- a [regulation](#) amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- **a regulation amending regulation 1467/97 on the EU's excessive deficit procedure;**
- a [regulation](#) on the enforcement of budgetary surveillance in the euro area;
- a [regulation](#) on the prevention and correction of macroeconomic imbalances;
- a [regulation](#) on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a [directive](#) on requirements for the Member States' budgetary frameworks.

The main elements of this Regulation are as follows:

Scope: this Regulation lays down the provisions for speeding up and clarifying the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.

Excessive deficit procedure: the Council and the Commission should, when applying this Regulation, take into account, as appropriate, all relevant factors and the economic and budgetary situation of the Member States concerned.

Greater emphasis is be placed on the debt criterion of the Stability and Growth Pact, with Member States whose debt exceeds 60% of GDP (the EU's reference value for debt) required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below 3% of GDP (the EU's deficit reference value).

A numerical benchmark is introduced to determine whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold. A debt-to-GDP ratio above 60% will thus be considered to be sufficiently diminishing if its distance with respect to the 60% reference value has decreased over the

previous three years at an annual rate of one twentieth. However, a decision to subject a country to the excessive deficit procedure will not only be based on the numerical benchmark, but will also take into account other relevant factors.

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

Sanctions: to strengthen the corrective arm of the Stability and Growth Pact, a new set of financial sanctions are introduced for euro-area Member States.

These sanctions will apply **earlier on in the excessive deficit procedure**, and using a graduated approach.

The deposit will be converted into a fine of 0.2% of GDP if the Council's initial recommendation for correcting the deficit has not been followed. Further non-compliance will result in the sanction being stepped up, in line with the existing provisions of article 126(11) of the EU treaty (maximum fine: 0.5% of GDP).

To trigger the sanctions more automatically than at present, a so-called **reverse majority rule is introduced**, whereby the Commission's proposal for imposing sanctions related to non-compliance with the Pact will be considered adopted unless the Council turns it down by qualified majority.

If a participating Member State fails to act in compliance with the successive acts of the Council, the decision of the Council under Article 126(11) TFEU to impose sanctions shall be taken as a rule **within 16 months** of the reporting dates established in Regulation (EC) No 479/2009.

Fines: fines shall constitute other revenue and should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.

Economic dialogue: in order to enhance the dialogue between the institutions of the Union, **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 Council decisions and recommendations under the TFEU.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such decisions, recommendations or notices to participate in an exchange of views.

Surveillance missions: the Commission shall ensure 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.

Report: by 14 December 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation. This report shall evaluate the effectiveness of this Regulation as well as the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

ENTRY INTO FORCE: 13/12/2011.