

Economic governance: common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit in the euro area. 'Two pack'

2011/0386(COD) - 13/06/2012 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament, by 501 to 138, with 36 abstentions, adopted amendments to the proposal for a regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

The issue was **sent back to the committee responsible** and the vote on the legislative resolution shall be postponed until a later date.

The main amendments made to the proposal are as follows:

Sovereign indebtedness: Parliament states that the extent of sovereign indebtedness in the Union is a paramount challenge which should be addressed if the economy is to return to a stable and resilient growth trend in the short as well as the long term.

Members note that a significant time span will elapse before the average level of indebtedness among Member States returns to the 60 % trajectory stipulated by the Stability and Growth Pact. Fulfilment of the medium-term budgetary objectives is a fundamental precondition in this regard while deviating from them could trigger soaring interest rates and thereby threaten growth and recovery.

In this context, **sound public finances and balanced budgets are a prerequisite for economic and financial stability** as clearly demonstrated by the sovereign debt crisis, underlining the need for strong and solid fiscal frameworks. Furthermore, the deficits of today, associated with stagnated economies, highlight the need for reforms rather than increased spending.

Subject matter and scope: Parliament specifies that this Regulation sets out provisions for enhanced monitoring of budgetary and **economic** policies and an enhanced economic policy coordination framework in the euro area by :

- complementing the procedure for prevention and correction of excessive macroeconomic imbalances as established by [Regulation \(EU\) No 1174/2011](#);
- guaranteeing the compatibility between budgetary policies and the procedure for prevention and correction of excessive macroeconomic imbalances as established by Regulation (EU) No 1174 /2011, through a closer monitoring of Member States' national reform programmes and any economic partnership programmes, in order to ensure sustainable compliance and convergence within the euro area.

The recommendations adopted under this Regulation shall be applied in a manner fully respecting practices and institutions for **wage formation**. The application of this Regulation and those recommendations shall take into account the **Charter of Fundamental Rights of the European Union**, and, accordingly, shall not affect the right to negotiate, conclude or enforce collective agreements and to take collective action in accordance with national law and practices.

Definitions: the resolution clarifies a certain number of definitions such as "**a particularly serious non-compliance with the adjustment path towards the medium-term budgetary objective**", which means a deviation in the figures presented in the draft budget which is at least 1% of GDP in a single year or at least 0.5% of GDP on average per year in two consecutive years and that cannot be justified by exceptional circumstances or a severe economic downturn.

Timeline for the European Semester for economic policy coordination: the Member States' budgetary procedure shall be coherent with the framework of the European Semester, in accordance with an annual cycle which includes: (i) the Spring European Council policy orientations to individual Member States; (ii) the Summer European Council endorsement of the country-specific policy recommendations.

Common Budgetary Provisions and information requirements on national public debt issuance: Member States shall, in the context of the European Semester make public, preferably by 15 April but no later than 30 April each year, their **national medium-term fiscal plans** in accordance with their medium-term budgetary framework, based on credible and independent macroeconomic forecasts. Such plans shall be presented together with the national reform programmes and the stability or convergence programmes and shall be fully consistent with the policy orientations based on the annual growth survey and the annual reports.

Numerical fiscal rules: Member States shall have in place numerical fiscal rules that implement in the national budgetary processes their medium-term budgetary objective. Those rules shall also include the definition of exceptional circumstances and severe economic downturns which may lead to temporary deviation from the medium-term budgetary objective or the adjustment path towards it, provided that such deviation does not endanger fiscal sustainability in the medium term. Those rules should include a **mechanism**, to be triggered in the case of significant deviation from the medium term budgetary objective or the adjustment path towards it, aiming at ensuring a timely return to the medium-term objective.

Monitoring requirements: Member States shall submit annually to the Commission and the Eurogroup a draft budgetary plan for the forthcoming year no later than 1 October, taking into account the country-specific policy recommendations of the Summer European Council and any recommendations addressed to the Member State in the context of the Stability and Growth Pact or the macroeconomic imbalances procedure.

The **draft budgetary plan** shall contain the **following information** for the forthcoming year:

- the projections at unchanged policies for expenditure and revenue as a percentage of GDP for the general government and their main components; those projections shall cover both current expenditure and investment expenditure and, to that end, clear budgetary targets on current and investment expenditure shall be set and, in the case of investment expenditure, an evaluation of its economic returns shall be published;
- details of the expenditure directly linked to the achievement of the Union's strategy for growth and jobs, including public investment, together with details of the link with the achievement of the budgetary objectives in the long term as well as a social impact assessment of the measures provided for in the budgetary plan;
- a quantification of the public investment needs and, as appropriate, of the budgetary impact together with an evaluation of the economic returns of the measures foreseen in the national reform programmes;
- an analysis of the contribution of reforms and investments included in the national reform programmes to the achievement of the objectives of stability programmes including a cost-benefit analysis of the reforms from a budgetary point of view.

The medium-term fiscal plans shall contain an **updated projection of multiannual expenditure** as a percentage of GDP for the general government and their main components as well as multiannual targets and commitments on expenditure earmarked to the achievement of the objectives embedded in the Union strategy for growth and jobs.

Assessment of the draft budgetary plan: where the Commission identifies a particularly serious non-compliance of the draft budgetary plan with the adjustment path towards the medium-term budgetary objective, it may request a **revised draft budgetary plan**, after adequate consultation of and explanation by the Member State. The request shall be made up to one month from the submission of the draft budgetary plan.

The Commission opinion shall be made public and presented to the Eurogroup. At the request of the parliament of the Member State concerned or of the European Parliament, it shall be presented by the Commission to the parliament concerned.

The Commission's overall assessment shall include **stress tests** that provide an indication of the risks to public finance sustainability in the event of adverse financial or budgetary developments. The assessment shall identify on a country-by-country basis **potential negative spill-over effects** on the sustainability of public finances of the Member States generated by its private sector or by other Member States. The assessment shall be made public and shall be integrated in the forthcoming annual growth survey.

The Eurogroup and the relevant committee of the European Parliament shall discuss opinions of the Commission on the national budgetary plans and the budgetary situation and prospects in the euro area as a whole on the basis of the overall assessment made by the Commission. The outcome of that discussion shall be made public and shall be taken into account in the following European Semester, in particular in the annual growth survey. Following the discussions between the Eurogroup and the relevant committee of the European Parliament, if appropriate the Commission shall update its specific recommendations in the framework of the annual growth survey aiming at reinforcing the common macroeconomic framework of the euro area as well as outlining supportive measures foreseen in case of adverse financial, economic or budgetary developments.

Reporting on debt issuance: Members state that Member States shall report to the Commission and the Eurogroup, ex-ante and in a timely manner, on their national debt issuance plans.

Establishment of a roadmap for enhanced economic policy coordination, a growth facility and a framework for enhanced debt issuance: Members propose the following:

- by one month following the entry into force of the Regulation, the Commission shall present a report establishing a roadmap towards euro area stability bonds. It shall also present a proposal for a euro area sustainable growth instrument aiming at mobilising approximately 1% of GDP per year over a period of ten years, including an increase in the capital of the EIB and project bonds, to be invested in European infrastructure including science and technology;
- with a view to better coordinating the planning and placement of their national debt issuance, Member States shall report ex ante on their public debt issuance plans to the Commission and to the Council;
- as an element of the first step of the roadmap, a **European redemption fund (ERF)**, based on joint liability and strict fiscal discipline shall be established with the aim of reducing excessive debt over a period of 25 years to be adjusted according to actual growth figures. Following that period, the ERF shall be wound up.

Economic partnership programmes: if the Council decides that an excessive deficit exists in a Member State, the Member State concerned shall present to the Commission and to the Council an economic

partnership programme describing the policy measures and structural reforms that are needed to ensure an effectively durable correction of the excessive deficit. The economic partnership programme shall identify and select a number of specific budgetary priorities aiming at stabilising the economy in the short term, enhancing long-term sustainable growth and addressing structural weaknesses in the Member State concerned. Those priorities shall be aimed at rebalancing competitiveness according to the creation of European Added Value and shall be consistent with the Union's strategy for growth jobs.

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 decisions taken pursuant to this Regulation. The competent committee of the European Parliament may offer the opportunity to the Member State concerned and the Commission to participate to an exchange of views.

Commission report: by three months after the entry into force of the Regulation, the Commission shall put forward a report, and if necessary a proposal, to the European Parliament and to the Council, setting out how coordination and ex ante discussions among Member States of any major economic and fiscal policy reform plans with potential spill-over effects are to operate, what form that coordination and those discussions are to take, what policies are contemplated, and the likely political consequences – to Member States and, in particular, to the national parliaments - of decisions arising from such coordination and ex ante discussions.

European debt authority: by three months after the entry into force of the Regulation, the Commission shall put forward a report, and if necessary a proposal, to the European Parliament and to the Council, evaluating the possibility of the creation of a European debt authority, responsible for managing and coordinating all issues relating to the annual debt issuance plan of the Member States, the renewal of Member States' outstanding debt and the assessment of the sustainability of all Member States' government debt

Common principles for Independent Fiscal Institutions (IFIs): according to Members, the characteristics of IFIs should be consistent with the Member State's legal framework and political and administrative system. They suggest certain principles to ensure the independence of the institutions: (i) the **mandate of IFIs should be clearly defined** in legislation to prevent unwarranted interference from fiscal authorities or unwarranted extension of its mandate at the expense of fiscal authorities' powers or the prerogatives of national parliaments; (ii) the **resources** allocated to IFIs should be commensurate with their mandate in order to fulfil it in a credible manner ; (iii) statutory mechanisms should be put in place to encourage appropriate accountability to the legislature ; (iv) **senior appointments** should be selected on the basis of merit, experience and technical competence, in particular as regards the budget process ; (v) **staff** of IFIs should be selected through open competition based on merit and technical competence; (vi) as a rule, IFIs should be guaranteed full access in legislation to all relevant information needed to discharge effectively their mandate in a timely manner.