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

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OPINION OF THE EUROPEAN CENTRAL BANK on strengthened economic governance of the euro area (Two pack).

On 21 December 2011, the ECB received a request from the Council of the European Union for an opinion on :

- a **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;
- a proposal for a regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area.

The ECB welcomes the proposed regulations and recommends **some amendments** aimed at: (a) further strengthening the budgetary discipline of the euro area Member States; and; (b) further enhancing the surveillance of the euro area Member States experiencing or threatened with serious difficulties with respect to their financial stability, irrespective of whether they receive financial assistance or may need to receive such assistance.

The ECB sees the proposed regulations as **compatible with and complementary to the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union** ('TSCG') as agreed at the European Council meeting of 30 January 2012. Finally, a condition for progressing with the above mentioned quantum leap is that Member States timely and vigorously implement their obligations under the TSCG, and the proposed regulations when adopted.

Proposed regulation on monitoring draft budgetary plans: the ECB considers that there is room for improvement to make the proposed regulation more forceful and effective. In this context, the ECB has several observations:

- The Commission should — to ensure early adherence to stability programmes - request euro area Member States not only to submit a draft budgetary plan but also updated medium-term fiscal plans. These plans should also cover government debt developments, implicit and contingent government liabilities and other data relevant to an assessment of the longer- term sustainability of public finances. This will allow the Commission to monitor and assess the draft budgetary plans for the forthcoming year, taking into account the medium-term budgetary implications of new measures, as well as any country-specific risks to the sustainability of public finances.
- The ECB proposes that the Commission should issue an opinion where the draft budgetary plan would lead to non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact and a structural deficit higher than that foreseen in the stability programme of a Member State; or where the government debt ratio is above 60 % of gross domestic product and not declining at a sufficient pace as defined in the Stability and Growth Pact; or where the Commission

identifies risks to fiscal sustainability. The Commission should thereby take into account any Council opinion on the stability programme.

- The ECB also recommends making it explicit that the Commission assesses the quality of the process of collecting the underlying data, which could lead for example to an opinion on the quality of budgetary statistics or the lack of independence of macroeconomic and/or budgetary forecasts.
- The Commission should in its opinion request a revised draft budgetary plan from euro area Member States in the case of non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact. In addition, the Commission should request a revised draft budgetary plan from Member States in the case of non-compliance of a draft budget with the deficit and/or debt path specified in the stability programme of a Member State, taking into account any Council opinion on the stability programme, or when it identifies risks to fiscal sustainability (i.e. this should not only be requested in cases of 'particularly serious non-compliance' with the budgetary policy obligations for the forthcoming year as laid down in the SGP, but as soon as there is any non-compliance or when other risks to fiscal sustainability have been identified).
- The proposed regulation provides that the Commission requests a revised draft budgetary plan in the case of 'particularly serious non-compliance' with the budgetary policy obligations laid down in the SGP.

To strengthen the corrective arm of the SGP, the ECB also considers warranted a closer follow-up of the adequacy of corrective measures — if the timely correction of the excessive deficit seems in doubt — through stronger use of peer pressure in the Eurogroup, the Council and, ultimately, the European Council, as well as a greater use of (reputational) sanctions.

Relationship with the TSCG: the adoption of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union has as a consequence the amendment of the proposed regulation on monitoring draft budgetary plans.

Amongst other things, the ECB suggests that this regulation should cover to the extent possible: (a) the provisions on numerical fiscal rules, including the timetable for rapid convergence to the medium-term objective, including the scope for temporary deviations due to exceptional circumstances; (b) the main elements of the automatic correction mechanism; (c) the requirement for Member States that have been made subject to the excessive deficit procedure to put in place budgetary and economic partnership programmes; and (d) the ex ante reporting of public debt issuance plans.