

Excessive deficit procedure: speeding up and clarifying the implementation

2005/0061(CNS) - 20/04/2005 - Legislative proposal

PURPOSE: to strengthen of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

PROPOSED ACT: Council Regulation.

CONTENT: the Commission proposed to amend two Regulations underpinning the Stability and Growth Pact following the agreement at the European Council in March 2005. The reform strengthens the preventive arm of the Pact and improves the implementation of the excessive deficit procedure by better reflecting the economic realities of a Union of 25 Member States. The 3% and 60% reference values for the deficit and the debt ratios remain the anchor of the system.

The amended regulations reflect the changes requested by the Council, in particular concerning:

- The role of structural reforms in the context of budgetary surveillance. Major structural reforms having a verifiable positive impact on the long-term sustainability of public finances will, under strict conditions, be taken into account in the context of budgetary surveillance.
- The definition of a severe economic downturn in the excessive deficit procedure. An excess of the deficit over the reference value which results from a negative growth rate or from the accumulated loss of output during a protracted period of very low growth relative to potential growth may be considered as exceptional.
- The definition and role of 'other relevant factors' foreseen in Article 104, paragraph 3 of the Treaty. The Commission will take into account relevant factors when deciding whether a deficit higher than 3% is excessive or not. The list of factors is not, however, limited to those that could concur to finding the deficit not excessive. Any deficit that is not close to the reference value or temporary in its excess will be considered excessive.
- The deadlines for correcting a deficit are extended, e.g. from four to six months to give more time for a country to take effective and more permanent action after an Article 104, paragraph 7 recommendation rather than resort to one-off measures. Provisions are also introduced to allow repetition of steps in case of unexpected adverse economic events with a considerable negative impact on the budget, provided the country concerned has carried out a minimum budgetary adjustment effort in compliance with the Council recommendation.