Excessive deficit procedure: speeding up and clarifying the implementation

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On 3 May 2005, the European Central Bank (ECB) received a request from the Council of the European Union for an opinion on a proposal for a Council regulation amending Regulation 1467/97/EC on speeding up and clarifying the implementation of the excessive deficit procedure.

Sound fiscal policies are fundamental to the success of economic and monetary union (EMU). They are prerequisites for macroeconomic stability, growth and cohesion in the euro area. The fiscal framework enshrined in the Treaty and in the Stability and Growth Pact is a cornerstone of EMU and thus key to anchoring expectations of fiscal discipline. This rules-based framework, which aims to secure sustainable public finances while allowing the smoothing of output fluctuations through the operation of automatic stabilisers, needs to remain clear, simple and enforceable. Compliance with these principles will also facilitate transparency and equal treatment in the implementation of the framework.

To recall, the objective of the proposed regulation is to reflect changes in the implementation of the Stability and Growth Pact that were agreed by the Council on 20 March 2005. The proposed regulation concerns the implementation of the excessive deficit procedure (EDP). The proposed regulation aims to ensure sound fiscal policies by providing incentives for fiscal discipline.

While the ECB does not see a need to express an opinion on the specific provisions of the proposed regulation, it reiterates that the EDP needs to be both credible and effective as a safeguard against unsustainable public finances, maintaining a strict time frame. Against this background, the ECB favours an amendment that is as limited as possible of Council Regulation 1467/97/EC on speeding up and clarifying the implementation of the excessive deficit procedure. A rigorous and consistent implementation of the EDP would be conducive to prudent fiscal policies.