

Excessive deficit procedure: speeding up and clarifying the implementation

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PURPOSE: to speed up and clarify the implementation of the excessive deficit procedure.

LEGISLATIVE ACT: Council Regulation 1056/2005/EC on amending Regulation 1467/97/EC.

CONTENT: At the Spring 2005 European Council, the Member States, the Council and the Commission reaffirmed their commitment to implement the Treaty and the Stability and Growth Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness in the rules of the Pact.

Regulation 1467/97/EC needs to be amended in order to allow the full application of the agreed improvement of the implementation of the Stability and Growth Pact.

The guiding principle for the application of the excessive deficit procedure is the prompt correction of an excessive deficit. The procedure should remain simple, transparent and equitable.

The concept of exceptional excess over the reference value resulting from a severe economic downturn is revised. In doing so, due account was taken of the economic heterogeneity in the European Union.

The Commission should always prepare a report on the basis of Article 104(3) of the Treaty. In its report, it should examine whether the exceptions provided for in Article 104(2) apply. The Commission report under Article 104(3) should appropriately reflect developments in the medium-term economic position and in the medium-term budgetary position. Furthermore, due consideration should be given to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value.

Careful consideration should be given in all budgetary assessments in the framework of the excessive deficit procedure to an excess close to the reference value which reflects the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar, because the implementation of those reforms leads to a short-term deterioration of the budgetary position, while the long-term sustainability of public finances clearly improves. In particular, when assessing under Article 104(12) of the Treaty whether the excessive deficit has been corrected, the Commission and the Council should assess developments in EDP deficit figures while also considering the net cost of the reform to the publicly managed pillar.

The procedural deadlines for Council decisions in the excessive deficit procedure are extended in order to allow the Member State concerned to better frame its action within the national budgetary procedure and to develop a more coherent package of measures. In particular, the deadline for the Council to decide on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty is set, as a rule, to four months after the reporting dates established in Article 4(2) and (3) of Council Regulation 3605/93/EC on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community. This would address the cases in which the budgetary statistical data has not been validated by the Commission (Eurostat) shortly after the reporting dates established in Regulation 3605/93/EC.

In order to ensure a prompt correction of excessive deficits, it is necessary for Member States that are in a situation of excessive deficit to take effective action and to achieve an annual minimum fiscal improvement in their cyclically adjusted balance, net of one-off and temporary measures. As a benchmark, countries in excessive deficit will be required to achieve an annual minimum fiscal effort in cyclically adjusted terms, net of one-off and temporary measures.

Maximum time periods within which Member States are to take effective action and measures are extended to allow better framing of the action in the national budgetary procedures and the development of more articulated packages of measures.

If the Member State concerned has taken effective action in response to a recommendation under Article 104(7) of the Treaty or a notice issued under Article 104(9) and unexpected adverse economic events with major negative consequences for government finances prevent the correction of the excessive deficit within the time limit set by the Council, it should be possible for the Council to issue a revised recommendation under Article 104(7) or a revised notice under Article 104(9).

The current overall maximum period of 10 months from the reporting dates established in Article 4(2) and (3) of Regulation 3605/93/EC until the decision to impose sanctions would be inconsistent with the amended deadlines in each step of the procedure and the possibility to issue revised recommendations under Article 104(7) of the Treaty or revised notices under Article 104(9). The overall maximum period has therefore been adjusted in accordance with these amendments.

The provisions applicable to the implementation of the excessive deficit procedure in the case of the United Kingdom, which are set out in the Annex to Regulation 1467/97/EC have also been modified to reflect these changes.

ENTRY INTO FORCE: 27/07/2005.