

Strengthening of surveillance of budgetary positions and surveillance and coordination of economic policies

2005/0064(SYN) - 27/06/2005 - Final act

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

LEGISLATIVE ACT: Council Regulation 1055/2005/EC amending Regulation 1466/97/EC on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

CONTENT: this Regulation amends two regulations that underpin the Stability and Growth Pact (see also [CNS/2005/0061](#)). This completes the reform of the Pact and confirms it as a strong instrument to foster budgetary discipline.

The reform confirms the Pact as a strong instrument for budgetary discipline by increasing its ownership at national level thanks, in particular, to a greater reflection of the economic realities of an increasingly diverse EU; to the encouragement of economic reforms to foster growth and job creation; and to the introduction of a more flexible path to reduce excessive deficits.

The following are the main changes to the preventive arm of the Pact:

- Medium-term budgetary objectives (MTO) will be differentiated to take into account the diversity of economic and budgetary positions and their sustainability. They will range from a deficit of 1% of GDP to a balance or surplus for euro area and ERM II countries;
- Euro area and ERM II countries that have not yet reached their MTO will have to pursue an annual improvement of 0.5% of GDP as a benchmark of their cyclically-adjusted balance, net of one-off measures. A higher effort should be pursued in good times;
- Member States having implemented major structural reforms with a verifiable impact on the long-term sustainability of public finances will be allowed to temporarily deviate from the MTO or the adjustment path towards it;
- Without prejudice to the 3% and 60% reference values for the deficit and the debt ratios, which will remain the anchors of the system, changes to the corrective arm of the Pact will increase ownership and better reflect the realities of an enlarged EU of 25 Member States;
- New definition of a 'severe economic downturn';
- Clarification of 'other relevant factors' under the condition that the general government deficit remains close to 3% ceiling and its excess is temporary;
- The deadlines for taking measures to correct excessive deficits are extended to give more time to take effective and more permanent action rather than resort to one-off measures;

- Member States in excessive deficit situations will be requested to achieve a minimum annual budgetary effort of at least 0.5% of GDP in structural terms.

ENTRY INTO FORCE: 27.07.2005.