Basic information

2005/0064(SYN) SYN - Cooperation procedure (historic)	Procedure completed
Strengthening of surveillance of budgetary positions and surveillance and coordination of economic policies Amending Regulation (EC) No 1466/97 1996/0247(SYN) **Subject** 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	KARAS Othmar (PPE-DE)	06/06/2005

Former committee responsible	Former rapporteur	Appointed
ECON Economic and Monetary Affairs	KARAS Othmar (PPE-DE)	11/05/2005

Former committee for opinion	Former rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
General Affairs	2667	2005-06-13
Agriculture and Fisheries	2669	2005-06-20

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	

Key events

Date	Event	Reference	Summary
20/04/2005	Legislative proposal published	COM(2005)0154	Summary

24/05/2005	Vote in committee		Summary
26/05/2005	Committee referral announced in Parliament		
27/05/2005	Committee report tabled for plenary, 1st reading/single reading	A6-0168/2005	
08/06/2005	Debate in Parliament		
09/06/2005	Decision by Parliament	T6-0231/2005	Summary
09/06/2005	Results of vote in Parliament		
09/06/2005	Council position published	09817/2005	Summary
20/06/2005	Vote in committee, 2nd reading		Summary
20/06/2005	Committee recommendation tabled for plenary, 2nd reading	A6-0204/2005	
22/06/2005	Debate in Parliament		
23/06/2005	Decision by Parliament, 2nd reading	T6-0254/2005	Summary
23/06/2005	Results of vote in Parliament		
23/06/2005	Committee referral announced in Parliament, 2nd reading		
27/06/2005	Act adopted by Council after consultation of Parliament		
27/06/2005	End of procedure in Parliament		
07/07/2006	Final act published in Official Journal		

Technical information

Procedure reference	2005/0064(SYN)
Procedure type	SYN - Cooperation procedure (historic)
Procedure subtype	Legislation
Amendments and repeals	Amending Regulation (EC) No 1466/97 1996/0247(SYN)
Legal basis	EC Treaty (after Amsterdam) EC 099-p5
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/28754

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Amendments tabled in committee		PE357.893	18/05/2005	
Committee report tabled for plenary, 1st reading/single reading		A6-0168/2005	27/05/2005	
Text adopted by Parliament, 1st reading/single reading		T6-0231/2005 OJ C 124 25.05.2006, p. 0420-0517 E	09/06/2005	Summary
Committee recommendation tabled for plenary, 2nd reading		A6-0204/2005	20/06/2005	

Text adopted by Parliament, 2nd reading		T6-0254/2005 OJ C 133 08.06.2006, p. 0029-0104 E	23/06/2005	Summary

Council of the EU

Document type	Reference	Date	Summary
Council position	09817/2005 OJ C 188 02.08.2005, p. 0001-0010 E	09/06/2005	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2005)0154	20/04/2005	Summary
Commission communication on Council's position	COM(2005)0272	17/06/2005	Summary
Commission response to text adopted in plenary	SP(2005)2882	13/07/2005	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2005/0018 OJ C 144 14.06.2005, p. 0017-0017	03/06/2005	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Regulation 2005/1055
OJ L 174 07.07.2005, p. 0001-0005 Summary

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

2005/0064(SYN) - 09/06/2005 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 311 votes in favour to 115 against with 175 abstentions, a report by Othmar KARAS (EPP-ED, AT) on strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. The main amendments were as follows:

- the medium-term budgetary objectives will be reviewed, at least annually and whenever major structural and budgetary reforms are undertaken, and, where appropriate, revised. Each Member State may establish an economic council of wise people to advise on the main macro-economic projections;

- a new recital states that the implementation of the fiscal framework, the surveillance and coordination of economic policies and their credibility rely on the quality, reliability and timeliness of fiscal statistics. The quality of statistics at national and Community level must be ensured in order to guarantee the independence, integrity and accountability of both national statistical offices and Eurostat;

- a further new recital states that the Commission should compare the figures submitted to it by the Member States with the reports submitted by the national central banks to the ECB;

- when the Council is assessing the programme within the framework of multilateral surveillance under Article 99, the Commission will undertake financial auditing missions in the Member States;

- the Council will carry out the examination of the stability programme within at most three months of the submission of the programme. Where the Council considers that the objectives and contents of a programme should be strengthened, in particular regarding the improvement on the adjustment path toward the medium-term budgetary objective pursued in economic good times, the Council shall invite the Member State concerned to adjust its programme;

- as part of multilateral surveillance the Council will monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the relevant Committee, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, the adjustment path towards it, as set in the programme for the government surplus/deficit, and the expected path of the general government debt ratio;

- in the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, the adjustment path towards it or the expected path of the general government debt ratio, it shall, with a view to giving early warning in order to prevent the occurrence of an excessive deficit or debt ratio, address a recommendation to the Member State concerned to take the necessary adjustment measures;

- a new clause states that in the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, the adjustment path towards it or the expected path of the general government debt ratio is persisting or worsening, the Council shall make a recommendation to the Member State concerned to take prompt corrective measures and may make its recommendation public.

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

2005/0064(SYN) - 23/06/2005 - Text adopted by Parliament, 2nd reading

The European Parliament adopted a resolution approving the Council’s common position. The rapporteur was Othmar **KARAS** (EPP-ED, AT). Parliament voted approved the common position even though this did not respect Parliament's position from the first reading. Members rejected the amendments of the Economic and Monetary Affairs Committee, voting by 257 votes in favour to 309 against with 1 abstention, not to reinstate amendments which had aimed at ensuring a stricter application of the preventive arm of the pact.

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

2005/0064(SYN) - 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.

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

2005/0064(SYN) - 17/06/2005 - Commission communication on Council's position

The Commission considers that the Common Position of the Council includes all the essential elements of its original proposal and reflects an overall balanced compromise. It can accept all the changes made by the Council to its proposal. It deems that the inclusion of some amendments tabled by the European Parliament, in particular on the monitoring of the evolution of public debt, would have strengthened the proposed Regulation further. The proposed Regulation will contribute to the effective implementation of multilateral surveillance and economic policy coordination in the EU, especially in relation to budgetary policies.

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

2005/0064(SYN) - 03/06/2005 - European Central Bank: opinion, guideline, report

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 1466/97/EC on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

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 surveillance process and the setting of medium-term objectives for Member States' fiscal policies. While the ECB does not see a need to express an opinion on the specific provisions of the proposed regulation, it endorses the aim of improving the surveillance and coordination of economic policies so as to achieve and maintain medium-term objectives that ensure the sustainability of public finances. A rigorous and consistent implementation of the surveillance procedures would be conducive to prudent fiscal policies.

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

2005/0064(SYN) - 09/06/2005 - Council position

The Council, in its common position, did not insert in the Regulation provisions reflecting the amendments adopted by the European Parliament. These include amendments underlying the importance of reliable fiscal statistics – including the possibility for the Commission to undertake financial audit missions; proposing to compare data provided by Member States with the one of national central banks and of the European Central Bank; reinforcing the monitoring of the achievement of the medium-term budgetary objectives (MTOs), and giving more emphasis on government debt dynamics in the assessment of stability and convergence programmes.

However, it should be noted that the changes adopted by the Council with respect to the Commission proposal go in the direction of further clarifying the implementation of the preventive part of the Stability and Growth Pact (SGP), thereby are in line with the overall thrust of the amendments tabled by Parliament. Other changes envisaged by Parliament, namely those concerning the statistical field, have been considered by the Council in the finalisation of the legal acts more directly linked to public finance statistics.

Besides a number of mainly drafting changes, the Common Position differs from the Commission Proposal on the following issues:

The procedure for setting the country-specific medium-term objectives: the agreement on the SGP reform foresees that MTOs will be differentiated across countries. Setting differentiated MTOs requires economic judgement, and consistent application of agreed principles. The latter can only be achieved if the MTOs are discussed in the context of a common procedure. The Commission had proposed that the country-specific MTOs should be set in the context of the procedure referred to in Article 99 (2) of the Treaty. While agreeing on the need for a common procedure, the Council

considered that the latter could be achieved if each Member State presents the MTO in its Stability or Convergence Programme, following a discussion in the Economic and Financial Committee. In their assessment and opinion on the programmes, the Commission and the Council would assess whether the MTOs presented by Member States are appropriate.

Taking into account pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar: the Council introduced clarifying provisions on this issue in the Regulation, specifying that Member States implementing such reforms should be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the net cost of the reform to the publicly managed pillar, under the condition that the deviation remains temporary and that an appropriate safety margin with respect to the

deficit reference value is preserved.

Insertion of a numerical value for the fiscal adjustment of countries in euro-area and ERM II Member States which have not reached the MTO: the Commission had proposed to insert in the Regulation the principle of a minimum annual fiscal effort for countries which have not yet achieved the MTO, without specifying a value for this effort. The Council went further by inserting in the Regulation the numerical value of 0.5% of GDP as the benchmark for the annual improvement of cyclically-adjusted balance, net of one-offs and other temporary measures, to be pursued by euro-area and ERM II Member States which have not reached the MTO.

The range for the MTOs of euro-area and ERM II Member States: the Commission proposal did not include any reference to a range for the MTOs. The Council decided to insert provisions in the Regulation stating that, for euro-area and ERM II Member States, the country-specific MTO should be specified within a defined range between –1% of GDP and balance or surplus, in cyclically adjusted terms, net of one-offs and other temporary measures.

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.