Basic information

2010/0276(CNS) CNS - Consultation procedure Regulation	Procedure completed
Economic governance: implementation of the excessive deficit procedure. 'Six pack' Amending Regulation (EC) No 1467/97 1996/0248(CNS) See also 2010/0277(NLE) See also 2010/0278(COD) See also 2010/0279(COD) See also 2010/0281(COD) See also 2010/0280(COD) See also 2014/2938(RSP) **Subject** 5.10.01 Convergence of economic policies, public deficit, interest rates 5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU)	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	FEIO Diogo (PPE)	21/09/2010
	Shadow rapporteur GOULARD Sylvie (ALDE)	

Committee for opinion	Rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	
EMPL Employment and Social Affairs		

Committee for opinion on the legal basis	Rapporteur for opinion	Appointed
JURI Legal Affairs	GERINGER DE OEDENBERG Lidia Joanna (S&D)	04/03/2011

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	3062	2011-01-18
Economic and Financial Affairs ECOFIN	3076	2011-03-15
Economic and Financial Affairs ECOFIN	3088	2011-05-17
Economic and Financial Affairs ECOFIN	3122	2011-11-08

Economic and Financial Affairs ECOFIN	3067	2011-02-14
Economic and Financial Affairs ECOFIN	3100	2011-06-20

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	REHN Olli

Key events

Date	Event	Reference	Summary
07/10/2010	Legislative proposal published	COM(2010)0522	Summary
13/12/2010	Committee referral announced in Parliament		
18/01/2011	Debate in Council		Summary
14/02/2011	Debate in Council		Summary
19/04/2011	Vote in committee		Summary
02/05/2011	Committee report tabled for plenary, 1st reading/single reading	A7-0179/2011	
17/05/2011	Debate in Council		Summary
20/06/2011	Debate in Council		Summary
22/06/2011	Debate in Parliament	CRE link	
23/06/2011	Decision by Parliament	T7-0288/2011	Summary
23/06/2011	Results of vote in Parliament		
28/09/2011	Decision by Parliament	T7-0425/2011	Summary
28/09/2011	Results of vote in Parliament		
08/11/2011	Act adopted by Council after consultation of Parliament		
08/11/2011	End of procedure in Parliament		
23/11/2011	Final act published in Official Journal		

Technical information

Procedure reference	2010/0276(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Regulation
	Amending Regulation (EC) No 1467/97 1996/0248(CNS) See also 2010/0277(NLE) See also 2010/0278(COD) See also 2010/0279(COD) See also 2010/0281(COD) See also 2010/0280(COD) See also 2014/2938(RSP)
Legal basis	Treaty on the Functioning of the EU TFEU 126-p14-a2
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/04130

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE454.690	18/01/2011	
Amendments tabled in committee		PE458.575	15/02/2011	
Committee opinion	EMPL	PE454.658	21/03/2011	
Specific opinion	JURI	PE462.801	12/04/2011	
Committee report tabled for plenary, 1st reading/single reading		A7-0179/2011	02/05/2011	
Text adopted by Parliament, partial vote at 1st reading /single reading		T7-0288/2011	23/06/2011	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0425/2011	28/09/2011	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2010)0522	07/10/2010	Summary
Commission response to text adopted in plenary	SP(2011)8584	09/11/2011	
Follow-up document	COM(2014)0905	28/11/2014	Summary
Follow-up document	COM(2020)0055	05/02/2020	
Follow-up document	SWD(2020)0210	06/02/2020	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	LU_CHAMBER	COM(2010)0522	07/12/2010	
Contribution	PT_PARLIAMENT	COM(2010)0522	10/12/2010	
Contribution	RO_SENATE	COM(2010)0522	14/12/2010	
Contribution	IT_CHAMBER	COM(2010)0522	16/12/2010	
Contribution	IT_SENATE	COM(2010)0522	16/12/2010	
Contribution	CZ_SENATE	COM(2010)0522	28/01/2011	
Contribution	BG_PARLIAMENT	COM(2010)0522	07/04/2011	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
	European Central Bank: opinion,	CON/2011/0013		

ECB	guideline, report	OJ C 150 20.05.2011, p. 0001	16/02/2011	Summary

Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	

Final act

Regulation 2011/1177 OJ L 306 23.11.2011, p. 0033	Summary

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 08/11/2011 - Final act

PURPOSE: to strengthen economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the current difficulties on sovereign debt markets (corrective arm of the Stability and Growth Pact).

LEGISLATIVE ACT: Council Regulation (EU) No 1177/2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

CONTENT: on the basis of a compromise reached with the European Parliament, the Council adopted a package of **six legislative proposals** ("six-pack") aiming to strengthen economic governance in the EU – and more specifically in the euro area.

The measures set out to ensure the degree of coordination necessary to avoid the accumulation of excessive imbalances and to ensure sustainable public finances. This will help the EU's monetary union to function properly in the long term.

They consist of:

- a regulation amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- **a regulation amending regulation 1467/97 on the EU's excessive deficit procedure**;
- a regulation on the enforcement of budgetary surveillance in the euro area;
- a regulation on the prevention and correction of macroeconomic imbalances;
- a regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a directive on requirements for the Member States' budgetary frameworks.

The main elements of this Regulation are as follows:

Scope: this Regulation lays down the provisions for speeding up and clarifying the excessive deficit procedure. The objective of the excessive deficit procedure is to deter excessive government deficits and, if they occur, to further prompt their correction, where compliance with the budgetary discipline is examined on the basis of the government deficit and government debt criteria.

Excessive deficit procedure: the Council and the Commission should, when applying this Regulation, take into account, as appropriate, all relevant factors and the economic and budgetary situation of the Member States concerned.

Greater emphasis is be placed on the debt criterion of the Stability and Growth Pact, with Member States whose debt exceeds 60% of GDP (the EU's reference value for debt) required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below 3% of GDP (the EU's deficit reference value).

A numerical benchmark is introduced to determine whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold. A debt-to-GDP ratio above 60% will thus be considered to be sufficiently diminishing if its distance with respect to the 60% reference value has decreased over the previous three years at an annual rate of one twentieth. However, a decision to subject a country to the excessive deficit procedure will not only be based on the numerical benchmark, but will also take into account other relevant factors.

Taking into account **systemic pension reforms** among the relevant factors, the central consideration should be whether those reforms enhance the long-term sustainability of the overall pension system, while not increasing the risks to the medium-term budgetary position.

Sanctions: to strengthen the corrective arm of the Stability and Growth Pact, a new set of financial sanctions are introduced for euro-area Member States.

These sanctions will apply **earlier on in the excessive deficit procedure**, and using a graduated approach.

The deposit will be converted into a fine of 0.2% of GDP if the Council's initial recommendation for correcting the deficit has not been followed. Further non-compliance will result in the sanction being stepped up, in line with the existing provisions of article 126(11) of the EU treaty (maximum fine: 0.5% of GDP).

To trigger the sanctions more automatically than at present, a so-called **reverse majority rule is introduced**, whereby the Commission's proposal for imposing sanctions related to non-compliance with the Pact will be considered adopted unless the Council turns it down by qualified majority.

If a participating Member State fails to act in compliance with the successive acts of the Council, the decision of the Council under Article 126(11) TFEU to impose sanctions shall be taken as a rule **within 16 months** of the reporting dates established in Regulation (EC) No 479/2009.

Fines: fines shall constitute other revenue and should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.

Economic dialogue: in order to enhance the dialogue between the institutions of the Union, **in particular the European Parliament**, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup, to appear before the committee to discuss Council decisions and recommendations under the TFEU.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such decisions, recommendations or notices to participate in an exchange of views.

Surveillance missions: the Commission shall ensure a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Report: by 14 December 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation. This report shall evaluate the effectiveness of this Regulation as well as the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

ENTRY INTO FORCE: 13/12/2011.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 18/01/2011

The Council discussed draft national reform programmes (NRPs) presented by the Member States. Ministers committed themselves to rectifying identified difficulties with the draft NRPs.

The programmes are required, under the EU's economic governance arrangements, to enable **multilateral surveillance of the Member States' economic policies**.

They should contain:

- a macroeconomic scenario for the medium term,
- national targets for translating headline targets set under the "Europe 2020" strategy for jobs and growth,
- identification of the main obstacles to creating growth and jobs,
- measures for concentrating growth-enhancing initiatives in an early period.

Review of the draft programmes constitutes, along with the annual growth survey, first steps in implementation of the so-called "European semester", which involves **simultaneous monitoring of the Member States' budgetary policies and structural reforms**, in accordance with common rules, during a six-month period every year.

At its meeting on 24 and 25 March, the European Council is due to provide guidance to the Member States for finalisation of their stability and convergence programmes (budgetary policies) and national reform programmes (structural reforms).

The **European semester is implemented for the first time this year** as part of a reform of EU economic governance.

Concerning the excessive deficit procedure: the Council discussed a Commission communication assessing the action taken by **Malta** in response to the Council recommendation of 16 February 2010 based on article 126(7) to bring to an end the situation of excessive deficit at the latest by 2011. The Council shares the Commission's view that, based on current information, Malta has taken action representing adequate progress towards the correction of the excessive deficit within the time limit set by the Council. In particular, the Maltese authorities have taken fiscal consolidation measures to correct the excessive deficit by 2011, while ensuring an adequate fiscal effort in 2011.

Against this background, the Council considers that at present no further steps under the excessive deficit procedure are necessary.

At the same time, the Council notes that in spite of a better macroeconomic environment than expected in the Council recommendations, there was no acceleration in the reduction of the deficit in 2010. In addition, **considerable downside risks exist to the achievement of the 2011 deficit target**. In this context, the Council calls for rigorous execution of the budget and close monitoring of budgetary developments in order to take corrective measures if needed to ensure that the deficit target of 2.8% of GDP is reached in 2011. Furthermore, further steps should be taken to strengthen the binding nature of the medium-term budgetary framework and improve the long-term sustainability of public finances, as requested by the Council in its recommendations and invitations.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 20/06/2011

The Council agreed unanimously an **updated general approach** on a package of legislative proposals on economic governance, with the aim of enabling negotiations with the European Parliament to be concluded in time for the European Council meeting on 23 and 24 June.

It will inform the Parliament of its compromise text by a letter to be sent by the chairman of the Permanent Representatives Committee on 21 June.

The proposals set out to strengthen economic governance in the EU – and more specifically within the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets.

The Council reached agreement on a general approach on 15 March, opening the way for the negotiations with the Parliament.

Recognising that existing EU instruments have not generated a satisfactory decline in public debt levels and have catered insufficiently for macroeconomic imbalances, the proposals are aimed at enhancing budgetary discipline in the Member States and broadening the surveillance of their economic policies. They implement the recommendations of a task force, chaired by the President of the European Council, Herman Van Rompuy, which concluded that **the EU's monetary union will not be able to function properly in the long term without increased economic policy coordination**.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 23/06/2011 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament amended by 339 votes to 304, with 26 abstentions, under a special legislative procedure (consultation), the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

The vote on the legislative resolution was postponed until a later plenary session.

The main amendments requested by the Parliament are as follows:

Stability Pact: the Stability and Growth Pact and the complete economic governance framework should **complement and support the Union strategy for growth and jobs**. Inter-linkages between different strands should not provide for exemptions from the provisions of the Stability and Growth Pact.

Improved governance: Members underline the need for improved economic governance in the Union, which should be built on a **stronger national ownership** of commonly agreed rules and policies and on a more robust surveillance framework at the Union level of national economic policies. Strengthening economic governance should include a **closer and more timely involvement of the European Parliament and the national parliaments**.

Strengthened role of the Commission: the Commission should have a stronger role in the enhanced surveillance procedureas regards assessments that are specific to each Member State, monitoring, missions, recommendations and warnings.

Economic dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and, to ensure greater transparency and accountability, **the competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss Council recommendations and decisions based on the TFEU.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such recommendation, notice and decisions to participate in an **exchange of views**.

Excessive deficit procedure: the Commission and the Council should when applying this Regulation appropriately take into account all relevant factors and the economic and budgetary situation of the concerned Member States.

The text stipulates that implementing the existing excessive deficit procedure on the basis of both the deficit criterion and the debt criterion requires a **numerical benchmark** that takes into account the business cycle against which to assess whether the ratio of government debt to gross domestic product is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Parliament calls for a **transition period** to be introduced in order to allow Member States subject to an excessive deficit procedure at the date of adoption of this regulation to adapt their policies to the numerical benchmark for debt reduction. This should equally apply to Member States which are subject to a European Union/International Monetary Fund adjustment programme.

Members consider that non-compliance with the numerical benchmark for debt reduction should not be sufficient for the establishment of an excessive deficit, which should take into account the whole range of relevant factors covered by the Commission. In particular, the assessment of the effect of the cycle and the composition of the stock-flow adjustment on debt developments may be sufficient to exclude the establishment of an excessive deficit on the basis of the debt criterion.

In taking into account **systemic pensions reforms** among the relevant factors, the central consideration should be whether they enhance the long-term sustainability of the overall pension system, while not increasing risks for the medium-term budgetary position.

Correction of situations of excessive deficit: in order to support the monitoring of compliance with Council recommendations and notices for the correction of situations of excessive deficit, there is a need that these specify annual budgetary targets consistent with the required fiscal improvement in cyclically adjusted terms, net of one-off and temporary measures. In this context, the **0.5% of GDP annual benchmark should be understood as**

annual average basis. In assessing the case for an extension of the deadline for correcting the excessive deficit, special consideration should be given to severe economic downturns for the euro area or the EU as a whole on condition that this does not endanger fiscal sustainability in the medium term.

Surveillance missions: the Commission shall maintain a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Fines: fines collected should be assigned to stability mechanisms to provide financial assistance, created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 16/02/2011

OPINION OF THE EUROPEAN CENTRAL BANK on economic governance reform in the European Union.

On 29 November 2010, the European Central Bank (ECB) received a request from the Council for an opinion on a package of six legislative proposals aiming to strengthen economic governance.

The ECB considers that the Commission proposals represent an important broadening and strengthening of the EU economic and budgetary surveillance framework and go some way in improving enforcement in the euro area. However, **they fall short of the necessary quantum leap in the surveillance of the euro area, which the ECB deems necessary to ensure its stability and smooth functioning**.

The ECB calls on the EU legislator and the Member States to take advantage of the ongoing legislative process to strengthen the economic governance package to the maximum allowed under the current Treaties. In addition, the EU should consider at a certain point in time Treaty reform to further strengthen economic governance.

The ECB makes the following observations:

Insufficient automaticity: for the ECB, insufficient automaticity is a fundamental flaw of the Commission proposals. In this vein, the ECB proposes that the EU legislator consider reverting the changes to the Stability and Growth Pact introduced in 2005 which increased the leeway allowed to Member States in respect of their obligations under the Pact.

Furthermore, the ECB states that there are several elements showing insufficient automaticity in the Commission proposals which should be reconsidered:

- the draft budgetary surveillance procedure provides the possibility for Member States to depart from the adjustment path towards the medium-term budgetary objective in case of a severe economic downturn of a general nature;
- the draft budgetary enforcement procedure provides that the Council will review interest-bearing deposits, non-interest bearing deposits and fines it imposes, on the grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned;
- lastly, the Commission's obligation to take into account discussions within the Council as a condition for the continuation by the Commission of any procedure should be excluded.
- In addition, the ECB recommends increasing automaticity by means of **adding reverse Council qualified majority voting whenever possible.**

Additional political and reputational measures: these measuresshould be established in the draft budgetary surveillance procedure and EDP, including Member State reporting obligations and reports from the Council to the European Council. In addition, the Commission, in liaison with the ECB if it deems it appropriate, where euro area Member States or ERM II participant Member States are concerned, should conduct missions to Member States not complying with Council recommendations.

Assessing compliance with the reference value for the government debt ratio: while all relevant factors should be considered when the Commission prepares a report on the existence of an excessive debt ratio and while particular consideration should be given to the effect of guarantees issued by the Member States under the European Financial Stability Facility or eventually under the future European Stability Mechanism (ESM), all these factors should only be considered where the government debt ratio is declining over a three-year horizon according to the Commission's forecasts. Any relevant mitigating factors should never lead to an assessment that a Member State has no excessive debt ratio where its debt ratio exceeds the reference value and is projected to be on an increasing path.

Procedure concerning the draft budgetary surveillance procedure: the ECB recommends that:

- sufficient progress towards the medium-term objective should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures;
- the growth rate of government expenditure should normally not exceed a projected reference medium- term growth rate of potential gross domestic product (GDP) growth;
- the projected medium-term rate of potential GDP growth should be calculated according to the common methodology used by the Commission;
- taking into account the impact of the structure of economic growth on revenue growth.

Macroeconomic surveillance procedure: the ECB strongly welcomes the introduction of a macroeconomic surveillance procedure, which closes an important lacuna in the economic governance framework. This new procedure should concentrate firmly on euro area Member States experiencing sustained losses of competitiveness and large current account deficits. The scope of the procedure should by defining the term 'imbalances' address an open list of situations to be prevented by the procedure.In addition, the macroeconomic surveillance procedure should be determined by transparent and effective trigger mechanisms.

Fines: as to the interest accruals from the non-remunerated deposits and the fines imposed on euro area Member States under the Commission proposals, they should be assigned to the ESM to be created in 2013, with an appropriate transition solution until its creation.

Independent advisory body: the ECB sees also the need to establish an advisory body of persons of recognised competence in economic and fiscal matters to prepare an independent annual report addressed to the Union institutions on compliance by the Council and the Commission, including Eurostat, with their obligations under Articles 121 and 126 of the Treaty and under the procedures addressed in the Commission proposals.

Draft directive on the budgetary frameworks:

- the ECB also considers that all Member States should in any case be required to ensure independent monitoring, analysis and validation of the key elements of their budgetary frameworks. All these measures should not prevent Member States from developing stronger budgetary frameworks, such as by including rules prohibiting general government structural deficits above a certain threshold of GDP;
- the ECB recommends highlighting the importance of transparent national forecasts and methodologies for their preparation. At the same time, the Commission's forecasts have to play a central role in benchmarking national forecasts;
- regarding its effectiveness, the directive should refer expressly to costs imposed on national authorities for non-compliance with numerical fiscal rules, including both non-financial measures and financial sanctions at national level. Obligations to redeem in the medium-term debt exceeding amounts tolerated by the fiscal framework should be included;
- regarding statistics, the ECB favours an increase in the timeliness and reliability of the annual and quarterly government accounts reported to the Commission under Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community. Regarding statistics in future legislation, the ECB notes that EU legislative action is required for the 'European statistics code of practice' to become legally binding, while, in the meantime, the complete implementation of the code is accelerated, in particular regarding quality and the mandates for data collection.

Lastly, **Eurostat powers in assessing and monitoring the EDP notifications should be further strengthened** with a focus on proactive measures to enhance the quality of government statistics.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 14/02/2011

The Council held a **policy debate** on a package of measures intended to strengthen economic governance in the EU, and more specifically in the euro area, in order to address the challenges highlighted by recent difficulties on sovereign debt markets.

The package consists of:

- a draft regulation amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- a **draft regulation** amending regulation 1467/97 on the EU's excessive deficit procedure;
- a draft regulation on the enforcement of budgetary surveillance in the euro area;
- a draft regulation on the prevention and correction of macroeconomic imbalances;
- a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a draft directive on requirements for the member states' budgetary frameworks.

Four of the propositions deal with **reform of the EU's Stability and Growth Pact**. They are aimed at enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage.

In particular, a so-called **reverse majority rule**, whereby the Commission's proposal for imposing a fine will be considered adopted unless the Council turns it down by qualified majority, will trigger the sanction more automatically than at present.

Moreover, greater emphasis will also be placed on the **debt criterion** of the Stability and Growth Pact, with member states whose debt exceeds 60% of GDP required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below the 3% of GDP threshold.

The other two proposals target **macroeconomic imbalances within the EU**. Here, the aim is to broaden the surveillance of economic policies, introducing the possibility of fines on Member States found to be in an "excessive imbalances position". Risks of macroeconomic imbalances will be assessed using a "scoreboard" of economic indicators.

The Council asked the Permanent Representatives Committee to oversee further work on the package, in the light of its discussion. The presidency's aim – in accordance with the deadlines set by the European Council on 4 February – is for the Council to agree on a **general approach on all six proposals at its meeting on 15 March 2011, with a view to reaching an agreement with the European Parliament in June 2011**.

As regards the excessive deficit procedure, the Council took note of a communication from the Commission assessing action taken by **Bulgaria, Denmark, Cyprus and Finland** in order to bring their government deficits below 3% of GDP, the reference value set by the EU treaty.

It shared the Commission's view that, on the basis of current information, **all four countries have taken action representing adequate progress** towards correcting their deficits within the time limits set in its recommendations, and that no further steps under the EU's excessive deficit procedure are required at present.

Bulgaria, Denmark, Cyprus and Finland have been subject to excessive deficit procedures since July 2010, when the Council issued its recommendations. The Council called on Bulgaria and Finland to reduce their deficits below the threshold of 3 % of GDP by 2011, Cyprus by 2012 and Denmark by 2013.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 17/05/2011

The Council took note of a **report from the presidency on progress in negotiations with the European Parliament** on a package of legislative proposals on economic governance.

Taking note of the views expressed by delegations, the presidency called on all parties to remain constructive and show the degree of flexibility that will be necessary to enable an agreement to be reached in June, as called for by the European Council.

The proposals set out:

- **to strengthen economic governance in the EU** – and more specifically within the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets. The Council reached agreement on a general approach in March, opening the way for the negotiations with the Parliament;
- **to enhance budgetary discipline in the Member States and broaden the surveillance of their economic policies**, thus implementing the recommendations of a task force chaired by the President of the European Council, Herman Van Rompuy.

The package consists of:

- a draft regulation amending Regulation (EC) No 1466/97 on the surveillance and coordination of Member States' budgetary and economic policies;
- a draft regulation amending Regulation (EC) No 1467/97 on the excessive deficit procedure;
- a draft regulation on the enforcement of budgetary surveillance in the euro area;
- a draft regulation on the prevention and correction of macroeconomic imbalances;
- a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a draft directiveon requirements for the Member States' budgetary frameworks.

Four of the proposals deal with reform of the **EU's Stability and Growth Pact**, enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant Member States more consistently and at an earlier stage. The other two proposals target **macroeconomic imbalances** within the EU.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 15/03/2011

The Council agreed a general approach on a package of legislative proposals aimed at strengthening economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets.

The agreement will enable the presidency to start negotiations with the European Parliament, with the aim of **reaching an overall agreement in June 2011**, thus respecting the timetable set by the European Council.

Four of the proposals deal with reform of the EU's Stability and Growth Pact. They are aimed at enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage. The other two proposals target macroeconomic imbalances within the EU.

(1) Reform of the Stability and Growth Pact

Preventive arm of the pact:

- to promote attainment by the Member States of their medium term objectives (MTO), the reform would introduce an expenditure benchmark, which implies that annual expenditure growth should not exceed a reference medium-term rate of GDP growth. This is meant to ensure that revenue windfalls are not spent but instead allocated to debt reduction;
- if a Member State has not reached its MTO, a significant deviation in expenditure development from its reference expenditure growth path could eventually lead to sanctions.

Corrective arm of the pact (excessive deficit procedure):

- greater emphasis would also be placed on the **debt criterion** of the Stability and Growth Pact, with Member States whose debt exceeds 60% of GDP (the EU's reference value for debt) required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below 3% of GDP (the EU's deficit reference value);

- to determine whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold, a numerical benchmark would be introduced. A debt-to-GDP ratio above 60% would thus be considered sufficiently diminishing if its distance with respect to the 60% reference value had decreased over the previous three years at an annual rate of one-twentieth;

- a decision to subject a country to the excessive deficit procedure would not only be based on the numerical benchmark, but would also take into account other relevant factors, such as implicit liabilities related to private sector debt and ageing cost. The net cost of implementation of a pension reform would also be considered;

- to strengthen the corrective arm of the Stability and Growth Pact, a **new set of financial sanctions** would be introduced for euro-area Member States; these would apply earlier on in the excessive deficit procedure, and using a **graduated approach**;

- a **non-interest-bearing deposit** amounting to 0.2% of GDP may be imposed already when decision has been taken to subject a country to the excessive deficit procedure. If the Council's recommendation for correcting the deficit is not followed, a **fine** will be imposed. Further non-compliance would result in the sanction being stepped up, in line with the existing provisions in the Stability and Growth Pact;

- to trigger the sanction more automatically than at present, a so-called **reverse majority rule would be introduced**, whereby the Commission's proposal for imposing a deposit or a fine would be considered adopted unless turned down by the Council via qualified majority.

(2) Surveillance of economic policies:beyond budgetary surveillance, the legislative package is aimed at broadening the surveillance of the Member States' economic policies. It would establish a mechanism for the prevention and correction of excessive macroeconomic imbalances, made up of two regulations which outline an "excessive imbalance procedure" and introduce the possibility of fines being imposed on Member States found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

- the starting point of the new framework will be an **alert mechanism for the early detection of imbalances**, which will be assessed using a "scoreboard" of economic indicators. This will be supplemented by country-specific qualitative expert analysis;
- if the imbalance is considered to be excessive, the Member State concerned could be subject to an excessive imbalance procedure, and would be called on to adopt a corrective action plan within a specific timeframe;
- on the other hand, repeated non-compliance with the recommendations could in the case of euro area Member States **eventually lead to sanctions**. Specifically, a decision to impose a yearly fine equal to 0.1% of the Member State's GDP would be adopted through the "reverse majority" rule described above;
- fines collected in the context of both the excessive imbalance and excessive deficit procedures would be **transferred to the crisis fund created for the euro area** to provide financial assistance to Member States in difficulty (i.e. the European Financial Stability Facility and the future European Stability Mechanism).

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 28/09/2011 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 363 votes to 268, with 37 abstentions, under a special legislative procedure (consultation of the European Parliament), a legislative procedure on the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

The report was sent back to the committee responsible to be re-examined on 23 June 2011.

The main amendments made to the proposal are as follows:

Stability pact: the Stability and Growth Pact and the Union's economic governance framework as a whole should complement and be compatible with a Union strategy for **growth and job creation** that boosts the Union's competitiveness. Environmental responsibility, social progress and stability, and the development and strengthening of the Single Market should also be envisaged by this framework. As a general principle, these interlinkages should not provide for exemptions to the provisions of the Stability and Growth Pact. National budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact.

Strengthening governance: the amended text states that experience gained and mistakes made during the first decade of functioning of the economic and monetary union show a need for improved economic governance in the Union, which should be built on stronger national ownership of commonly agreed rules and policies and on a more robust surveillance framework at the Union level of national economic policies. Strengthening economic governance should include a **closer and more timely involvement of the European Parliament and the national parliaments**.

According to the new Regulation, the improved economic governance framework should rely on **several inter-linked policies** for sustainable growth and jobs, which need to be coherent with each other, in particular a Union strategy for growth and jobs, with particular focus upon development and strengthening of the internal market, fostering international trade and competitiveness, an effective framework for preventing and correcting excessive government deficit (the Stability and Growth Pact), a robust framework for preventing and correcting macro-economic imbalances, minimum requirements for national budgetary frameworks, enhanced financial market regulation and supervision including macro-prudential supervision by the European Systemic Risk Board.

Stronger role for Commission in surveillance: Parliament states that the Commission should have a **stronger and more independent role** in the enhanced surveillance procedure. This concerns Member-State-specific assessments, monitoring, missions, recommendations and warnings.

Economic dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the **competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss the Council decision and the Council recommendation based on the Treaty on the Functioning of the European Union. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by such **recommendation**, notice and decisions to participate in an exchange of views.

Excessive deficit procedure: the Commission and the Council should when applying this Regulation appropriately take into account all relevant factors and the economic and budgetary situation of the concerned Member States. The amended text states that implementing the existing excessive deficit procedure on the basis of both the deficit criterion and the debt criterion requires a **numerical benchmark that takes into account the business cycle** against which to assess whether the ratio of government debt to gross domestic product is sufficiently diminishing and approaching the reference value at a satisfactory pace. A **transition period** should be introduced in order to allow Member States subject to an excessive deficit procedure at the date of adoption of this regulation to adapt their policies to the numerical benchmark for debt reduction. This should equally apply to Member States which are subject to a European Union/International Monetary Fund adjustment programme.

Non-compliance with the numerical benchmark for debt reduction **should not be sufficient** for the establishment of an excessive deficit, which should take into account the whole range of relevant factors covered by the Commission. In particular, the assessment of the effect of the cycle and the composition of the stock-flow adjustment on debt developments may be sufficient to exclude the establishment of an excessive deficit on the basis of the debt criterion.

In taking into account **systemic pensions reforms** among the relevant factors, the central consideration should be whether they enhance the long-term sustainability of the overall pension system, while not increasing risks for the medium-term budgetary position.

Correction of excessive deficits: in order to support the monitoring of compliance with Council recommendations and notices for the correction of situations of excessive deficit, there is a need that these specify annual budgetary targets consistent with the required fiscal improvement in cyclically adjusted terms, net of one-off and temporary measures. In this context, **the 0.5% of GDP annual benchmark should be understood as annual average basis**.

In assessing the case for an extension of the deadline for correcting the excessive deficit, special consideration should be given to severe economic downturns for the euro area or the EU as a whole on condition that this does not endanger fiscal sustainability in the medium term.

If a participating Member State fails to act in compliance with the successive decisions of the Council, the decision of the Council to impose **sanctions** shall be taken as a rule within **sixteen months** of the reporting dates established in Regulation (EC) No 479/2009. An **expedited procedure** shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

Surveillance missions: the Commission shall maintain a permanent dialogue with authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Fines: fines shall constitute other revenue and shall be assigned to the European Financial Stability Facility. By the moment another stability mechanism to provide financial assistance is created by Member States whose currency is the euro in order to safeguard the stability of the euro area as a whole, the fines shall be assigned to that last mechanism.

Reporting: within three years after the entry into force of this Regulation and every five years thereafter, the Commission shall publish a report on the application of this Regulation. That report shall evaluate, inter alia: (a) the effectiveness of the regulation; (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 07/10/2010 - Legislative proposal

PURPOSE: the reform of the corrective part of the Stability and Growth Pact with a view to strengthening the EU's economic governance.

PROPOSED ACT: Council Regulation.

BACKGROUND: the global economic and financial crisis revealed gaps and weaknesses in the existing instruments and methods of co-ordination and surveillance of economic policies in the Economic and Monetary Union (EMU). There is broad agreement that the framework for EMU should be urgently strengthened in order to anchor macroeconomic stability and the sustainability of public finances.

The key instrument for fiscal policy co-ordination and surveillance is the Stability and Growth Pact (SGP), which implements the Treaty provisions on budgetary discipline. **Strengthening the Pact** is important for both increasing the credibility of the agreed co-ordinated fiscal exit strategy and avoiding a repetition of past mistakes.

This proposal is part of **legislative package** comprising six texts which seeks to strengthen the pact by improving its provisions in the light of experience, not least of the crisis:

1) A Regulation amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97);

2) A **Regulation** amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97);

3) A Regulation on the effective enforcement of budgetary surveillance in the euro area;

4) A new Council Directive on requirements for the budgetary framework of the Member States;

5) A new Regulation on the prevention and correction of macroeconomic imbalances;

6) A Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

The outlines of these proposals were announced by the Commission in two communications on economic governance: "Reinforcing economic policy coordination" (12 May 2010) and "Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance" (30 June 2010).

In June 2010, the European Council agreed on the urgent need to reinforce the coordination of economic policies. In particular, it agreed on:

- strengthening both the preventive and corrective parts of the SGP, including with sanctions and taking due account of the particular situation of euro-area Member States;
- giving, in budgetary surveillance, a much more prominent role to levels and evolutions of debt and overall sustainability;
- ensuring that all Member States have national budgetary rules and medium term budgetary frameworks in line with the SGP;
- ensuring the quality of statistical data.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASE: the second subparagraph of Article 126(14) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the corrective part of the SGP is meant to avoid gross errors in budgetary policies, which might put at risk the sustainability of public finances and potentially endanger EMU. This translates into the obligation for Member States to avoid excessive government deficits, which are defined against a numerical threshold for deficit (3% of GDP) and debt (60% of GDP or sufficiently declining toward it).

The excessive deficit procedure (EDP) that implements the ban on excessive deficits provides for a sequence of steps, which, for euro-area countries, include the eventual imposition of financial sanctions.

The EDP has been regularly applied in line with the relevant provisions, even against the background of the exceptional circumstances of the financial crisis, thereby contributing to anchoring expectations of its orderly resolution. However a number of shortcomings have emerged.

This **proposal to reform the corrective part of the SGP** seeks to address these shortcomings. It is proposed to amend Regulation No 1467/97 in such a way that the decision to implement the excessive deficit procedure will give a more prominent role to **the evolution of debt**, placing it on an equal footing with the evolution of the deficit.

The proposal provides for the **debt criterion of the EDP to be made operational** notably through the adoption of a numerical benchmark to gauge whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold.

More specifically, a debt-to-GDP ratio above 60% is to be considered sufficiently diminishing if its distance with respect to the 60% of GDP reference value has reduced over the previous three years at a rate of the order of one-twentieth per year.

Non-compliance with this numerical benchmark is not, however, necessarily expected to result in the country concerned being placed in excessive deficit, as this decision would need to take into account all the factors that are relevant, in particular for the assessment of debt developments, such as whether very low nominal growth is hampering debt reduction, together with risk factors linked to the debt structure, private sector indebtedness and implicit liabilities related to ageing.

In line with the greater emphasis on debt, more consideration should be given to relevant factors in the event of non-compliance with the deficit criterion if a country has a debt below the 60% of GDP threshold.

BUDGETARY IMPLICATION: the proposal relates to the extension of an existing action and does not require any additional human or financial resources.

Economic governance: implementation of the excessive deficit procedure. 'Six pack'

2010/0276(CNS) - 28/11/2014

The Commission has presented a **review of the various legislative texts known as the "six-pack" and "two-pack" to strengthen the economic** governance of the European Union. This review analyses to what extent the new rules introduced have been effective in achieving the objectives of ensuring closer coordination of economic policies.

The legislative packages aim to:

- more closely coordinate economic policies through a strengthening of budgetary surveillance under the Stability and Growth Pact;
- introduce a new procedure in the area of macroeconomic imbalances;
- establish a framework for dealing with countries experiencing difficulties with financial stability;
- to proceed with codification in legislation, in the form of the European Semester, of integrated economic and budgetary surveillance.

Taking into account the short experience of their operation, with the six-pack entering into force in end-2011 and the two-pack only in mid-2013, **the Commission considers it difficult to draw conclusions on the effectiveness of the regulations.**

Fiscal surveillance and coordination of economic policies (six-pack)

Overall, the two main objectives of the six-pack and two-pack reforms in the area of fiscal surveillance were

- to strengthen and deepen budgetary surveillance by making it more continuous and integrated, also via an intensified sanctions mechanism; and
- to provide an additional surveillance for euro area Member States to ensure the correction of excessive deficits and an appropriate integration of EU policy recommendations in the national budgetary preparation.

The corrective arm was upgraded:

- by operationalising the Treaty's debt criterion;
- by intensifying the sanctions imposed on euro area countries non-compliant with recommendations under the Excessive Deficit Procedure;
- by introducing new provisions on annual nominal and structural deficit targets for the duration of the Excessive Deficit Procedure.

Overall, **the Stability and Growth Pact was made more flexible** via the possibility to adapt the pace of fiscal consolidation both in the preventive and corrective arm in justified cases.

Assessment: overall, the Commission considers that **the reformed framework has proven effective** in strengthening budgetary surveillance and thus in guiding Member States in their efforts to consolidate public finances in difficult economic conditions.

- While it has been in operation for a rather short period of time, **the reformed framework has already played a role in the correction of excessive deficits**. The EU-28 average fiscal deficit has fallen from 4.5% of GDP in 2011 to a forecast of around 3% of GDP in 2014. The number of countries subject to an Excessive Deficit Procedure fell from 23 Member States of 27 to 11 on 28.

- **The experience with the debt benchmark is very limited**, not least as the new rules included a transition period for the debt benchmark to fully enter into force. Nevertheless, **the operationalisation of the debt criterion** has increased the awareness of the relevance of debt for fiscal stability and has offered additional incentives to bring debt on a sustainable path.

- **The intermediate nominal and structural deficit targets**under the Excessive Deficit Procedure have enabled more precise and transparent policy advice and monitoring. The possibility to adapt existing recommendations has been used for well-justified reasons, and has proved particularly valuable in adapting the consolidation trajectories in the fast changing environment of the past ten years.

- N**o sanctions** having been imposed on countries non-compliant with the reformed Stability and Growth Pact rules, it is not possible to fully assess whether the objective of a more effective enforcement of budgetary surveillance in the euro area was indeed achieved.

The Commission considers that the additional budgetary surveillance elements for euro area Member States introduced by the two-pack seem to have broadly fulfilled their objective to increase at least the pressure to correct excessive deficits. The **European Semester** combines these different tools in an overarching framework for integrated multilateral economic and budgetary surveillance. The streamlining and strengthening of the 2015 exercise will further improve its functioning.

In conclusion, if the review has revealed some strengths, it also shows possible areas for improvement, concerning **transparency and complexity of policy making**, and their impact on growth, imbalances and convergence.

According to the Commission, a proper involvement of **national Parliaments** remains crucial in ensuring the legitimacy of Member States' action. At EU level, **the European Parliament** has a key role to play, notably through “economic dialogues”, which have ensured that institutional actors have been regularly held to account on the main issues related to economic governance.

The Commission plans to discuss these points with the European Parliament and the Council in the coming months.