Procedure file

Basic information

SYN - Cooperation procedure (historic)	1996/0247(SYN)	Procedure completed

Surveillance of budgetary positions and surveillance and coordination of economic policies

Amended by 2005/0064(SYN)
Amended by 2010/0280(COD)

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, Industrial Policy	PPE CHRISTODOULOU Efthymios	24/09/1996
	Former committee responsible		
	ECON Economic and Monetary Affairs, Industrial Policy	PPE CHRISTODOULOU Efthymios	24/09/1996
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	PSE WILLOCKX Frederik A.A.	29/10/1996
	Former committee for opinion		
	BUDG Budgets	PSE WILLOCKX Frederik A.A.	29/10/1996

Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2023	07/07/1997
	Economic and Financial Affairs ECOFIN	2014	09/06/1997
	Fisheries	1998	14/04/1997
	Economic and Financial Affairs ECOFIN	1960	11/11/1996

Key events

16/10/1996	Legislative proposal published	COM(1996)0496	Summary
11/11/1996	Debate in Council	1960	
11/11/1996	Committee referral announced in Parliament		
12/11/1996	Vote in committee		Summary

12/11/1996	Committee report tabled for plenary, 1st reading/single reading	A4-0371/1996	
27/11/1996	Debate in Parliament		
28/11/1996	Decision by Parliament	T4-0640/1996	Summary
19/03/1997	Modified legislative proposal published	COM(1997)0116	Summary
14/04/1997	Council position published	07109/2/1997	Summary
12/05/1997	Committee referral announced in Parliament, 2nd reading		
21/05/1997	Vote in committee, 2nd reading		Summary
21/05/1997	Committee recommendation tabled for plenary, 2nd reading	A4-0181/1997	
28/05/1997	Debate in Parliament		Summary
29/05/1997	Decision by Parliament, 2nd reading	T4-0267/1997	Summary
09/06/1997	Debate in Council	2014	
24/06/1997	Modified legislative proposal published	COM(1997)0305	Summary
07/07/1997	Act adopted by Council after consultation of Parliament		Summary
07/07/1997	End of procedure in Parliament		
02/08/1997	Final act published in Official Journal		

Technical information

Procedure reference	1996/0247(SYN)
Procedure type	SYN - Cooperation procedure (historic)
Procedure subtype	Legislation
	Amended by 2005/0064(SYN) Amended by 2010/0280(COD)
Legal basis	EC before Amsterdam E 103-p5
Stage reached in procedure	Procedure completed

Documentation gateway

Legislative proposal		COM(1996)0496	16/10/1996	EC	Summary
Committee report tabled for plenary, 1st reading/single reading		A4-0371/1996 OJ C 380 16.12.1996, p. 0004	12/11/1996	EP	
Text adopted by Parliament, 1st reading/single reading		T4-0640/1996 OJ C 380 16.12.1996, p. 0012-0022	28/11/1996	EP	Summary
Modified legislative proposal		COM(1997)0116 OJ C 117 15.04.1997, p. 0017	19/03/1997	EC	Summary
Council position		07109/2/1997 OJ C 164 30.05.1997, p. 0026	14/04/1997	CSL	Summary

Commission communication on Council's position		SEC(1997)0707	22/04/1997	EC	Summary
Committee final report tabled for plenary, reconsultation		A4-0181/1997 OJ C 182 16.06.1997, p. 0003	21/05/1997	EP	
Text adopted by Parliament, 2nd reading		T4-0267/1997 OJ C 182 16.06.1997, p. 0013-0021	29/05/1997	EP	Summary
Modified legislative proposal		COM(1997)0305	24/06/1997	EC	Summary
Follow-up document		COM(2017)0629	24/10/2017	EC	Summary
Follow-up document		COM(2018)0319	23/05/2018	EC	Summary

Additional information

European Commission	EUR-Lex

Final act

Regulation 1997/1466
OJ L 209 02.08.1997, p. 0001 Summary

Surveillance of budgetary positions and surveillance and coordination of economic policies

OBJECTIVE: the proposal for a Council Regulation forms part of the stability pact for ensuring budgetary discipline in stage three of EMU. It aims at strengthening the surveillance and coordination of budgetary positions. SUBSTANCE: to avoid any risk of excessive deficit, the Commission proposes reinforcing the budgetary aspects of multilateral surveillance (Article 103(5) of the Treaty on European Union) by establishing a preventive, early-warning system for identifying and correcting budgetary slippages before they bring the deficit above the ceiling of 3% of GDP. This enhanced monitoring would rely on an obligation on Member States having adopted the single currency to submit stability programmes setting out national medium-term budgetary objectives and other relevant information. National medium-term budgetary targets should be set close to balance or in surplus, but a certain differentiation between countries would be appropriate. These medium-term targets will enable Member States to respect the 3% ceiling in all circumstances, apart from unusually severe economic downturns or other exceptional conditions. Stability programmes should be made public. Departures from the budgetary objectives of close to balance or surplus set in the stability programmes would prompt a warning from the Commission. This could lead to Council recommendations to the Member State concerned with a view to taking the necessary measures so as to avoid the risk of breaching the 3% ceiling. The Commission also proposes the introduction of a Regulation on speeding up and clarifying the implementation of the excessive deficit procedure. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

In adopting the report by Mr Efthymios CHRISTODOULOU (PPE, G), Parliament approved, with amendments, two proposed Regulations: one on the introduction of an early warning system to prevent excessive deficits, the other on time limits and sanctions. Regarding the early warning system (cooperation procedure), Parliament insisted that national budgetary policies need to be set so as to allow adequate government investment to help sustain growth and employment. It considered that stability programmes should be incorporated in the national budgetary procedures and submitted to the national parliaments according to an appropriate timetable, while insisting that Parliament be provided with the relevant information. Moreover, similar procedures should cover the other Member States not belonging to EMU. Finally, Parliament called for the establishment of an Employment Committee analogous to the Monetary Committee and for the maintenance in operation of the Cohesion Fund during Stage III, for as long as the parameters for development differentials which justified its creation (per capita GDP lower than 90% of the Community average) remain in force. With regard to the time limits and sanctions (consultation procedure), Parliament reiterated the above principles. It proposed some changes to the time limits and adopted an amendment aimed at authorizing the reference value fixed for the public deficit to be breached where unusual events have led the Member State concerned to engage in excessively high expenditure in order to safeguard its territorial sovereignty. Additionally, it emphasized that in the event of an excessive deficit, the deposit prior to a possible sanction should not be considered as part of the government expenditure of the Member State concerned. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

The Commission's re-examined proposal incorporates a number of amendments proposed by Parliament, particularly those intended to: - define the purpose of the regulation more precisely; - specify that the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation; - provide that the stability programmes must contain a description of the budgetary and economic policy measures taken and/or proposed to achieve the objectives of the programme and, in the case of the main budget objectives, an assessment of their quantitative effects on the budget. The re-examined proposal also takes account of the decisions taken in the Dublin European Council of December 1996, by extending

the scope of the regulation to non-participant Member States and their convergence programmes. The text has also been subject to minor editorial changes in the light of the discussions within the Council's working party on EMU. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

The common position takes into account, in whole or in part, a number of important amendments adopted by Parliament at first reading and incorporated by the Commission in its amended proposal: - The purpose of the regulation is more precisely defined, namely to set out the rules covering the content, the submission, the examination and the monitoring of stability programmes as part of multilateral surveillance by the Council so as to prevent, at an early stage, the occurrence of excessive deficits and to promote the surveillance and coordination of economic policies; - stability and convergence programmes must incorporate an assessment of the quantitative effects on the budget of the budgetary measures being taken to achieve the objectives of these programmes; - the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation; - the Council must monitor economic trends in the Community as they emerge from the stability and convergence programmes. The Council's common position contains the following amendments to the modified proposal: - it changes the deadline for the submission of stability and convergence programmes from 1 January 1999 to 1 March 1999; - it describes the stability and convergence programmes as an essential basis for price stability and strong growth conducive to employment creation; - it deletes the requirement proposed by the Commission for Member States to include in their stability and convergence programmes information on their commitment to take the necessary additional measures to prevent slippage from the medium-term budgetary objective; - it specifies that the Council will monitor economic policies of the non-participating Member States in the light of their convergence programme objectives with a view to ensuring that their policies are geared to stability, and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

The Commission considered that the common position included all the essential elements of its initial proposal and amended proposal. It accepted the amendments the Council had introduced before adopting its common position. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

While welcoming the fact that the Council?s common position demonstrated the latter?s willingness to correctly apply the Stability Pact, Mr Christodoulou criticised the inflexibility and mechanistic character of the Pact which failed to take sufficient account of the dynamic nature of economics. As regards the penalties specified, the rapporteur considered that the common position went beyond the Commission?s original proposal. Recalling Parliament?s desire to maintain the principle of budgetary unity, Mr Christodoulou regretted that the use of the product of fines would depend on a Council decision. The rapporteur then called for a guarantee of greater flexibility to ensure the Pact?s credibility and urged the rejection of those amendments (except for that of Mr Blokland) which had not been approved by the Committee on Budgets. He concluded by hoping that the Council and Commission would honour all their obligations. Recalling that the Stability and Growth Pact was based on the Treaty and that, by consolidating two regulations (one based on Article 103(5) and the other on Article 104), the Pact implemented the Maastricht provisions, Commissioner de Silguy stated that the compromise reached was flexible enough. As for the amendments, the Commissioner was in favour of most of these: namely Amendments Nos 1, 2, 3, on the resolution of the European Council, 4, first part, 5 and 8, on public investment and expenditure, and 6, second part, and 9, second part.

Surveillance of budgetary positions and surveillance and coordination of economic policies

The European Parliament has adopted a report and a recommendation by Mr Efthymios Christodoulou (PPE; GR) approving, subject to several amendments, the two proposals comprising the Stability and Growth Pact, a key element in ensuring budgetary stability during the third phase of EMU. Parliament has thus amended the Council's common position on the Regulation on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. Its amendments seek to ensure that the level of expenditure on public investments is taken into account, as the Commission requested, in the assessment of a Member State's budgetary situation (in the common position, the only economic variables likely to influence the achievement of the stability programme were given as GDP growth in real terms, employment and inflation). ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

The European Commission's amended proposal included some of the amendments proposed by the European Parliament at second reading. In particular, the Commission accepted the amendments relating to a single reference to the European Council's resolution of 17 June 1997 in the recitals and the inclusion of a specific reference to public investment expenditure in the regulation's articles. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

OBJECTIVE: within the context of the Stability and Growth Pact, the regulation aims to ensure budgetary discipline during the third stage of Economic and Monetary Union (EMU). COMMUNITY MEASURE: Council Regulation 1466/97/EC on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. CONTENT: to avoid any risk of excessive deficit, the regulation aims to establish a preventive early-warning system for identifying and correcting budgetary slippages before they bring the deficit above the ceiling of 3% of GDP. This early-warning system will encourage Member States to immediately take the corrective budgetary action

they deem necessary whenever they have information indicating significant divergence from the medium-term budgetary objective or the adjustment path towards it. The regulation defines, in particular, the content, timetable and publishing requirements for: - stability programmes, which must be submitted by the Member States adopting the single currency; - convergence programmes, which must be submitted by the Member States not adopting the single currency. The stability and convergence programmes are an essential basis for price stability and strong sustainable growth conducive to employment creation. In particular, they must provide details of: - the medium-term budgetary objective and adjustment path towards it, including the expected path for the government debt ratio; - the main assumptions about expected economic developments and the important economic variables likely to effect the stability programmes, such as public investment expenditure, real GDP growth, employment and inflation; - the budgetary measures and other measures on economic policy implemented or envisaged to achieve the objective; - an assessment of the effect that any change in the main assumption about the economy would have on the budget situation and deficit. Furthermore, the convergence programmes should provide information on the medium-term objectives for monetary policy and the relationship between those objectives and price stability and exchange rates. The stability and convergence programmes are to be submitted before 1 March 1999. After that date, updated programmes should be presented every year. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

Following the conclusions of the European Council in Amsterdam on 16 and 17 June, the Council formally adopted without debate the Regulation forming part of the Stability and Growth Pact. ?

Surveillance of budgetary positions and surveillance and coordination of economic policies

The Commission presented a report to the Council pursuant to Article 11(2) of Regulation (EC) No 1466/97 on the enhanced surveillance mission in Romania.

Background: as a consequence of the significant deviation from its medium-term budgetary objective (MTO) in 2016, a Significant Deviation Procedure (SDP) was launched for Romania in spring 2017. The Member State's structural deficit increased to 2.5% of GDP in 2016, from below 1% in 2015, due to significant cuts in indirect taxes and increases in public sector wages.

As a consequence, on 22 May 2017, the Commission issued a warning to Romania and proposed to the Council to launch a SDP. In its SDP recommendation, approved on 16 June 2017, the Council asked Romania to take measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2017. This corresponds to an annual structural adjustment of 0.5% of GDP, which is the minimum effort required under the preventive arm of the Stability and Growth Pact (SGP). It translates into a need for corrective measures equivalent to 1.8% of GDP in 2017, as compared to the baseline from the Commission's spring 2017 economic forecast.

Romania has reported to the Council on the action taken in response to the Council recommendation by 15 October 2017. The Commission is now assessing the content of Romania's submission.

The enhanced surveillance mission by the Commission took place on 26-27 September 2017. The mission met the Minister of Finance Ionu?Mi?a, the governor of the National Bank of Romania Mugur Is?rescu, members of the Fiscal Council of Romania and members of the budgetary committees of the Romanian Parliament. The aim of the mission was to learn in detail about the fiscal actions planned by the Romanian authorities, to increase the visibility of the fiscal risks and to encourage compliance with the SGP. The mission also assessed fiscal developments and budget execution in 2017.

Main findings: it was understood that the Romanian authorities do not intend to act upon the SDP recommendation. The Minister of Finance confirmed that the target for 2017 remains the headline deficit of 3% of GDP, while a structural adjustment in 2017 is not a priority. In the 2017 budget rectification, adopted by the government in mid-September 2017, the headline deficit target has been kept at 2.96% of GDP, while the underlying macroeconomic projection improved. This indicates a deterioration of the underlying structural deficit as compared to the original 2017 budget, which already planned an expansionary fiscal stance. The Minister of Finance argued that the SDP recommendation came late in the year, leaving limited scope to implement the recommended structural adjustment. The recently adopted 2017 budget rectification also raises concerns as to the quality of public finances.

The Minister of Finance stated two objectives for 2018:

- a primary objective of maintaining a headline deficit of 3% of GDP;
- a secondary objective, a reduction in the structural deficit by 0.5% of GDP.

The mission observed that, given the positive and increasing output gap, keeping the headline deficit at 3% of GDP in 2018 would imply a deterioration in the structural fiscal position. According to the Commission projections, following the usual no-policy change scenario, the headline deficit is likely to increase in 2018 to substantially above 3% of GDP, driven by further significant increases in public wages.

To achieve the stated 2018 targets, the authorities plan to:

- shift social contributions entirely onto employees, in order to cushion the fiscal impact of the Unified Wage Law. The intention is to increase the social contributions rate paid by employees on their gross wages;
- accompany that shift with a cut of the overall social contributions rate, from the current 22.75% for employers and 16.5% for employees to 36% for employees, and to cut the Personal Income Tax rate from 16% to either 12% or 10%;
- consider a reversal of the 2008 pension reform, which introduced the second pension pillar. The authorities are considering a reduction of the transfer of social contributions to the second pension pillar, which under European System of Accounts (ESA) rules is classified outside of general government. Those transfers amount to around 0.8% of GDP annually. Such a measure would decrease the fiscal deficit in the short term. However, that fiscal gain would dissipate in the long term as the social contributions diverted from the second pillar would be accompanied by an obligation to pay old-age pensions in the future. In addition, such a reversal could have negative implications for the viability of the pensions system and for the development of capital markets.

According to the Fiscal Council, the structural deficit will substantially deteriorate in 2018 and the headline deficit is projected to breach the 3% of GDP threshold in the absence of countervailing fiscal measures.

Surveillance of budgetary positions and surveillance and coordination of economic policies

The Commission presented a report to the Council on the enhanced monitoring mission carried out on 10 and 11 April 2018 in Romania pursuant to Article 11(2) of Regulation (EC) No 1466/97.

Background: as a consequence of the significant deviation from its medium-term budgetary objective (MTO) in 2016, a Significant Deviation Procedure (SDP) was launched for Romania in spring 2017.

On 22 May 2017, the Commission issued a warning to Romania and proposed to the Council to launch a SDP. In its SDP recommendation, of 16 June 2017, the Council asked Romania to take measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2017.

In December 2017, the Council concluded that no effective action had been taken by Romania and issued a revised recommendation. The Council asked Romania to take measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018, corresponding to an annual structural adjustment of 0.8% of GDP in 2018. Romania reported to the Council on action taken on 20 April, after the 15 April deadline.

According to the Commission projections, both the headline and structural deficit are likely to increase in 2018. The expansionary fiscal policy is set to continue in the near future. The 2018 budget aims at a general government deficit of 3% of GDP, which implies a further increase of the structural deficit in the presence of an increasing output gap. However, the budget was built on an optimistic macroeconomic scenario and likely overestimates tax revenues. The Commission projects a headline deficit of 3.4% of GDP in 2018.

Findings of the enhanced monitoring mission: the members of the Commission's enhanced monitoring mission, which took place on 10-11 April 2018, concluded that the Romanian authorities did not intend to fact upon the SDP recommendation. Minister Teodorovici, speaking on behalf of the Ministry of Finance and the Government, confirmed that the target for 2018 remains a headline deficit of just below 3% of GDP. Given a positive and widening output gap, this implies a deterioration of the underlying structural deficit, contrary to the Council recommendation.

The government is considering a further reversal of the 2008 systemic pension reform, which introduced the second pension pillar. The authorities have already reduced, as part of the 2018 budget, the share of social contributions transferred to the second pension pillar. According to public statements, the government is considering to make the transfers to the second pension pillar optional, and to make a decision by end-June 2018, after consultation with stakeholders. Those transfers amount to around RON 7 billion annually (around EUR 1.5 billion; 0.8% of GDP). Such a measure would decrease the fiscal deficit in the short term, as the second pension pillar is classified outside the general government under ESA. However, that fiscal gain would dissipate in the long term as the social contributions diverted from the second pillar would be accompanied by an obligation to pay old-age pensions in the future.

The National Bank of Romania (NBR) expressed concerns regarding the impact of the expansionary, pro-cyclical fiscal policy on the current policy-mix. Romania is in the middle of a large economic upswing while the fiscal position of Romania has been highly expansionary. As such, Romania's fiscal policy appears imprudent and strongly conditions monetary policy.

The Fiscal Council shared the Commission's concerns regarding the fiscal outlook. According to the Fiscal Council, the structural deficit will substantially deteriorate in 2018 and the headline deficit is projected to breach the 3% of GDP threshold in the absence of countervailing fiscal measures.