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(Information)

COUNCIL

COMMON POSITION (EC) No 27/2005

adopted by the Council on 21 June 2005

with a view to adopting Council Regulation (EC) No …/2005 of … amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

(2005/C 188 E/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 99(5) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Central Bank [1],

Acting in accordance with the procedure laid down in Article 252 of the Treaty [2],

Whereas:

(1) The Stability and Growth Pact initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [3], Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [4] and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact [5]. The Stability and Growth Pact has proven its usefulness in anchoring fiscal discipline, thereby contributing to a high degree of macroeconomic stability with low inflation and low interest rates, which is necessary to induce sustainable growth and employment creation.

(2) On 20 March 2005, the Council adopted a report entitled 'Improving the implementation of the Stability and Growth Pact' which aims to enhance the governance and the national ownership of the fiscal framework by strengthening the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguard the sustainability of public finances in the long run, to promote growth and to avoid imposing excessive burdens on future generations. The report was endorsed by the European Council in its conclusions of 23 March 2005 [6], which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part.

(3) According to the 20 March 2005 Ecofin report endorsed by the Spring 2005 European Council, the Member States, the Council and the Commission reaffirm their commitment to implement the Treaty and the Stability and Growth Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness in the rules of the Pact.

(4) Regulation (EC) No 1466/97 needs to be amended in order to allow the full application of the agreed improvement of the implementation of the Stability and Growth Pact.

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(1) OJ C 144, 14.6.2005, p. 17.
(2) Opinion of the European Parliament of 9 June 2005 (not yet published in the Official Journal), Council common position of 21 June 2005 and position of the European Parliament of … (not yet published in the Official Journal).
(3) OJ L 209, 2.8.1997, p. 1.
(4) OJ L 209, 2.8.1997, p. 6.
(5) OJ C 236, 2.8.1997, p. 1.
(6) Annex 2 of conclusions of the European Council of 22 and 23 March 2005.

(5) The Stability and Growth Pact lays down the obligation for Member States to adhere to the medium-term objective for their budgetary positions of 'close to balance or in surplus' (CTBOIS). In the light of the economic and budgetary heterogeneity in the Union, the medium-term budgetary objective should be differentiated for individual Member States, to take into account the diversity of economic and budgetary positions and developments as well as that of fiscal risk to the sustainability of public finances, also in the face of prospective demographic changes. The medium-term budgetary objective may diverge from CTBOIS for individual Member States. For euro area and ERM2 Member States, there would thus be a defined range for the country-specific medium-term budgetary objectives, in cyclically adjusted terms, net of one-off and temporary measures.

(6) A more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in economic good times should be achieved, with the objective to avoid pro-cyclical policies and to gradually reach the medium-term budgetary objective. Adherence to the medium-term budgetary objective should allow Member States to deal with normal cyclical fluctuations while keeping the government deficit below the 3 % of GDP reference value and ensure rapid progress towards fiscal sustainability. Taking this into account, it should allow room for budgetary manoeuvre, in particular for public investment.

(7) Member States that have not yet reached their medium-term budgetary objective should take steps to achieve it over the cycle. In order to reach their medium-term budgetary objective, Member States of the euro zone or of ERM2 should pursue a minimum annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures.

(8) In order to enhance the growth-oriented nature of the Pact, major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances, should be taken into account when defining the adjustment path to the medium-term budgetary objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it. In order not to hamper structural reforms that unequivocally improve the long-term sustainability of public finances, special attention should be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar, because these reforms entail a short-term deterioration of public finances during the implementation period.

(9) Deadlines set for the examination of stability and convergence programmes by the Council should be extended in order to allow for a thorough assessment of stability and convergence programmes,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1466/97 is hereby amended as follows:

1. The following heading and Article shall be inserted:

   'SECTION 1A

   MEDIUM-TERM BUDGETARY OBJECTIVES'

   '*Article 2a*

   Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives may diverge from the requirement of a close to balance or in surplus position. They shall provide a safety margin with respect to the 3 % of GDP government deficit ratio; they shall ensure rapid progress towards sustainability and, taking this into account, they shall allow room for budgetary manoeuvre, considering in particular the need for public investment.

   Taking these factors into account, for Member States that have adopted the euro and for ERM2 Member States, the country-specific medium-term budgetary objectives shall be specified within a defined range between — 1 % of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures.

   A Member State's medium-term budgetary objective can be revised when a major structural reform is implemented and in any case every four years.'

2. Article 3(2) is hereby amended as follows:

   (a) point (a) shall be replaced by the following:

      '(a) the medium-term budgetary objective and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio;'

(b) point (c) shall be replaced by the following:

'(c) a detailed and quantitative assessment of the budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, comprising a detailed cost-benefit analysis of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth;'

(c) the following point shall be added:

'(e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.'

3. Article 5 is hereby amended as follows:

(a) the first subparagraph of paragraph 1 shall be replaced by the following subparagraphs:

'1. Based on assessments by the Commission and the Committee set up by Article 114 of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 99 of the Treaty, examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective over the cycle.

The Council, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues the annual improvement of its cyclically-adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark. The Council shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council shall take into account the implementation of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall 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.'

(b) in paragraph 2, the words 'two months' shall be replaced by the words 'three months'.

4. Article 7(2) is hereby amended as follows:

(a) point (a) shall be replaced by the following:

'(a) the medium-term budgetary objective and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio; the medium-term monetary policy objectives; the relationship of those objectives to price and exchange rate stability;'

(b) point (c) shall be replaced by the following:

'(c) a detailed and quantitative assessment of the budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, comprising a detailed cost-benefit analysis of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth;'

(c) the following point shall be added:

'(e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.'

5. Article 9 is hereby amended as follows:

   (a) the first subparagraph of paragraph 1 shall be replaced by the following subparagraphs:

   ‘1. Based on assessments by the Commission and the Committee set up by Article 114 of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 99 of the Treaty, examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective over the cycle.

   The Council, when assessing the adjustment path towards the medium-term budgetary objective, shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times. For ERM2 Member States, the Council shall examine if the Member State concerned pursues the annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark.

   When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council shall take into account the implementation of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances.

   Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall 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.’

   (b) in paragraph 2, the words ‘two months’ shall be replaced by the words ‘three months’.

6. References to Articles 103 and 109c of the Treaty are replaced throughout the Regulation by references to Articles 99 and 114 respectively.

Article 2

This Regulation shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at …

For the Council

The President

…

STATEMENT OF THE COUNCIL'S REASONS

I. INTRODUCTION

On 20 March 2005, the Council (ECOFIN) adopted a report on 'Improving the implementation of the Stability and Growth Pact'. The European Council, meeting on 22 and 23 March, endorsed the Council report and invited the Commission to bring forward proposals for amending Regulations (EC) No 1466/97 and (EC) No 1467/97.

The Commission adopted on 20 April 2005 its proposal for a Council Regulation amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

The European Central Bank delivered its opinion on 3 June 2005 ([1]). The European Parliament delivered its opinion on 9 June 2005 ([2]).

On 21 June 2005 the Council adopted its common position pursuant to Article 252(a) of the Treaty.

II. OBJECTIVE

The objective of the amending Regulation is to translate the pertinent changes to the legal framework, as agreed in the Council report, into the legislative framework.

III. ANALYSIS OF THE COMMON POSITION

The overall approach taken by the Council in examining the Commission's proposal has been to remain as close as possible to the Council's report of 20 March. Certain passages of the report are reproduced in the Regulation so as to provide the appropriate level of legal certainty, while others need not be reproduced since they can either stand on their own as political commitments or are covered in the revised Code of Conduct for the implementation of the Pact as a whole.

With a view to facilitating Parliament's work towards a rapid completion of its second reading, the Annex to this note provides a comprehensive explanation of the reasoning behind the handling of all individual amendments to the Commission proposal, both those adopted by the Parliament and those introduced by the Council.

IV. CONCLUSIONS

The approach of remaining as close as possible to the text of the Council report is the one that the Council feels gives the best chance of rapid agreement on the relevant texts, since it reproduces an agreement already achieved at the level of the European Council. It also offers the best possibility for rapid and coherent implementation of the revised Stability and Growth Pact.

([1]) OJ C 144, 14.6.2005, p. 17.
([2]) Not yet published in the Official Journal.

ANNEX

Council and European Parliament amendments to the Commission proposal

Amendment	*Justification*
Recital 2:	
At the end of recital 2, the text in bold was added: 'The report was endorsed by the European Council in its conclusions of 23 March 2005, which stated that the report updates and complements the Stability and Growth Pact, **of which it is now an integral part**'.	This change was introduced in order to clarify the status of the 20 March 2005 report, as an integral part of the Stability and Growth Pact, on a par with the Amsterdam Resolution of the European Council on the Stability and Growth Pact.
Recital 2A:	
The European Parliament proposed a new recital 2A, reading as follows: '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'.	This amendment was not accepted for the following reason: The issue of the quality, reliability and timeliness of fiscal statistics does not fall within the remit of Regulation (EC) No 1466/97. Regulation (EC) No 3605/93 contains the relevant definitions and timetable for the purpose of the excessive deficit procedure. Regulation (EC) No 3605/93 is currently in the process of being amended specifically to address quality aspects and strengthen monitoring in the context of the excessive deficit procedure.
Recital 2B:	
The European Parliament proposed a new recital 2B, reading as follows: 'The Commission should compare the figures submitted to it by the Member States with the reports of the national central banks to the ECB'.	This amendment was not accepted for the following reason: In practice, a comparison of such data is already happening through the representation of national central banks and the European Central Bank in the Economic and Financial Committee, which plays a key role in the multilateral fiscal surveillance process.
Recital 3:	
Recital 3 was redrafted.	This recital was amended to place more emphasis on Member States 'renewed commitment to observe the rules of the Stability and Growth Pact and to emphasise Member States' responsibilities under the Stability and Growth Pact.
Recital 5:	
Recital 5 is a re-drafted and completed version of recital 6 — Commission proposal.	The revised recital 5 presents more clearly the principle of country-specific medium-term budgetary objectives and the underlying economic rationale, while also clarifying that the medium-term budgetary objective for each Member State is based on the underlying requirement to remain close to balance or in surplus.

Amendment	*Justification*
Recital 6:	
Recital 6 is a redrafted and completed version of recital 5 — Commission proposal.	The revised recital 6 more clearly states the economic rationale for reaching and adhering to the medium-term budgetary objective.
Article 2A:	
Article 2A has been redrafted by the Council. The Euorpean Parliament's suggested drafting was as follows: 'Medium-term objectives of budgetary positions close to balance or in surplus shall be set for every Member State in the framework of the procedure referred to in Article 99(2) of the Treaty. These medium-term budgetary objectives shall be reviewed **at least annually and whenever major structural and budgetary reforms are undertaken** and, where appropriate, revised. **Each Member State could establish an economic council of wise people who would advise on the main macroeconomic projections.** These country-specific medium-term budgetary objectives shall be set at a level which allows Member States to deal with normal cyclical fluctuations while keeping the government deficit below the 3 % of GDP reference value, ensure rapid progress towards fiscal sustainability and, taking this into account, allow room for budgetary manoeuvre, in particular for public investment.'	As Article 2A is 'definitional', the procedural element (in the framework of the procedure referred to in Article 99(2) of the Treaty) has been moved to Articles 3 and 5. The revised Article 2A specifies that medium-term budgetary objectives may vary from country to country, but that they are confined to a defined range (applicable to euro area and ERM2 Member States), from — 1 % of GDP to balance or surplus. The revised Article 2A states that the medium-term budgetary objective is defined in cyclically-adjusted terms, and net of one-off and other temporary measures. Finally, the revised Article 2A clarifies the procedure for revising the medium-term budgetary objective (when a major structural reform is implemented and in any case every four years). This establishes the medium-term objectives as structural parameters that reflect structural characteristics of Member States (notably potential growth, current debt stock, implicit liabilities) and their relatively slow evolution: hence the four-year cycle for their revision. The proposal to establish a council of 'wise people' is fully compatible with the 20 March 2005 Council report, which calls upon Member States to enhance the role of independent budgetary institutions at the national level, but its optional nature is more suitable for a political declaration than a Regulation.
Article 3(2)(a):	
According to the revised article, the stability programme shall also present the medium-term budgetary objective.	This amendment clarifies the procedure for setting the medium-term budgetary objective. Member States will present their medium-term objective, set according to the principles of Article 2A, in their stability programmes. The Council will then examine whether the medium-term budgetary objective has been set at the appropriate level and it may ask a Member State to adjust its stability programme if it reaches the conclusion that the medium-term objective is not set at the appropriate level (see Article 5).
Article 3(2):	
A point (e) is added, on the basis of which stability programmes shall provide the following information: 'if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective'.	In line with the underlying objective of strengthening the preventive arm of the Stability Pact, the monitoring of Member States' efforts to achieve their medium-term budgetary objective is reinforced.

Amendment	*Justification*

Article 4(1):

In Article 4(1), the European Parliament has proposed the following amendment: 'Stability programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually for a period of two years. A Member State adopting the single currency at a later stage shall submit a stability programme within six months of the Council Decision on its participation in the single currency.'	This amendment was not accepted for the following reason: An efficient and effective implementation of the process of multilateral fiscal surveillance requires that stability programmes be submitted and assessed on an annual basis.

Article 5(1):

In Article 5(1), three elements are added to the original Commission proposal.	First, it is clarified that in order to assess whether Member States pursue a sufficient budgetary adjustment in order to reach their medium-term objective, an adjustment effort of 0,5 % of GDP will serve as a benchmark. Second, it is clarified that deviations from the medium-term budgetary objective or from the adjustment path towards the objective on the basis of the implementation of structural reforms are conditional on the preservation of an appropriate safety margin with respect to the deficit reference value and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period. Furthermore, the amendment clarifies that under the same conditions, multi-pillar pension reforms introducing a fully-funded second pillar outside the control of the government sector but diverting social contributions from it, are eligible reforms that allow deviations from the medium-term budgetary objective or the adjustment path towards this objective.

Article 5(1):

In Article 5(1)(1), the European Parliament has proposed the following amendment: 'Based on assessments by the Commission and the Committee set up by Article 114 of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 99, examine whether the adjustment path in the programme is sufficiently ambitious, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective. **For this purpose the Commission shall undertake financial auditing missions in the countries.**'	This amendment was not accepted for the following reason: Proposed amendments to Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure address this issue and will define the objectives and content of dialogue visits and methodological visits by the European Commission (Eurostat) to the Member States.

Amendment	*Justification*
Article 5(2):	
In Article 5(2), the European Parliament has proposed the following amendment: 'The Council shall carry out the examination of the stability programme referred to in paragraph 1 within at most three months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee set up by Article 109c, shall deliver an opinion on the programme. Where the Council, in accordance with Article 103, 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, in its opinion, invite the Member State concerned to adjust its programme.'	This amendment was not accepted for the following reason: The amendment proposed by the European Parliament could be understood to imply that a Council request to strengthen the adjustment path is conditional on the prevalence of economic good times. This is clearly not the case. The process of revision of budgetary objectives foreseen by this Article entails that Member States may be asked to strengthen notably the medium-term objective itself or the adjustment path to it whenever this is possible given the prevailing circumstances, and not only in economic good times. Thus, consolidation when feasible is the overarching policy objective, and consolidation in economic good times is subjugated to this more general requirement.
Article 6(1):	
In Article 6(1), the European Parliament has proposed the following amendment: 'As part of multilateral surveillance in accordance with Article 99(3), the Council shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Committee set up by Article 109c, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit, **and of the expected path of the general government debt ratio**.' Similar amendments proposed for Articles 6(2) and 6(3) are rejected for the same reasons.	This amendment was not accepted for the following reason: The Council report on 'Improving the implementation of the Stability and Growth Pact' states in part 3.5 that there should be increased focus on debt and sustainability. The Council concluded that the debt surveillance framework should be strengthened and that no change to the existing Regulations is required to that effect.
Article 7(2)(a):	
According to the revised article, the convergence programme shall also present the medium-term budgetary objective.	See Article 3(2)(a) above
Article 7(2):	
A point (e) is added, on the basis of which convergence programmes shall provide the following information: 'if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective'.	See Article 3(2) above.

Amendment	*Justification*
Article 9(1):	
In Article 9(1), three elements are added to the original Commission proposal.	First, it is clarified that in order to assess whether Member States pursue a sufficient budgetary adjustment in order to reach their medium-term objective, an adjustment effort of 0,5 % of GDP will serve as a benchmark. Second, it is clarified that deviations from the medium-term budgetary objective or from the adjustment path towards the objective on the basis of the implementation of structural reforms are conditional on the preservation of an appropriate safety margin with respect to the deficit reference value is and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period. Furthermore, the amendment clarifies that under the same conditions, multi-pillar pension reforms introducing a fully-funded second pillar outside the control of the government sector but diverting social contributions from it, are eligible reforms that allow deviations from the medium-term budgetary objective or the adjustment path towards this objective.