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(Acts whose publication is obligatory)

COUNCIL REGULATION (EC) No 1055/2005

of 27 June 2005

amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

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.

(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 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.

([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 (not yet published in the Official Journal) and Decision of the European Parliament of 23 June 2005 (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.

(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 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 needs 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 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 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, 'two months' shall be replaced by 'three months';

4. Article 7(2) is 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 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 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, 'two months' shall be replaced by '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 Luxembourg, 27 June 2005.

For the Council

The President

J.-C. JUNCKER