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**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**

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**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**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article ►**M1** 99 ◀ (5) thereof,

Having regard to the proposal from the Commission <sup>(1)</sup>,

Acting in accordance with the procedure referred to in Article 189c of the Treaty <sup>(2)</sup>,

- (1) Whereas 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;
- (2) Whereas the Stability and Growth Pact consists of this Regulation which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies, of Council Regulation (EC) No 1467/97 <sup>(3)</sup> which aims to speed up and to clarify the implementation of the excessive deficit procedure and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact <sup>(4)</sup>, in which, in accordance with Article D of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective of budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;
- (3) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 104c of the Treaty, under a clear Treaty obligation to avoid excessive general government deficits; whereas under Article 5 of Protocol (No 11) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland to the Treaty, Article 104c(1) does not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 109e(4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;
- (4) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus will allow Member States to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;
- (5) Whereas it is appropriate to complement the multilateral surveillance procedure of Article ►**M1** 99 ◀ (3) and (4) with an early warning system, under which the Council will alert a Member State at an early stage to the need to take the necessary budgetary corrective action in order to prevent a government deficit becoming excessive;
- (6) Whereas the multilateral surveillance procedure of Article ►**M1** 99 ◀ (3) and (4) should furthermore continue to monitor the full range of economic developments in each of the Member

<sup>(1)</sup> OJ No C 368, 6. 12. 1996, p. 9.

<sup>(2)</sup> Opinion of the European Parliament of 28 November 1996 (OJ No C 380, 16. 12. 1996, p. 28), Council Common Position of 14 April 1997 (OJ No C 146, 30. 5. 1997, p. 26) and Decision of the European Parliament of 29 May 1997 (OJ No C 182, 16. 6. 1997).

<sup>(3)</sup> See p. 6 of this Official Journal

<sup>(4)</sup> OJ No C 236, 2. 8. 1997, p. 1.

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States and in the Community as well as the consistency of economic policies with the broad economic guidelines referred to in Article ►MI 99 ◀ (2); whereas for the monitoring of these developments, the presentation of information in the form of stability and convergence programmes is appropriate;

- (7) Whereas there is a need to build upon the useful experience gained during the first two stages of economic and monetary union with convergence programmes;
- (8) Whereas the Member States adopting the single currency, hereafter referred to as 'participating Member States', will, in accordance with Article 109j, have achieved a high degree of sustainable convergence and in particular a sustainable government financial position; whereas the maintenance of sound budgetary positions in these Member States will be necessary to support price stability and to strengthen the conditions for the sustained growth of output and employment; whereas it is necessary that participating Member States submit medium-term programmes, hereafter referred to as 'stability programmes'; whereas it is necessary to define the principal contents of such programmes;
- (9) Whereas the Member States not adopting the single currency, hereafter referred to as 'non-participating Member States', will need to pursue policies aimed at a high degree of sustainable convergence; whereas it is necessary that these Member States submit medium-term programmes, hereafter referred to as 'convergence programmes'; whereas it is necessary to define the principal contents of such convergence programmes;
- (10) Whereas in its Resolution of 16 June 1997 on the establishment of an exchange-rate mechanism in the third stage of Economic and Monetary Union, the European Council issued firm political guidelines in accordance with which an exchange-rate mechanism is established in the third stage of EMU, hereafter referred to as 'ERM2'; whereas the currencies of non-participating Member States joining ERM2 will have a central rate *vis-à-vis* the euro, thereby providing a reference point for judging the adequacy of their policies; whereas the ERM2 will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets; whereas, so as to enable appropriate surveillance in the Council, non-participating Member States not joining ERM2 will nevertheless present policies in their convergence programmes oriented to stability thus avoiding real exchange rate misalignments and excessive nominal exchange rate fluctuations;
- (11) Whereas lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability;
- (12) Whereas it is necessary to lay down a timetable for the submission of stability programmes and convergence programmes and their updates;
- (13) Whereas in the interest of transparency and informed public debate it is necessary that Member States make public their stability programmes and their convergence programmes;
- (14) Whereas the Council, when examining and monitoring the stability programmes and the convergence programmes and in particular their medium-term budgetary objective or the targeted adjustment path towards this objective, should take into account the relevant cyclical and structural characteristics of the economy of each Member State;
- (15) Whereas in this context particular attention should be given to significant divergences of budgetary positions from the budgetary objectives of being close to balance or in surplus; whereas it is appropriate for the Council to give an early warning in order to prevent a government deficit in a Member State becoming excessive; whereas in the event of persistent budgetary slippage it will be appropriate for the Council to reinforce its recommendation

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and make it public; whereas for non-participating Member States the Council may make recommendations on action to be taken to give effect to their convergence programmes;

- (16) Whereas both convergence and stability programmes lead to the fulfilment of the conditions of economic convergence referred to in Article 104c,

HAS ADOPTED THIS REGULATION:

## SECTION 1

**PURPOSE AND DEFINITIONS***Article 1*

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies.

*Article 2*

For the purpose of this Regulation ‘participating Member States’ shall mean those Member States which adopt the single currency in accordance with the Treaty and ‘non-participating Member States’ shall mean those which have not adopted the single currency.

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## 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.

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## SECTION 2

**STABILITY PROGRAMMES***Article 3*

1. Each participating Member State shall submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article ►**M1** 99 ◀ of the Treaty in the form of a stability programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.

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2. A stability programme shall present the following information:

**▼M1**

(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;

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(b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the stability programme such as government investment expenditure, real gross domestic product (GDP) growth, employment and inflation;

**▼M1**

(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;

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(d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;

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

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3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2 (a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

*Article 4*

1. Stability programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually. 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.

2. Member States shall make public their stability programmes and updated programmes.

*Article 5***▼M1**

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.

▼ **M1**

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.

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The Council shall furthermore examine whether the contents of the stability programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the stability programme referred to in paragraph 1 within at most ► **M1** 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 ► **M1** 114 ◀, shall deliver an opinion on the programme. Where the Council, in accordance with Article ► **M1** 99 ◀, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated stability programmes shall be examined by the Committee set up by Article ► **M1** 114 ◀ on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

*Article 6*

1. As part of multilateral surveillance in accordance with Article ► **M1** 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 ► **M1** 114 ◀, 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.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to giving early warning in order to prevent the occurrence of an excessive deficit, address, in accordance with Article ► **M1** 99 ◀ (4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article ► **M1** 99 ◀ (4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provides in that Article, make its recommendation public.

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## SECTION 3

## CONVERGENCE PROGRAMMES

*Article 7*

1. Each non-participating Member State shall submit to the Council and the Commission information necessary for the purpose of multilateral surveillance of regular intervals under Article ► **M1** 99 ◀ in the form of a convergence programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.

2. A convergence programme shall present the following information in particular on variables related to convergence:

▼ **M1**

(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;

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(b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;

▼ **M1**

(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;

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(d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;

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

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3. The information about paths for the general government surplus/deficit ratio, debt ratio and the main economic assumptions referred to in paragraph 2 (a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

*Article 8*

1. Convergence programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually.

2. Member States shall make public their convergence programmes and updated programmes.

*Article 9*▼ **M1**

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

▼ **M1**

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.

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The Council shall furthermore examine whether the contents of the convergence programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the convergence programme referred to in paragraph 1 within at most ► **M1** 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 ► **M1** 114 ◀, shall deliver an opinion on the programme. Where the Council, in accordance with Article ► **M1** 99 ◀, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated convergence programmes shall be examined by the Committee set up by Article ► **M1** 114 ◀ on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

*Article 10*

1. As part of multilateral surveillance in accordance with Article ► **M1** 99 ◀ (3), the Council shall monitor the implementation of convergence programmes on the basis of information provided by non-participating Member States in accordance with Article 7 (2) (a) of this Regulation and of assessments by the Commission and the Committee set up by Article ► **M1** 114 ◀ of the Treaty, 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.

In addition, the Council shall monitor the economic policies of non-participating Member States in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to given early warning in order to prevent the occurrence of an excessive deficit,

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address in accordance with Article ►**M1** 99 ◀ (4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article ►**M1** 99 ◀ (4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provided in that Article, make its recommendation public.

## SECTION 4

## COMMON PROVISIONS

*Article 11*

As part of the multilateral surveillance described in this Regulation, the Council shall carry out the overall assessment described in Article ►**M1** 99 ◀ (3).

*Article 12*

In accordance with the second subparagraph of Article ►**M1** 99 ◀ (4) the President of the Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out under this Regulation.

*Article 13*

This Regulation shall enter into force on 1 July 1998.

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