



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT**

Pursuant to the first subparagraph of Article 252 (b) of the EC-Treaty

**Common Position of the Council on the 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**

1. BACKGROUND

The Commission launched the debate on the reform of the Stability and Growth Pact (SGP) with its Communication of 3 September 2004 on “strengthening economic governance and clarifying the implementation of the Stability and Growth Pact”. On 20 March 2005, the Council reached political agreement on a reform of the SGP and adopted a report entitled “Improving the implementation of the Stability and Growth Pact”. The European Council endorsed this report in its conclusions of 23 March 2005, which stated that the report updates and complements the SGP. In these conclusions, the European Council invited the Commission to bring forward proposals for amending the Council Regulations (EC) 1466/97 and 1467/97 in accordance with the Council report.

The 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 was adopted by the Commission on 20 April 2005 and transmitted to the Council on 21 April 2005. It was accompanied by a Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. The reform package is completed with the contribution by the Commission services, on 3 May 2005, for the preparation by the Council of a revised Code of Conduct.

The Opinion of the European Parliament on first reading (Karas report) was adopted on 9 June 2005.

The Council adopted its Common Position on the proposed Regulation on 13 June 2005.

2. PURPOSE OF THE COMMISSION PROPOSAL

The object of the Commission Proposal is to amend Regulation (EC) No 1466/97 in order to allow the full application of the agreement on improving the implementation of the Stability and Growth Pact. The Commission proposal also includes a number of technical modifications to Regulation (EC) N° 1466/97 in order to ensure consistency with the Council report of 20 March 2005 and to smoothen the examination of Stability and Convergence Programmes.

3. COMMENTS ON THE COMMON POSITION

3.1 First reading by the European Parliament

The European Parliament adopted a series of amendments underlying the importance of reliable fiscal statistics – including the possibility for the Commission to undertake financial audit missions -, proposing to compare data provided by Member States with the one of national central banks and of the European Central Bank, reinforcing the monitoring of the achievement of the medium-term budgetary objectives (MTOs), and giving more emphasis on government debt dynamics in the assessment of stability and convergence programmes.

3.2 General observations on Common Position

Besides a number of mainly drafting changes, the Common Position differs from the Commission Proposal on the following issues:

- *The procedure for setting the country-specific medium-term objectives.* The agreement on the SGP reform foresees that MTOs will be differentiated across countries. Setting differentiated MTOs requires economic judgement, and consistent application of agreed principles. The latter can only be achieved if the MTOs are discussed in the context of a common procedure. The Commission had proposed (Article 2a of the Commission proposal) that the country-specific MTOs should be set in the context of the procedure referred to in Article 99 (2) of the Treaty. While agreeing on the need for a common procedure, the Council considered that the latter could be achieved if each Member State presents the MTO in its Stability or Convergence Programme, following a discussion in the Economic and Financial Committee. In their assessment and opinion on the programmes, the Commission and the Council would assess whether the MTOs presented by Member States are appropriate.
- *Taking into account pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar.* The Council introduced clarifying provisions on this issue in the Regulation (first paragraphs of Articles 5 and 9), specifying that Member States implementing such reforms should 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.
- For euro-area and ERM II Member States, insertion of a numerical value for the fiscal adjustment of countries which have not reached the MTO. The Commission had proposed to insert in the Regulation (first paragraph of Article 5) the principle of a minimum annual fiscal effort for countries which have not yet achieved the MTO, without specifying a value for this effort. The Council went further by inserting in the Regulation (first paragraphs of Articles 5 and 9) the numerical value of 0.5% of GDP as the benchmark for the annual improvement of cyclically-adjusted balance, net of one-offs and other temporary measures, to be pursued by euro-area and ERM II Member States which have not reached the MTO. This numerical value was mentioned in the Council report of 20 March 2005.
- *The range for the MTOs of euro-area and ERM II Member States.* The Commission proposal did not include any reference to a range for the MTOs. The Council decided to insert provisions in the Regulation (Article 2a) stating that, for euro-area and ERM II Member States, the country-specific MTO should be specified within a defined range between –1% of GDP and balance or surplus, in cyclically adjusted terms, net of one-offs and other temporary measures. This range was mentioned in the Council report of 20 March 2005.

The Council, in its Common Position, did not insert in the Regulation provisions reflecting the amendments adopted by the European Parliament. However, it should be noted that the changes adopted by the Council with respect to the Commission proposal go in the direction of further clarifying the implementation of the preventive part of the SGP, thereby are in line with the overall thrust of the amendments tabled by Parliament. Other changes envisaged by Parliament, namely those concerning the statistical field, have been considered by the Council in the finalisation of the legal acts more directly linked to public finance statistics.

3. CONCLUSIONS AND GENERAL REMARKS

The Commission considers that the Common Position of the Council includes all the essential elements of its original proposal and reflects an overall balanced compromise. It can accept all the changes made by the Council to its proposal. It deems that the inclusion of some amendments tabled by the European Parliament, in particular on the monitoring of the evolution of public debt, would have strengthened the proposed Regulation further. The proposed Regulation will contribute to the effective implementation of multilateral surveillance and economic policy coordination in the EU, especially in relation to budgetary policies.