



COMMISSION OF THE EUROPEAN COMMUNITIES

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2005/0064 (SYN)

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**

(presented by the Commission)

## **EXPLANATORY MEMORANDUM**

1. Meeting in Amsterdam on 17 June 1997, the European Council agreed on a Stability and Growth Pact in accordance with the principles and procedures of the Treaty. The European Council noted however in June 2004 the need to foster transparency and national ownership of the EU fiscal framework and to improve enforcement of its rules and provisions. The Commission issued a Communication on 3 September 2004 on “strengthening economic governance and clarifying the implementation of the Stability and Growth Pact” in which it provided an orientation for the future set-up of the Stability and Growth Pact and suggested enhancing its economic underpinnings and strengthening its credibility and enforcement.

Following the Commission Communication, the Council and the Commission engaged in discussions in order to reach consensus on a reform of the Stability and Growth Pact. On 20 March 2005, the Council adopted a report on “Improving the implementation of the Stability and Growth Pact”. In its report, the Council gave consideration to enhancing the governance and the national ownership of the fiscal framework, to strengthening the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguarding the sustainability of public finances in the long run, to promoting growth and to avoiding imposing excessive burdens on future generations.

On 22 and 23 March 2005 the European Council endorsed this report, stating that it updates and complements the Stability and Growth Pact, which consists of Council Regulations (EC) No 1466/97 and (EC) No 1467/97 and the Resolution of the European Council on the Stability and Growth Pact of 7 July 1997.

In the Presidency conclusions of its meeting of 22 and 23 March 2005, the European Council invited the Commission to bring forward proposals for amending the Council Regulations in accordance with the Council report, which expressed the Council’s preference for keeping changes to the existing Regulations to a minimum.

2. In addition to the amendments reflecting the agreement mentioned above, some amendments mainly of a technical nature are introduced to Regulation (EC) No 1466/97 in order to ensure consistency with the Council report. In particular, experience has shown that deadlines set for the examination of stability and convergence programmes by the Council were overly tight. An extension of these deadlines is proposed.

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 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<sup>1</sup>,

Acting in accordance with the procedure referred to in Article 252 of the Treaty,

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<sup>2</sup>, Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>3</sup> and the Resolution of 17 June 1997 on the Stability and Growth Pact<sup>4</sup>. The Stability and Growth Pact has proven its usefulness in anchoring budget deficits, 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<sup>5</sup>, which stated that the report updates and complements the Stability and Growth Pact.
- (3) The Stability and Growth Pact needs to be strengthened and its implementation clarified, with the aim of improving the coordination and monitoring of economic policies. In doing so, due account should be taken of changing circumstances, in

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<sup>1</sup> OJ C [...].

<sup>2</sup> OJ L 209, 2.8.1997, p. 1.

<sup>3</sup> OJ L 209, 2.8.1997, p. 6.

<sup>4</sup> OJ C 236, 2.8.1997, p. 1.

<sup>5</sup> See annex 2 of conclusions of the European Council of 22-23 March 2005.

particular the increased economic heterogeneity in the Community of 25 Members and the prospects of demographic changes.

- (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) Adherence to the medium-term budgetary objective will 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 will allow room for budgetary manoeuvre, in particular for public investment.
- (6) The medium-term budgetary objectives should be differentiated for individual Member States to take into account the diversity of economic and budgetary positions and prospects. The country-specific medium-term budgetary objectives should be set and revised regularly by the Council upon a recommendation of the Commission.
- (7) Member States that have not yet achieved the medium-term budgetary objective should pursue a minimum annual improvement of their cyclically-adjusted balance net of one-off and temporary measures. The improvement should be higher in economic good times; it could be more limited in bad times.
- (8) When examining and monitoring the stability and convergence programmes and in particular the medium-term budgetary objective or the targeted adjustment path towards it, the Council should 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. To this end, stability and convergence programmes should provide a description of major structural reforms and a comprehensive and detailed assessment of their quantitative effects on the budgetary position over time.
- (9) Deadlines set for the examination of stability and convergence programmes by the Council have been overly tight and should be extended.
- (10) Regulation (EC) No 1466/97 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

## *Article 1*

Regulation (EC) No 1466/97 of 7 July 1997 is amended as follows:

(1) The following article 2a is inserted:

### *“Article 2a*

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 regularly reviewed and, where appropriate, revised. 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.

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

(a) point (a) is replaced by the following:

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

(b) point (c) is replaced by the following:

“(c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures as well as major structural reforms, a comprehensive and detailed assessment of their quantitative effects on the budgetary position over the short-, medium- and long-term.”

(3) Article 5 is amended as follows:

(a) The first subparagraph of paragraph 1 is replaced by the following:

“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, 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. The Council, when assessing the adjustment path toward the medium-term budgetary objective, shall consider whether the Member State concerned pursues a minimum annual improvement of its cyclically-adjusted balance, net of one-off and other temporary measures and whether a larger improvement is pursued in economic good times. The Council shall also 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;”

(b) In paragraph 2, the words “two months” are replaced by the words “three months”.

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

(a) point (a) is replaced by the following:

“(a) the adjustment path towards the medium-term budgetary 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) is replaced by the following:

“(c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures as well as major structural reforms, a comprehensive and detailed assessment of their quantitative effects on the budgetary position over the short-, medium- and long-term.”

(5) Article 9 is amended as follows:

(a) The first subparagraph of paragraph 1 is replaced by the following:

“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, 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. The Council, when assessing the adjustment path toward the medium-term budgetary objective; shall consider whether the Member State concerned pursues a minimum annual improvement of its cyclically-adjusted balance, net of one-off and other temporary measures and whether a larger improvement is pursued in economic good times. The Council shall also 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;”

(b) In paragraph 2, the words “two months” are replaced by the words “three months”.

(6) References to Article 103 are replaced throughout the Regulation by references to Article 99.

*Article 2*

This Regulation shall enter into force on the twentieth day following that of publication in the *Official Journal of the European Communities*.

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

Done at Brussels,

*For the Council  
The President*