COUNCIL OF
THE EUROPEAN UNION

EN

Brussels, 8 November 2011
16446/11
PRESSE 413

Economic governance: Council adopts legal texts

The Council today[1] adopted a package of six legislative proposals aimed at strengthening economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the current turmoil on sovereign debt markets (*PE-CONS 28/11, 29/11, 30/11, 31/11, 14615/11, 14616/11, 15996/1/11 REV 1 ADD 1, 15998/11 ADD 1* + *16001/11 ADD 1* + *REV 2*).

Adoption of the so-called "six-pack" of governance measures follows a political agreement at the Council's meeting on 4 October on the basis of a compromise reached with the European Parliament. The texts were approved by the Parliament on 28 September.

The measures set out to ensure the degree of coordination necessary to avoid the accumulation of excessive imbalances and to ensure sustainable public finances. This will help enable the EU's monetary union to function properly in the long term.

They consist of:

– a regulation amending regulation 1466/97 on the surveillance of member states budgetary and economic policies;

– a regulation amending regulation 1467/97 on the EU's excessive deficit procedure;

– a regulation on the enforcement of budgetary surveillance in the euro area;

[1] The decision was taken without discussion at a meeting of the Economic and Financial Affairs Council.

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/Newsroom

– a regulation on the prevention and correction of macroeconomic imbalances;

– a regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;

– a directive on requirements for the member states' budgetary frameworks.

More specifically, the measures set out to:

- enhance budgetary discipline under the EU's Stability and Growth Pact, in order to ensure a satisfactory decline of public debt in the member states, as well as a decrease of high deficits to be followed by achieving ambitious, country-specific medium-term budgetary objectives (four proposals). This involves enhancing the surveillance of budgetary policies, introducing provisions on national fiscal frameworks, and applying enforcement for non-compliant euro area member states more consistently and at an earlier stage;

- broaden the surveillance of the member states' economic policies, so as to cater adequately for macroeconomic imbalances (two proposals). An alert mechanism is introduced for the early detection of imbalances, to be assessed using a "scoreboard" of economic indicators. An "excessive imbalance procedure" is also introduced, with enforcement for non-compliant member states.

Reform of the Stability and Growth Pact

The Stability and Growth Pact was adopted in 1997, prior to the creation of the euro, in order to ensure that fiscal discipline is maintained in the member states. It is aimed at ensuring that member states respect specified criteria for their annual budget deficits and public debt, for which the following reference values are set:

- 3% of GDP for annual budget deficits;

- 60% of GDP for public debt.

The new solutions are aimed at strengthening the provisions set for ensuring the respect of those criteria. They affect both the preventive arm of the pact, namely the procedures that are followed to ensure that excessive deficits are avoided, and the corrective arm of the pact, i.e. the procedure followed for the correction of excessive deficits. At the same time, the reform introduces new provisions with regard to the debt criterion of the pact.

– *Preventive arm of the pact*

To promote attainment by the member states of their medium term budgetary objectives (MTOs), the reform introduces an expenditure benchmark, which implies that annual expenditure growth should not exceed a reference medium-term rate of GDP growth. This is meant to ensure that revenue windfalls are not spent but instead allocated to debt reduction. If a euro area member state has not reached its MTO, a significant deviation in expenditure development from its reference expenditure growth path could eventually lead to sanctions in the form of interest-bearing deposits amounting to 0.2% of GDP.

– *Corrective arm of the pact (excessive deficit procedure)*

Greater emphasis is be placed on the debt criterion of the Stability and Growth Pact, with member states whose debt exceeds 60% of GDP (the EU's reference value for debt) required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below 3% of GDP (the EU's deficit reference value).

To determine whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold, a numerical benchmark is introduced. A debt-to-GDP ratio above 60% will thus be considered to be sufficiently diminishing if its distance with respect to the 60% reference value has decreased over the previous three years at an annual rate of one-twentieth. However, a decision to subject a country to the excessive deficit procedure will not only be based on the numerical benchmark, but will also take into account other relevant factors.

To strengthen the corrective arm of the Stability and Growth Pact, a new set of financial sanctions are introduced for euro-area member states; these will apply earlier on in the excessive deficit procedure, and using a graduated approach. A non-interest-bearing deposit amounting to 0.2% of GDP will apply once a decision has been taken to subject a country to the excessive deficit procedure, if an interest-bearing deposit has already been imposed under the preventive arm of the pact or if serious non-compliance is identified.

The deposit will be converted into a fine of 0.2% of GDP if the Council's initial recommendation for correcting the deficit has not been followed. Further non-compliance will result in the sanction being stepped up, in line with the existing provisions of article 126(11) of the EU treaty (maximum fine: 0.5% of GDP).

To trigger the sanctions more automatically than at present, a so-called reverse majority rule is introduced, whereby the Commission's proposal for imposing sanctions related to non-compliance with the Pact will be considered adopted unless the Council turns it down by qualified majority.

– *Budgetary frameworks at national level*

Alongside the reform of the Stability and Growth Pact, a draft directive sets out to ensure that the objectives of EU budgetary coordination are reflected in the member states' budgetary frameworks. Accounting, statistical and forecasting practices are brought into line with EU standards. Member states must adopt multi-annual fiscal planning to ensure that medium-term budgetary objectives set at EU level are achieved. They must also introduce rules to promote compliance with the deficit and debt thresholds.

Surveillance of economic policies

Beyond budgetary surveillance, the legislative package is aimed at broadening the surveillance of the member states' economic policies.

It establishes a mechanism for the prevention and correction of excessive macroeconomic imbalances, made up of two regulations which outline an "excessive imbalance procedure" and introduce the possibility of fines being imposed on member states found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

The starting point of the new framework is an alert mechanism for the early detection of imbalances, which will be assessed using a "scoreboard" of economic indicators. This will be followed by country-specific qualitative expert analysis.

If the imbalance is considered to be excessive, the member state concerned could be subject to an "excessive imbalance procedure", and would be called on to adopt a corrective action plan within a specific timeframe. The procedure gives the Council more flexibility in setting deadlines than the excessive deficit procedure in order to account for the less direct influence of government policies in addressing imbalances.

If the Council decides that the member state concerned has taken appropriate action, the procedure will be held in abeyance, and can be closed if the Council concludes that the imbalance is no longer considered to be excessive.

On the other hand, repeated non-compliance with the recommendations can in the case of euro area member states eventually lead to sanctions. Specifically, a decision to impose a yearly fine equal to 0.1% of the member state's GDP will be adopted through the "reverse majority" rule described above.