

Medlemmerne af Folketingets Europaudvalg
og deres stedfortrædere

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Dagsordenspunkt: ECOFIN's rapport til Det Europæiske Råd om 'forbedring af implementeringen af Stabilitets- og Vækstpagten'

Den udvidede eurogruppe med deltagelse af alle 25 EU-lande opnåede på et møde den 20. marts enighed om en aftale om 'forbedring af implementeringen af Stabilitets- og Vækstpagten' i form af en rapport (vedlagt) m.h.p. endossering på Det Europæiske Råd den 22.-23. marts 2005.

Aftalen sigter på en balance mellem dels øget fokus på fremskridt mod de mellemfristede budgetmålsætninger, især styrket budgetkonsolidering i gode tider, samt gældsreduktion og holdbarhed, og dels øget fleksibilitet i proceduren for uforholdsmæssigt store underskud, især i tilfælde af lav vækst.

Rapporten skal efterfølgende udmøntes i konkrete justeringer af Pagtens forordninger mv. på grundlag af forslag fra Kommissionen, som skal vedtages af ECOFIN.

Vedlagt: ECOFIN's rapport om 'forbedring af implementeringen af Stabilitets- og Vækstpagten' og redegørelse herom.

Redegørelse for ECOFIN's rapport til Det Europæiske Råd om 'forbedring af implementeringen af Stabilitets- og Vækstpagten'

Den udvidede eurogruppe med deltagelse af alle 25 EU-lande opnåede på et møde den 20. marts enighed om en aftale om Stabilitets- og Vækstpagten i form af en rapport m.h.p. endossering på Det Europæiske Råd den 22.-23. marts 2005.

Rapporten indeholder følgende hovedelementer:

1. Styrket governance

Rapporten fastslår en række vejledende principper for styrket 'governance' med fokus på styrket samarbejde og kommunikation mellem Rådet, Kommissionen og EU-landene, samt styrket kvalitet af statistik og prognoser.

2. Styrkelse af den præventive del af Stabilitets- og Vækstpagten

2.1 Den mellemfristede målsætning (MTO) om en budgetsaldo 'tæt på balance eller i overskud'

De mellemfristede budgetmålsætninger differentieres og kan afvige fra princippet om 'budgetter tæt på balance eller i overskud', idet MTO vil være lempeligere, desto lavere gæld og desto højere potentiel vækst. MTO bør altid indebære en tilstrækkelig sikkerhedsmargin i forhold til 3-procentsgrænsen for det faktiske underskud i det enkelte år. Landenes MTO'er kan revideres hvert fjerde år.

For eurolande og ERMII-lande gælder der, at lande med høj gæld eller lav potentiel vækst skal sigte på 'balance eller overskud', mens lande med lav gæld eller høj potentiel vækst kan have underskud på op til ca. 1% af BNP.

MTO bør inddrage fremtidige udgifter relateret til aldring, således at MTO fastlægges i lyset af den samlede finanspolitiske holdbarhed på lang sigt, når Rådet senere måtte træffe beslutning herom på grundlag af en Kommissions-rapport ultimo 2006.

2.2 Tilpasning til den mellemfristede målsætning (MTO)

EU-landene bør tage skridt til at overholde deres mellemfristede målsætning; indsatsen bør være større i gode tider, men kan være mere begrænset i dårlige tider.

Eurolande og ERM-II-lande bør sigte mod en årlig forbedring af den konjunkturrensede saldo på som udgangspunkt 0,5 pct. af BNP. Gode tider defineres som udgangspunkt som perioder, hvor output overstiger sit potentielle niveau.

Lande, der ikke følger denne tilpasning til MTO skal forklare årsagerne til deres afvigelse i deres stabilitets- og konvergensprogrammer. Kommissionen vil udstede direkte politikanbefalinger for at opfordre landene til at overholde princippet for tilpasning til MTO. Politikanbefalingerne erstattes af ('early warnings') i overensstemmelse med Forfatningstraktaten, når den træder i kraft.

2.3 Strukture reformer

Der tillades en midlertidig afvigelse fra MTO – eller afvigelse fra tilpasningen til MTO – for lande, der gennemfører visse strukturreformer, nemlig større reformer, der har direkte positive budgeteffekter på længere sigt, herunder ved at styrke vækstpotentialt. Der tages særligt hensyn til pensionsreformer med omlægninger fra offentlige skattefinansierede til fondsbaserede ordninger. Der bør altid være en sikkerhedsmargin i forhold til 3-procentsgrænsen.

3. *Forbedret gennemførelse af proceduren vedrørende uforholdsmæssigt store underskud (EDP):*

3.1 Kommissionens rapport vedr. iværksættelse af proceduren (artikel 104.3)

Rådet og Kommissionen er fast besluttet på at fastholde 3-procentskriteriet for underskuddet og 60-procentskriteriet for gælden. Traktaten (artikel 104.3) indebærer i tilfælde af en overskridelse af 3-procentskriteriet, at Kommissionen udarbejder en rapport, hvor der skal tages hensyn til alle 'relevante faktorer'. Rådet foreslår en klargøring af konceptet 'alle andre relevante faktorer'.

3.2 'Alvorligt økonomisk tilbageslag'

Definitionen på et exceptionelt økonomisk tilbageslag ændres, så et land kan få en undtagelse fra proceduren for uforholdsmæssigt store underskud, hvis der er en negativ real BNP-vækst eller et akkumuleret tab af output som følge af en længere periode, hvor væksten er lav i forhold til den potentielle vækst (den eksisterende regel indebærer undtagelse ved vækst på -2%, og mulig undtagelse ved vækst på -0,75%), idet underskuddet stadig skal være tæt på 3 pct. af BNP og overskridelsen midlertidig.

3.3 'Alle andre relevante faktorer'

Traktaten (artikel 104.3) indebærer i tilfælde af en overskridelse af 3-procentskriteriet, at "i Kommissionens rapport tages der ligeledes hensyn til, om det offentlige underskud overstiger de offentlige investeringsudgifter, samt til alle andre relevante forhold, herunder medlemsstatens økonomiske og budgetmæssige situation på mellemlang sigt".

Rapporten slår fast, at alle disse 'relevante faktorer' skal med i en balanceret overordnet vurdering.

Rapporten slår endvidere fast, at Kommissionens rapport skal tage hensyn til landets mellemfristede økonomiske situation (især potentiel vækst, konjunkturforhold, politikker på Lissabon-dagsordenen og politikker til fremme af R&D og innovation) og budgetmæssige situation (især indsats for budgetkonsolidering i gode tider, holdbarhed, offentlige investeringer og 'kvaliteten' af offentlige udgifter). Der vil endvidere blive taget hensyn til andre faktorer, som efter det pågældende lands opfattelse er relevante for en omfattende kvalitativ vurdering af overskridelsen af 3-procentsgrænsen. Der skal tages særligt hensyn til budgetmæssigt indsats for at øge eller fastholde et højt niveau for finansielle bidrag til fremme af international solidaritet og opnåelse af europæiske politikmål, herunder i særlig grad Europas samling, hvis den har en negativ effekt på vækst og de finanspolitiske byrder for en medlemsstat.

Der skal klart ikke laves nogen ny definition af referenceværdien for budgetunderskuddet via fratrækning af bestemte udgiftsposter.

Hensyntagen til de 'relevante faktorer' i de skridt i proceduren, der leder frem til beslutningen om, at der foreligger et uforholdsmæssigt stort underskud (fra 104.3 til 104.6) er fuldt betinget af – før der tages højde for andre relevante faktorer – det overordnede princip om, at overskridelsen skal være midlertidig og at underskuddet fortsat er tæt på 3 pct. af BNP.

De 'relevante faktorer' vil også blive vurderet i de videre trin i EDP, bortset fra 104.12, hvor Rådet beslutter, om landet har korrigeret det uforholdsmæssigt store underskud og ophæver proceduren.

3.4 Pensionsreformer

Rådet og Kommissionen vil, i vurderingen af, om et uforholdsmæssigt stort underskud er blevet korrigeret, vurdere underskuddet under hensyntagen til kortsigtede nettoomkostninger ved pensionsreformer med omlægninger fra offentlige skattefinansierede til fondsbase-rede ordninger. Vurderingen af underskuddet vil tage hensyn til omkostningerne i fem år, eller fem år efter 2004 for lande, der allerede har lavet sådanne reformer, med gradvis årlig udfasning, idet der tages hensyn til hhv. 100, 80, 60, 40 og 20 pct. af omkostningerne.

3.5 Øget fokus på gæld og holdbarhed

Rapporten slår fast, at der sættes øget fokus på Traktat-kriteriet om, at gælden ikke må overstige 60 pct. af BNP, medmindre den "mindskes tilstrækkeligt og nærmer sig referenceværdien med tilfredsstillende hastighed". Rådet vil give anbefalinger om gældsreduktion i sine udtalelser om stabilitets- og konvergensprogrammer.

3.6 Tidsfristerne for at gennemføre budgettiltag

Fristen for Rådets beslutning om eksistens af et uforholdsmæssigt stort underskud udskydes, så beslutningen skal træffes inden for fire måneder (i stedet for tre måneder) efter landenes indberetninger om offentlige finanser. Tidsfrist for at gennemføre budgettiltag i opfølgning på henstillinger under Traktatens 104.7 forlænges fra 4 til 6 måneder, Rådets frist for at følge en beslutning under Traktatens 104.8 (om efterlevelse af en henstilling) op med et pålæg under Traktatens 104.9 forlænges fra 1 til 2 måneder, og tidsfrist for tiltag i opfølgning på et pålæg under Traktatens 104.9 forlænges fra 2 til 4 måneder.

3.7 Tidsfrist for korrektion af et uforholdsmæssigt stort underskud

Der indføres mulighed for, at en henstillings tidsfrist for at bringe et underskud ned under 3 pct. af BNP gøres afhængig af alle andre relevante faktorer og som udgangspunkt fortsat fastsættes til 'året efter', eller ét år senere, afhængig 'særlige omstændigheder'.

Lande med uforholdsmæssigt store underskud bør som udgangspunkt sikre en årlig forbedring af den konjunkturrensede saldo på mindst 0,5 pct. af BNP, og tidsfristen vil tage højde herfor.

3.8 Revision af tidsfrister

Der indføres mulighed for, at Rådet – hvis et land har leveret de anbefalede budgettiltag, men ikke det anbefalede resultat på saldoen p.g.a. uventet lav vækst – kan vedtage en ny henstilling eller et nyt pålæg med en ny frist i stedet for at gå videre til næste trin i proceduren.



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 21 March 2005

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**UEM 97
ECOFIN 104**

REPORT

From : Council (ECOFIN)
To : European Council, 22-23 March 2005
Subject : Improving the implementation of the Stability and Growth Pact

Delegations will find attached the (ECOFIN) Council's report to the European Council "Improving the implementation of the Stability and Growth Pact" adopted at the extraordinary ECOFIN meeting on 20 March 2005.

Annex

Improving the implementation of the Stability and Growth Pact

- Council Report to the European Council –

This report presents proposals for strengthening and clarifying the implementation of the Stability and Growth Pact, with the aim of improving the coordination and monitoring of economic policies according to Article 99 of the Treaty and of avoiding excessive deficits as required by Article 104(1) of the Treaty.

The Council confirms that the Stability and Growth Pact, built on Treaty Articles 99 and 104, is an essential part of the macroeconomic framework of the Economic and Monetary Union. By requesting Member States to coordinate their budgetary policies and to avoid excessive deficits, it contributes to achieving macroeconomic stability in the EU and plays a key role in securing low inflation and low interest rates, which are essential contributions for delivering sustainable economic growth and job creation.

The Council recalls the Declaration on Article III-184 (annexed to the Final Act of the Constitution), which reaffirmed the European Council's commitment to the goals of the Lisbon Strategy - job creation, structural reforms, and social cohesion – and which stated on budgetary policy : “The Union aims at achieving balanced economic growth and price stability. Economic and budgetary policies thus need to set the right priorities towards economic reforms, innovation, competitiveness and strengthening of private investment and consumption in phases of weak economic growth. This should be reflected in the orientations of budgetary decisions at the national and Union level in particular through restructuring of public revenue and expenditure while respecting budgetary discipline in accordance with the Constitution and the Stability and Growth Pact.”

The two nominal anchors of the Pact - the 3% of GDP reference value for the deficit ratio and the 60% of GDP reference value for the debt ratio - have proven their value and continue to be the centrepiece of multilateral surveillance. However, the European Council noted in June 2004 the need to strengthen and to clarify the implementation of the Stability and Growth Pact, in order to foster transparency and national ownership of the EU fiscal framework and to improve enforcement of its rules and provisions.

The Pact has to be applied across countries in a fair and consistent way and be understood by public opinion. The Council reaffirms that a rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. In strengthening and clarifying the Pact it is essential to secure a proper balance between the higher degree of economic judgement and policy discretion in the surveillance and co-ordination of budgetary policies and the need for keeping the rules-based framework simple, transparent and enforceable.

However, in a European Union of 25 countries, characterised by considerable heterogeneity and diversity and given the experience of 5 years in EMU, an enriched common framework with a stronger emphasis on the economic rationale of its rules would allow to better cater for differences in economic situations across the EU. The objective is therefore to enhance the economic underpinnings of the existing framework and thus strengthen credibility and enforcement. The aim is not to increase the rigidity or flexibility of current rules but rather to make them more effective.

On this basis, the reform aims at better responding to the shortcomings experienced so far through greater emphasis to economic developments and an increased focus on safeguarding the sustainability of public finances. Also, the instruments for EU economic governance need to be better interlinked in order to enhance the contribution of fiscal policy to economic growth and support progress towards realising the Lisbon strategy.

Following the Commission Communication of 3 September 2004 on “Strengthening economic governance and clarifying the implementation of the Stability and Growth Pact”, the Council has worked in order to make concrete proposals for a reform of the Stability and Growth Pact.

The Council, in reviewing the Stability- and Growth-Pact provisions, detected mainly five areas where improvements could be made:

- (i) enhance the economic rationale of the budgetary rules to improve their credibility and ownership;
- (ii) improve “ownership” by national policy makers;
- (iii) use more effectively periods when economies are growing above trend for budgetary consolidation in order to avoid pro-cyclical policies;
- (iv) take better account in Council recommendations of periods when economies are growing below trend;
- (v) give sufficient attention in the surveillance of budgetary positions to debt and sustainability.

In making the proposals for a reform of the Stability and Growth Pact, the Council gave due consideration to enhance the governance and the national ownership of the fiscal framework, to strengthen 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.

In accordance with the Luxembourg Resolution on economic policy coordination, the Council confirms that enhanced coordination of fiscal policies must adhere to the Treaty principle of subsidiarity, respecting the prerogatives of national Governments in determining their structural and budgetary policies, while complying with the provisions of the Treaty and the Stability and Growth Pact.

Ministers indicate in the present report the necessary legislative changes in order to make operational their views on the reform of the Stability and Growth Pact. They intend to keep changes to a minimum and look forward to proposals of the Commission to put their views into effect.

1. IMPROVING GOVERNANCE

In order to increase the legitimacy of the EU fiscal framework and to strengthen support for its goals and institutional arrangements, the Council considers that Member States, the Commission and the Council, while avoiding any institutional shift, must deliver on their respective responsibilities, in particular:

- (1) The Commission and the Council respect the Member States' responsibility to implement the policies of their choice within the limits set by the Treaty, in particular by Articles 99 and 104, while the Member States have to comply with the recommendations of the Council;
- (2) The Commission has to exercise its right of initiative in a timely manner and apply the rules effectively, while the Council and the Member States respect the Commission's responsibility as guardian of the Treaty and its procedures;
- (3) The Council has to exercise responsibly its margin of discretion, while the Member States and the Commission respect the Council's responsibility for the coordination of economic policies within the European Union and its role for the proper functioning of economic and monetary union;
- (4) The Member States, the Council and the Commission should 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 to the rules of the Pact.

The Council emphasises the importance of improving governance and strengthening national ownership of the fiscal framework through the proposals outlined hereafter.

1.1. Cooperation and communication

The Council, the Commission and the Member States should apply the Treaty and the Stability and Growth Pact in an effective and timely manner. Parties should act in close and constructive cooperation in the process of economic and fiscal surveillance in order to guarantee certainty and effectiveness to the rules of the Pact.

In the spirit of transparency and accountability, due consideration should be given to full and timely communication among institutions as well as with the general public. In particular, in order to foster a frank and confidential exchange of views, the Council, the Commission and the Member States should commit to exchange advance information on their intentions at all stages of the budgetary monitoring and excessive deficit procedure, without prejudice to their respective prerogatives.

1.2. Improving peer support and applying peer pressure

The Council agrees that increasing the effectiveness of peer support and peer pressure is an integral part of a reformed Stability and Growth Pact. The Council and the Commission should commit to motivate and to make public their positions and decisions at all appropriate stages of the procedure of the Pact.

Peer support and peer pressure at euro area level should be given in the framework of the coordination carried out in the Eurogroup and be based on a horizontal assessment of national budgetary developments and their implications for the euro area as a whole. Such an assessment should be done at least once a year before the summer.

1.3. Complementary national budgetary rules and institutions

The Council agrees that national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact. Conversely, at EU level, incentives should be given and disincentives removed for national rules to support the objectives of the Stability and Growth Pact. In this context, the Council points out disincentives stemming from the impact in the fiscal framework of certain ESA95 accounting and statistical rules.

The implementation of existing national rules (expenditure rules, etc.) could be discussed in stability and convergence programmes, with due caution and as far as they are relevant for the respect of EU budgetary rules, as Member States are committed at European level to respect the latter, and compliance with EU budgetary rules constitutes the focus of the assessment of the stability and convergence programmes.

The Council considers that domestic governance arrangements should complement the EU framework. National institutions could play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level.

1.4. A stability programme for the legislature

The Council invites Member States, when preparing the first update of their stability/convergence programme after a new government has taken office, to show continuity with respect to the budgetary targets endorsed by the Council on the basis of the previous update of the stability/convergence programme and - with an outlook for the whole legislature - to provide information on the means and instruments which it intends to employ to reach these targets by setting out its budgetary strategy.

1.5. Involvement of national Parliaments

The Council invites Member States' governments to present stability/convergence programmes and the Council opinions thereon to their national Parliaments. National Parliaments may wish to discuss the follow-up to recommendations in the context of the early warning and the excessive deficit procedures.

1.6. Reliable macroeconomic forecasts

The Council recognises that it is important to base budgetary projections on realistic and cautious macroeconomic forecasts. It also recognises the important contribution that Commission forecasts can provide for the coordination of economic and fiscal policies.

In their macroeconomic and budgetary projections, Member States, in particular euro area Member States and Members States participating in ERM II, should use the “common external assumptions” if provided by the Commission in due time. Member States are free to base their stability/convergence programmes on their own projections. However, divergences between the national and the Commission forecasts should be explained in some detail. This explanation will serve as a reference when assessing *a posteriori* forecast errors.

Given the inevitability of forecast errors, greater emphasis should be placed in the stability/convergence programmes on conducting comprehensive sensitivity analyses and/or developing alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

1.7. Statistical governance

The Council agrees that the implementation of the fiscal framework and its credibility rely crucially on the quality, reliability and timeliness of fiscal statistics. Reliable and timely statistics are not only essential for the assessment of government budgetary positions; full transparency of such statistics will also allow the financial markets to better assess the creditworthiness of the different Member States, providing an important signalling function for policy errors.

The core issue remains to ensure adequate practices, resources and capabilities to produce high quality statistics at the national and European level with a view to ensuring the independence, integrity and accountability of both national statistical offices and Eurostat. Furthermore, the focus must be on developing the operational capacity, monitoring power, independence and accountability of Eurostat. The Commission and the Council in the course of 2005 are dealing with the issue of improving the governance of the European statistical system.

Member States and EU institutions should affirm their commitment to produce high quality and reliable budgetary statistics and to ensure mutual cooperation to achieve this goal. Imposing sanctions on a Member State should be considered when there is infringement of the obligations to duly report government data.

2. STRENGTHENING THE PREVENTIVE ARM

There is broad consensus that periods of growth above trend should be used for budgetary consolidation in order to avoid pro-cyclical policies. The past failure to reach the medium-term budgetary objective of ‘close to balance or in surplus’ calls for a strengthening of the preventive arm of the Stability and Growth Pact, through a renewed commitment by Member States to take the budgetary action necessary to converge towards this objective and respect it.

2.1. Definition of the medium-term budgetary objective

The Stability and Growth Pact lays down the obligation for Member States to adhere to the medium term objective (MTO) for their budgetary positions of “close to balance or in surplus” (CTBOIS).

In light of the increased economic and budgetary heterogeneity in the EU of 25 Member States, the Council agrees that the MTO 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 Council therefore proposes developing medium-term objectives that, by taking account of the characteristics of the economy of each Member State, pursue a triple aim. They should firstly provide a safety margin with respect to the 3% deficit limit. They should also ensure rapid progress towards sustainability. Taking this into account, they should allow room for budgetary manoeuvre, in particular taking into account the needs for public investment.

MTOs should be differentiated and may diverge from CTBOIS for individual Member States on the basis of their current debt ratio and potential growth, while preserving sufficient margin below the reference value of -3% of GDP. The range for the country-specific MTOs for euro area and ERM II Member States would thus be, in cyclically adjusted terms, net of one-off and temporary measures, between -1% of GDP for low debt/high potential growth countries and balance or surplus for high debt/low potential growth countries.

The long-term sustainability of public finances would be supported by the convergence of debt ratios towards prudent levels.

Implicit liabilities (related to increasing expenditures in the light of ageing populations) should be taken into account, as soon as criteria and modalities for doing so are appropriately established and agreed by the Council. By the end of 2006, the Commission should report on progress achieved towards the methodology for completing the analysis by incorporating such implicit liabilities.

The Council stresses however that fiscal policy cannot be expected in the short term to cope with the full structural effects of demographic ageing and it invites Member States to pursue their efforts in implementing structural reforms in the areas related to the ageing of their populations as well as towards increasing employment and participation ratios.

Medium-term budgetary objectives could be revised when a major reform is implemented and in any case every four years, in order to reflect developments in government debt, potential growth and fiscal sustainability.

2.2. Adjustment path to the medium-term objective

The Council considers that a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery should be achieved, with the objective to avoid pro-cyclical policies and to gradually reach the medium term objective, thus creating the necessary room to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances.

Member States should commit at a European level to actively consolidate public finances in good times. The presumption is to use unexpected extra revenues for deficit and debt reduction.

Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the euro zone or of ERM-II should pursue an annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures, of 0.5% of GDP as a benchmark. “Good times” should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

Member States that do not follow the required adjustment path will explain the reasons for the deviation in the annual update of the stability/convergence programmes. The Commission will issue policy advice to encourage Member States to stick to their adjustment path. Such policy advice will be replaced by early warnings in accordance with the Constitution as soon as it becomes applicable.

2.3. Taking structural reforms into account

The Council agrees that, in order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term 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, with the clear understanding that a safety margin to ensure the respect of the 3% of GDP reference value for the deficit has to be guaranteed and that the budgetary position would be expected to return to the MTO within the programme period.

Only major reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances, will be taken into account. A detailed cost-benefit analysis of those reforms from the budgetary point of view would need to be provided in the framework of the annual update of stability/convergence programmes.

These proposals should be introduced into Regulation 1466/97.

Moreover, the Council is mindful that the respect of the budgetary targets of the Stability and Growth Pact should not hamper structural reforms that unequivocally improve the long-term sustainability of public finances. The Council acknowledges that special attention must be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Although these reforms entail a short-term deterioration of public finances during the implementation period, the long-term sustainability of public finances is clearly improved. The Council therefore agrees that Member States implementing such reforms should be allowed to deviate from the adjustment path towards the MTO, or from the MTO itself. The deviation from the MTO should reflect the net cost of the reform to the publicly managed pillar, provided the deviation remains temporary and an appropriate safety margin to the reference value is preserved.

3. IMPROVING THE IMPLEMENTATION OF THE EXCESSIVE DEFICIT PROCEDURE

The excessive deficit procedure should remain simple, transparent and equitable. Nevertheless, the experience of recent years shows possible scope for improvement in its implementation.

The guiding principle for the application of the procedure is the prompt correction of an excessive deficit.

The Council underlines that the purpose of the excessive deficit procedure is to assist rather than to punish, and therefore to provide incentives for Member States to pursue budgetary discipline, through enhanced surveillance, peer support and peer pressure. Moreover, policy errors should be clearly distinguished from forecast errors in the implementation of the excessive deficit procedure. If nevertheless a Member State fails to comply with the recommendations addressed to it under the excessive deficit procedure, the Council has the power to apply the available sanctions.

3.1. Preparing a Commission report under Article 104(3)

In order to avoid excessive government deficits, as called for by Article 104(1) of the Treaty, the reports, prepared by the Commission according to Article 104(3) of the Treaty as a result of its monitoring, form the basis of the EFC opinion, the ensuing Commission assessment and ultimately the Council decision on the existence of an excessive deficit as well as on its recommendations, including on the deadlines for the correction of the deficit.

The Council and the Commission are resolved to clearly preserve and uphold the reference values of 3% and 60% of GDP as the anchors of the monitoring of the development of the budgetary situation and of the ratio of government debt to GDP in the Member States. The Commission will always prepare a report on the basis of Article 104(3) of the Treaty. The Commission shall examine in its report if one or more of the exceptions foreseen respectively in Article 104(2)(a) and (b) apply. The Council hereafter proposes revisions or clarifications to the scope of those exceptions.

As foreseen by the Treaty, the Commission shall moreover take into account in its report whether the Member State's government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Council hereafter proposes clarifications to the concept of "all other relevant factors".

3.2. An "exceptional and temporary" excess of the deficit over the reference value

The Treaty provides, in Article 104(2)(a) second indent, for an exception if an excess over the reference value is only exceptional and temporary and if the ratio remains close to the reference value.

Whereas, in order to benefit from that exception, the ratio has always to remain close to the reference value, Regulation 1467/97 gives definitions as to when an excess over the reference value, but still close to it, shall be considered exceptional and temporary: in order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State and with a major impact on the financial position of the general government, or it has to result from a severe economic downturn. In order for the excess to be temporary, the Commission's budgetary forecast must indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

A severe economic downturn is presently defined - as a rule - as an annual fall of real GDP of at least 2%. Moreover, in the case of an annual fall of real GDP of less than 2%, Regulation 1467/97 still allows the Council to decide that no excessive deficit exists, in the light of further evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

The Council considers that the current definition of "a severe economic downturn" given in Article 2(2) of Regulation 1467/97 is too restrictive. The Council considers that paragraphs (2) and (3) of Article 2 in Regulation 1467/97 need to be adapted in order to allow both the Commission and the Council, when assessing and deciding upon the existence of an excessive deficit, according to paragraphs (3) to (6) of Article 104 of the Treaty, to consider as exceptional an excess over the reference value which results from a negative growth rate or from the accumulated loss of output during a protracted period of very low growth relative to potential growth.

3.3. "All other relevant factors"

Article 104(3) of the Treaty requests that, in preparing the report on the non-fulfilment of the criteria for compliance with budgetary discipline, the Commission "shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State". A balanced overall assessment has to encompass all these factors.

The Council underlines that taking into account “other relevant factors” in the steps leading to the decision on the existence of an excessive deficit (Article 104, paragraphs (4), (5) and (6)) must be fully conditional on the overarching principle that - before other relevant factors are taken into account - the excess over the reference value is temporary and the deficit remains close to the reference value.

The Council considers that the framework to take into account “all other relevant factors” should be clarified. The Commission’s report under Article 104(3) should appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster R&D and innovation) and developments in the medium-term budgetary position (in particular, fiscal consolidation efforts in “good times”, debt sustainability, public investment and the overall quality of public finances). Furthermore, due consideration will be given to any other factors, which in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value. In that context, special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State.

Clearly no redefinition of the Maastricht reference value for the deficit via the exclusion of particular budgetary items should be pursued.

If the Council has decided, on the basis of Article 104(6), that an excessive deficit exists in a Member State, the “other relevant factors” will also be considered in the subsequent procedural steps of Article 104. However, they should not be taken into account under Article 104(12), i.e. in the decision of the Council as to whether a Member State has corrected its excessive deficit.

These proposals should be introduced into Regulation 1467/97.

3.4. Taking into account systemic pension reforms

The Council agrees that an excess close to the reference value which reflects the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar should be considered carefully. Although the implementation of these reforms leads to a short-term deterioration of the budgetary position, the long-term sustainability of public finances clearly improves.

The Commission and the Council, in all budgetary assessments in the framework of the EDP, will give due consideration to the implementation of these reforms.

In particular, when assessing under Article 104(12) whether the excessive deficit has been corrected, the Commission and the Council will assess developments in EDP deficit figures while also considering the net cost of the reform to the publicly managed pillar. Consideration to the net cost of the reform will be given for the initial five years after a Member State has introduced a mandatory fully-funded system, or five years after 2004 for Member States that have already introduced such a system. Furthermore, it will also be regressive, i.e. during a period of five years, consideration will be given to 100, 80, 60, 40 and 20 percent of the net cost of the reform to the publicly managed pillar.

3.5. Increasing the focus on debt and sustainability

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criterion. The Council agrees that there should be increased focus on debt and sustainability, and reaffirms the need to reduce government debt to below 60 % of GDP at a satisfactory pace, taking into account macroeconomic conditions. The higher the debt to GDP ratios of Member States, the greater must be their efforts to reduce them rapidly.

The Council considers that the debt surveillance framework should be strengthened by applying the concept of “sufficiently diminishing and approaching the reference value at a satisfactory pace” for the debt ratio in qualitative terms, by taking into account macroeconomic conditions and debt dynamics, including the pursuit of appropriate levels of primary surpluses as well as other measures to reduce gross debt and debt management strategies. For countries above the reference value, the Council will formulate recommendations on the debt dynamics in its opinions on the stability and convergence programmes.

No change to the existing Regulations is required to that effect.

3.6. Extending deadlines for taking effective action and measures

The Council considers that the deadline for adoption of a decision under Article 104(6) establishing the existence of an excessive deficit should be extended from three to four months after the fiscal notification deadline. Moreover, the Council considers that the timing for taking effective action following a recommendation to correct the excessive deficit under Article 104(7) could be extended from 4 to 6 months, in order to allow the Member State to better frame the action within the national budgetary procedure and to develop a more articulated package of measures. This could facilitate the adoption of corrective packages of structural (as opposed to largely temporary) measures. Furthermore, with longer deadlines it would be possible to take an updated Commission forecast into account, so that measures taken and significant changes in growth conditions that could justify an extension of the deadlines would be assessed together. For the same reasons, the one-month deadline for the Council to take a decision to move from Article 104(8) to Article 104(9) should be extended to two months, and the two-month deadline under Article 104(9) should be extended to 4 months.

These proposals would require changes to the relevant Articles of Regulation 1467/97.

3.7. Initial deadline for correcting the excessive deficit

The Council considers that, as a rule, the deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence. The Council agrees however that the elements to be taken into account in setting the initial deadline for the correction of an excessive deficit should be better specified and should include, in particular, an overall assessment of all the factors mentioned in the report under Art. 104(3).

As a benchmark, countries in excessive deficit will be required to achieve an annual minimum fiscal effort of at least 0.5 percent of GDP in cyclically adjusted terms, net of one-off measures, and the initial deadline for the correction of the excessive deficit should be set taking into account this minimum fiscal effort. If this effort seems sufficient to correct the excessive deficit in the year following its identification, the initial deadline need not be set beyond that year.

However the Council agrees that in case of special circumstances, the initial deadline for correcting an excessive deficit could be set one year later, i.e. the second year after its identification and thus normally the third year after its occurrence. The determination of the existence of special circumstances will take into account a balanced overall assessment of the factors mentioned in the report under Article 104(3).

The initial deadline will be set without prejudice to the taking into account of systemic pension reforms and without prejudice to deadlines applying to new and future Member States.

3.8. Revising the deadlines for correcting the deficit

The Council agrees that deadlines for correcting the excessive deficit could be revised and extended if unexpected adverse economic events with major unfavourable budgetary effects occur during the excessive deficit procedure. Repetition of a recommendation under Article 104(7) or a notice under Article 104(9) of the Treaty is possible and should be used if effective action has been taken by the Member State concerned in compliance with the initial recommendation or notice. This should be specified in Regulation 1467/97.

Member States would be required to give evidence of having taken effective action following recommendations. If effective action was taken in response to previous recommendations and unforeseeable growth developments justify a revision of the deadlines for correcting the excessive deficit, the procedure would not move to the next step. The growth forecast contained in the Council recommendation would be the reference against which unforeseeable growth developments would be assessed.
