



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	Presidency
to:	Council
Subject:	Draft regulation of the European parliament and of the council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

Delegations will find attached Draft regulation of the European parliament and of the council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area as prepared by the Permanent Representatives Committee.

Encl.:

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(6) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Central Bank,

After transmission of the draft legislative act to the national Parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Treaty requires that Member States' regard their economic policies as a matter of common concern and that their budgetary policies are guided by the need for sound public finances and that their economic policies do not risk jeopardising the proper functioning of Economic and Monetary Union.

- (2) The Stability and Growth Pact, in particular Regulations (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹ and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure², designed to secure budgetary discipline across the Union, sets out the framework for preventing and correcting excessive government deficits. It has been further strengthened by Regulation No .../2011 of the European Parliament and of the Council amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and Regulation (EU) No .../2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. Regulation (EC) No .../2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area added a system of effective, preventive and gradual enforcement mechanisms in the form of financial sanctions for the Member States whose currency is the euro.
- (3) The amendments to the Stability and Growth Pact increase both the guidance, and, for the Member States whose currency is the euro, incentives for the setting and the implementation of a prudent budgetary policy, while avoiding excessive government deficits. These provisions have created a more robust framework at the level of the Union for the surveillance of national economic policies.
- (4) The Treaty allows the adoption of specific measures in the euro area which go beyond the provisions applicable to all Member States in order to ensure the proper functioning of the Economic and Monetary Union.

¹ OJ L 209, 2.8.1997, p. 1.

² OJ L 209, 2.8.1997, p. 6.

- (5) Strong public finances are best ensured at the planning stage and gross errors should be identified as early as possible. Member States should benefit not just from the setting of guiding principles and budgetary targets but also from a synchronised monitoring of their budgetary policies.
- (6) Setting-up a common budgetary timeline for Member States whose currency is the euro should better synchronize the key steps in the preparation of national budgets, thus contributing to the effectiveness of the European semester for budgetary policy coordination. Adopting a common budgetary timeline should lead to stronger synergies by facilitating policy coordination among Member States whose currency is the euro and ensure that the Council and Commission recommendations are appropriately integrated in the national process for budget adoption. In particular, Member States should make public their national medium term fiscal plan at the same time as their stability programs by mid-april and no later than 30 April, which can be the same document.
- (7) One important milestone of this common timeline should be the publication of the draft central government budget by 15 October. Since compliance with the rules of the Stability and Growth Pact is to be ensured at the level of the general government and achievement of the budgetary objectives requires consistent budgeting across all subsectors of the general government, the publication of the draft central government budget should be accompanied by the publication of the main parameters of the budgets of all the other subsectors of the general government. Such parameters should include in particular the expected budgetary outcomes of the other subsectors, the main assumptions underlying these projections and the reasons for expected changes with respect to the Stability Programme assumptions.
- (8) The common timeline also foresees that the budget shall be adopted or fixed upon annually by 31 December. In order to cater for cases where the budget is not adopted on time, reversionary budget procedures should be in place to ensure that the government can still discharge its essential duties. Such arrangements may include for instance the implementation of the government's draft budget or of the former year's approved budget or specific Parliament-approved measures.

- (9) There is strong evidence showing the effectiveness of rules-based fiscal frameworks in supporting sound and sustainable fiscal policies. The introduction of national fiscal rules that are consistent with the budgetary objectives set at Union level should be a crucial element to ensure the respect of the Stability and Growth Pact provisions. In particular, Member States whose currency is the euro should incorporate their medium-term budgetary objective as defined in Article 2a of Regulation (EC) No 1466/97 among the rules defined in the article 5 of Directive 2011/85. The monitoring of compliance with these rules should be conducted by national independent bodies or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the member state, whose setting-up should be accelerated in the euro area. These rules should fully respect the prerogatives of National Parliaments. The Commission, having discussed them with the EFC, should make public common principles for these bodies.
- (10) Biased and unrealistic macroeconomic and budgetary forecasts can considerably hamper the effectiveness of budgetary planning and consequently impair commitment to budgetary discipline. Forecasts from independent bodies can provide unbiased and realistic macroeconomic forecasts.
- (11) This gradually strengthened surveillance will further complement the existing provisions of the Stability and Growth Pact and strengthen the surveillance of budgetary discipline in Member States whose currency is the euro. A gradually enhanced monitoring procedure should contribute to better budgetary outcomes to the benefit of all Member States whose currency is the euro. As part of a gradually strengthened procedure, a closer monitoring is particularly valuable to Member States that are subject to an excessive deficit procedure.

- (12) As demonstrated by the sovereign debt crisis, and in particular by the need to put in place common financial backstops, Member States whose currency is the euro share enhanced spillovers from their budgetary policy. Each of the Member States whose currency is the euro should consult the Commission and other Member States whose currency is the euro before the adoption of any major fiscal policy reform plans with potential spillover effects, so as to give the possibility for an assessment of possible impact for the euro area as a whole. They should consider their budgetary plans to be of common concern and submit them to the Commission for monitoring purposes in advance of the plans becoming binding.
- (13) The Commission should be in a position, if necessary, to adopt an opinion on the draft budgetary plan, that the Member State and in particular budgetary authorities should be invited to take into account in the process of the budget law adoption. Such an opinion should be adopted by the Commission as soon as possible and no later than 30 November, taking into account as much as possible the specific national fiscal schedule and parliamentary procedures, in order to ensure that Union's policy guidance in the budgetary area can be appropriately integrated in the national budgetary preparations. In particular, this opinion should include an assessment of whether or not the budgetary plans appropriately address the recommendations issued in the context of the European semester in the budgetary area. The Commission should stand ready to present this opinion to the Parliament of the Member State concerned at its request. The extent to which this opinion has been taken into account should be part of the assessment, if and when the conditions are met, leading to the decision to place the concerned Member State in excessive deficit procedure, where no follow-up to the early guidance from the Commission should be considered as an aggravating factor. Also, based on an overall assessment of the plans by the Commission, the Eurogroup should discuss the budgetary situation and prospects for the euro area.

- (14) In case of particularly serious non-compliance with the budgetary obligations laid down in the Stability and Growth Pact, the Commission in its opinion on the draft budgetary plans will request a revised draft budgetary plan, in accordance with relevant provisions of this Regulation. This will be the case in particular where the implementation of the initial budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardizing the good functioning of the Economic and Monetary Union or where the implementation of the initial budgetary plan would entail an obvious significant violation of the recommendations formulated by the Council under the Stability and Growth Pact.
- (15) Member States whose currency is the euro and which are subject to an excessive deficit procedure should be monitored more closely to secure a full and timely correction of the excessive deficit. A closer monitoring should ensure early correction of any deviations from the Council recommendations to correct the excessive deficit. Such monitoring should complement the provisions set out in Regulation (EC) No 1467/97. The modalities of this closer monitoring should be graduated depending on the stage of the procedure the Member State is subject to, as provided for in Article 126 of the Treaty. Also, since budgetary measures might be insufficient to ensure a durable correction of the excessive deficit, the Member State concerned should present an economic partnership programme detailing the structural reforms needed to ensure an effectively durable correction of the excessive deficit. Reporting of progress with the implementation of the economic partnership programme should be aligned to reporting on progress with the correction of an excessive deficit and associated enhanced monitoring.

- (16) The closer monitoring for Member States subject to an excessive deficit procedure should allow the identification of risks in the compliance of a Member State's deadline to correct the excessive deficit. In the event of such risks being identified, the Commission should issue a recommendation to the Member State for measures to be taken within a given timeframe that should be presented to the Parliament of the Member State concerned at its request. This assessment should allow rapid correction of any developments putting at risk the correction of the excessive deficit within the established deadline. Assessment of compliance with this Commission recommendation should be part of the continuous assessment made by the Commission of effective action to correct an excessive deficit. When deciding whether effective action to correct the excessive deficit has been taken, the Council should also base its decision on whether or not the Member State complied with the Commission recommendation.
- (17) In order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, the competent committee of the European Parliament may offer the opportunity to the Member State concerned by a Commission recommendation to participate in an exchange of views.

HAVE ADOPTED THIS REGULATION:

Chapter I

General provisions

Article 1

Subject matter and scope

1. This Regulation sets out provisions for enhanced monitoring of budgetary policies in the euro area by:
 - (a) complementing the European semester as defined in Article 2a of Regulation (EC) 1466/97 with a common budgetary timeline;
 - (b) complementing the multilateral surveillance system of budgetary policies as established by Regulation (EC) No 1466/97 with additional monitoring requirements in order to ensure that Union policy recommendations in the budgetary area are appropriately integrated in the national budgetary preparations;
 - (c) complementing the procedure for correction of a Member State's excessive deficit as established by Article 126 of the Treaty and Regulation (EC) No 1467/97 by a closer monitoring of budgetary policies of Member States subject to an excessive deficit procedure in order to secure a timely durable correction of excessive deficits.
2. This Regulation shall apply to Member States whose currency is the euro.

Article 2
Definitions

1. For the purposes of this Regulation, the following definitions shall apply:
 - (1) "independent macroeconomic forecasts" means the macroeconomic forecasts produced or endorsed by an independent body or a body endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State;
 - (2) "medium-term budgetary framework" has the meaning set out in point e of Article 2 of Council Directive 2011/85/EU
 - (3) "stability programme" has the meaning set out in Article 3 of Regulation (EC) 1466/97;
 - (4) "government" and "deficit" have the meaning set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union and the Treaty on the Functioning of the European Union.
 - (5) "stability and growth pact" means the multilateral surveillance system as organised by Regulation (EC) No 1466/97 and the procedure for the avoidance of Member States' excessive deficit as regulated by Article 126 TFEU and Regulation (EC) No 1467/97.

2. The definition of general government and of sub-sectors of general government set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 shall also apply.

Chapter II

Common Budgetary Provisions

Article 3

Common Budgetary Timeline

1. Member States shall make public annually their national medium-term fiscal plans in accordance with their medium-term budgetary framework preferably by mid-April and not later than 30 April. Such national plans shall include at least all the information to be provided in the stability programmes.
2. The draft budget for the forthcoming year for the central government and the main parameters of the draft budgets for all the other sub-sectors of the general government shall be made public annually not later than 15 October.
3. The budget for the central government shall be adopted or fixed upon and made public annually not later than 31 December. Member States shall have in place reversionary budget procedures to be applied if, for objective reasons beyond the control of the government, the budget is not adopted or fixed upon and made public by 31 December.
4. National medium-term fiscal plans and draft budgets referred to in paragraphs 1 and 2 shall be based on independent macroeconomic forecasts and indicate whether the budgetary forecasts have been independently produced or endorsed. The underlying forecasts shall be made public.

Article 4
Rules on independent bodies

1. Member States shall have in place independent bodies or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State for monitoring compliance with numerical fiscal rules on the budget balance incorporating in the national budgetary processes their medium-term budgetary objective as defined in Article 2a of Regulation (EC) No 1466/97, and rules referred to in Article 5 of Directive 2011/85.
2. The Commission shall make public the common principles for the independent bodies or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State referred to in paragraph 1.

Chapter III

Monitoring and assessment of Member States draft budgetary plans

Article 5

Monitoring requirements

1. Member States shall submit annually to the Commission and the Eurogroup a draft budgetary plan for the forthcoming year no later than 15 October.
2. The draft budgetary plan, as defined by this article, shall be made public when submitted to the Commission.
3. The draft budgetary plan shall be based on independent macroeconomic forecasts and indicate whether the budgetary forecasts have been independently produced or endorsed. It shall contain the following information for the forthcoming year:

- (a) the targeted budget balance for the general government as a percentage of Gross Domestic Product (GDP), broken down by sub-sector of general government;
 - (b) the projections at unchanged policies for expenditure and revenue as a percentage of GDP for the general government and their main components;
 - (c) the targeted expenditure and revenue as a percentage of GDP for the general government and their main components, taking into account the conditions and criteria to establish the growth path of government expenditure net of discretionary revenue measures under Article 5(1) of Regulation (EC) No 1466/97;
 - (d) A description and quantification of expenditure and revenue measures included in the draft budget for the year to come at the level of all sub-sectors in order to bridge the gap between the targets referred to in point (c) and the projections at unchanged policies provided in accordance with point (b). The description may be less detailed for measures with a budgetary impact estimated to be lower than 0.1% of GDP. Particular attention shall be paid to major fiscal policy reform plans with potential spillover effects for other Member States whose currency is the euro;
 - (e) the main assumptions of the independent macro-economic forecasts and important economic variables which are relevant to the achievement of the budgetary targets;
 - (f) where applicable, additional indications on how the current recommendations addressed to the Member State concerned in accordance with Article 121 of the Treaty in the budgetary area will be met.
4. Where the budgetary targets reported in the draft budgetary plan in accordance with points (a) and (c) of paragraph 3 or the projections at unchanged policies differ from those in the most recent stability programme, the differences shall be duly explained.
5. The specifications of the content of the draft budgetary plan shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.

Article 6

Assessment of the draft budgetary plan

1. The Commission shall, if necessary, adopt an opinion on the draft budgetary plan as soon as possible and no later than end of November.
2. Where the Commission identifies particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact, the opinion referred to in paragraph 1 shall be adopted within two weeks from the submission of the draft budgetary plan. In this opinion, the Commission shall request a revised draft budgetary plan from the Member State concerned. This request shall be made public.

Paragraphs 2 to 4 in Article 5 shall apply in case of revised draft budgetary plan.

3. The Commission opinion shall be made public and presented to the Eurogroup. At the request of the Parliament of the Member State concerned, it shall be presented by the Commission to the Parliament concerned.
4. The Commission shall make an overall assessment of the budgetary situation and prospects in the euro area as a whole. The assessment shall be made public.
5. The Eurogroup shall discuss opinions of the Commission on the national budgetary plans and the budgetary situation and prospects in the euro area as a whole on the basis of the overall assessment made by the Commission in accordance with paragraph 3. The results of these discussions of the Eurogroup may be made public.

Article 6bis

Reporting on debt issuance

1. Member States shall report ex-ante on a timely basis to the European Commission and the Eurogroup on their national debt issuance plans.
2. The specifications of the content of the reporting referred to in paragraph 1 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.

Chapter IV

Ensuring the correction of excessive deficit

Article 7

Closer monitoring for Member States in excessive deficit procedure

1. When the Council decides in accordance with Article 126(6) of the Treaty that an excessive deficit exists in a Member State, the Member State concerned shall be subject to paragraphs 2 to 5 of this Article, until the abrogation of its excessive deficit procedure.
2. The Member State subject to closer monitoring shall without delay carry out a comprehensive assessment of in-year budgetary execution for the general government and its sub-sectors. The financial risks associated to contingent liabilities with potentially large impacts on public budgets, as defined in Article 14(3) of Council Directive 2011/85/EU shall also be covered by the assessment to the extent that they may contribute to the existence of an excessive deficit. The result of this assessment shall be included in the report submitted in accordance with Article 3(4a) or 5(1a) of Regulation (EC) No 1467/97 on action taken to correct the excessive deficit.
3. The Member State shall report regularly to the Commission and to the Economic and Financial Committee for the general government and its sub-sectors, the in-year budgetary execution, the budgetary impact of discretionary measures taken on both the expenditure and the revenue side, targets for the government expenditure and revenues, as well as information on the measures adopted and the nature of those envisaged to achieve the targets. The report shall be made public.

The Commission shall specify the content of the report referred to in this paragraph.

4. If the Member State concerned is subject of a Council recommendation under Article 126(7) of the Treaty, the report in accordance with paragraph 3 of this Article shall be submitted for the first time 6 months after the initial report provided for in Article 3(4a) of Regulation (EC) No 1467/97, and thereafter on a six month basis.
5. If the Member State concerned is subject of a Council notice under Article 126(9) of the Treaty, the report in accordance with paragraph 3 of this Article shall also contain information on the actions being taken in response to the Council notice. It shall be submitted for the first time 3 months after the initial report provided for in Article 5(1a) of Regulation (EC) No 1467/97, and thereafter on a quarterly basis.
6. On request and within the deadline set by the Commission, the Member State in an excessive deficit procedure shall:
 - (a) carry out and report on a comprehensive independent audit of the public accounts of all subsectors of the general government conducted preferably in coordination with national supreme audit institutions, aiming at assessing the reliability, completeness and accuracy of these public accounts for the purposes of the excessive deficit procedure. In this context, the Commission (Eurostat) shall assess the quality of statistical data reported by the Member State concerned in accordance with Regulation (EC) No 479/2010 (amended 679/2010)³;
 - (b) provide additional information available for the purposes of monitoring the progress towards the correction of the excessive deficit.

³ OJ L 198, 30.7.2010, p. 1.

Article 8

Member States at risk of non-compliance with their obligation under their excessive deficit procedure

1. When assessing whether compliance with the deadline to correct the excessive deficit, as established by the current Council recommendation under Article 126(7) of the Treaty or Council notice under Article 126(9) of the Treaty, is at risk, the Commission shall also base its assessment on the reports submitted by the Member States in accordance with Article 7(3) of this Regulation.
2. In case of risks of non-compliance with the deadline to correct the excessive deficit, the Commission shall address a recommendation to the Member State concerned for adoption of further measures within a timeframe consistent with the deadline for the correction of its excessive deficit referred to in paragraph 1. The recommendation by the Commission shall be made public and presented to the Economic and Financial Committee. At the request of the Parliament of the Member State concerned, it shall be presented by the Commission to the Parliament concerned.
3. Within the timeframe set by the Commission recommendation referred to in paragraph 2, the Member State concerned shall report to the Commission on measures adopted in response to this recommendation together with the reports provided for in Article 7(3). The report shall include the budgetary impact of all discretionary measures taken, targets for the government expenditure and revenues, information on the measures adopted and the nature of those envisaged to achieve the targets, as well as information on the other actions being taken in response to the Commission recommendation. The report shall be made public and presented to the Economic and Financial Committee.
4. The competent committee of the European Parliament may offer the opportunity to the Member State concerned by a recommendation in accordance with paragraph 2 to participate in an exchange of views in accordance with Article 2a of Regulation (EC) No 1467/97.

5. On the basis of the report referred to in paragraph 3, the Commission shall assess whether the Member State has complied with the recommendation made in accordance with paragraph 2.

Article 9
Impact on the excessive deficit procedure

1. The extent to which the opinion referred to in Article 6(2) has been taken into account by the Member State concerned shall be taken into account by:
 - (c) the Commission when conducting a report under Article 126(3) of the Treaty and when recommending the imposition of a non-interest bearing deposit in accordance with Article 5 of Regulation (EC) No 1173/2011;
 - (d) the Council when deciding whether an excessive deficit exists in accordance with Article 126(6) of the Treaty.
2. The closer monitoring established by Articles 7 and 8 of this Regulation shall be an integral part of the regular monitoring, as provided for in Article 10(1) of Regulation (EC) No 1467/97, of the implementation of action taken by the Member State concerned in response to recommendations made under Article 126(7) of the Treaty or notices given under Article 126(9) of the Treaty to correct the excessive deficit.
3. When considering whether effective action has been taken in response to the recommendations made in accordance with Article 126(7) of the Treaty or to the notices in accordance with 126(9) of the Treaty, the Commission shall take into account the assessment referred to in Article 8(5) in this Regulation and recommend, as appropriate, to the Council possible decisions under Article 126(8) or Article 126(11) of the Treaty.

Article 10

Economic partnership programmes

1. When the Council decides in accordance with Article 126(6) of the Treaty that an excessive deficit exists in a Member State, the Member State concerned shall present to the Commission an economic partnership programme describing the structural reforms that are needed to ensure an effectively durable correction of the excessive deficit.
2. This economic partnership programme shall be presented at the same time as the reports provided for in Article 3(4a) and 5(1a) of Regulation No 1467/97.
3. The Council, acting by qualified majority on a proposal from the Commission, shall adopt an opinion on the economic partnership programme.
4. If a corrective action plan exists in accordance with Article 8(1) of Regulation (EU) No 1176/2011, this plan may be amended, as appropriate, in accordance with article 9(4) of Regulation (EU) No 1176/2011 to replace the economic partnership programme envisaged by this Article.

Article 11

Consistency with Regulation No XXX on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area

Member States subject to a macro-economic adjustment programme aimed at re-establishing a sound and sustainable economic and financial situation and restoring its capacity to finance itself fully on the financial markets approved by the Council in accordance with Article 6(2) of Regulation No XXX shall not be subject to Article 5 to 10 of this Regulation.

Chapter V

Final provisions

Article 12

Review

1. By 14 December 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation.

That report shall evaluate, inter alia:

- (a) the effectiveness of this Regulation;
 - (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the Treaty.
2. Where appropriate, the report referred to in paragraph 1 shall be accompanied by a proposal for amendments to this Regulation.
3. The report shall be forwarded to the European Parliament and to the Council.

Article 13

Transitional provisions

1. This Regulation shall apply to the Member States that are already subject to an excessive deficit procedure at the time of the entry into force of this Regulation.
2. By derogation from paragraph 1, Article 7(2) shall not apply to Member States for which the Council has already decided that effective action has been taken in accordance with Article 4(2) and Article 6(1) of Regulation (EC) No 1467/97.

3. Member States shall comply with Article 4 at the latest by 6 months after adoption of this Regulation.

Article 14

Entry into force

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

This Regulation shall be binding in its entirety and directly applicable in the Member States in accordance with the Treaties.

Done at Brussels,

For the European Parliament

The President

For the Council

The President
