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'I/A' ITEM NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (Part 2)/Council
Subject: Draft COUNCIL CONCLUSIONS on the European Court of Auditor's Special Report No 18/2018: "Is the main objective of the preventive arm of the Stability and Growth Pact delivered?"
– Adoption

1. On 5 September 2018, the Permanent Representatives Committee assigned the examination of the European Court of Auditors' Special Report No 18/2018 entitled "Is the main objective of the preventive arm of the Stability and Growth Pact delivered?" to the Economic and Financial Committee.
2. The Economic and Financial Committee examined the report at its meeting on 25-26 October 2018. At the same meeting, the Committee also examined the draft conclusions and agreed on the attached text.
3. The Permanent Representatives Committee is therefore invited to approve these draft Council conclusions and to submit them to Council for adoption.

DRAFT COUNCIL CONCLUSIONS

European Court of Auditors' Special Report No 18/2018:

"Is the main objective of the preventive arm of the Stability and Growth Pact delivered?"

THE COUNCIL OF THE EUROPEAN UNION

1. WELCOMES the European Court of Auditors' Special Report No 18/2018: "Is the main objective of the preventive arm of the Stability and Growth Pact delivered?";
2. UNDERLINES the Court's findings and recommendations regarding the Commission's implementation of the preventive arm of the Stability and Growth Pact (SGP) and WELCOMES the Commission's detailed reply thereon;
3. RECALLS that the SGP, which consists of both a preventive and a corrective (EDP) arm, is a rules-based framework that aims at safeguarding the sustainability of public finances and achieving macroeconomic stability in the EU. UNDERLINES that the preventive arm aims at preventing the occurrence of excessive general government deficits and ensuring a sound budgetary position in all Member States, in particular by the attainment by each Member State of its Medium Term Objective (MTO);
4. TAKES NOTE particularly of the Court's concern that the SGP framework has been unable to ensure progress towards the MTOs in a number of highly indebted Member States. UNDERLINES that the recovery has been fragile in the aftermath of the crisis but STRESSES that the current positive cyclical conditions call for rebuilding fiscal buffers, in particular in countries where debt ratios are high, while continuing to strengthen the growth potential of our economies;

5. RECALLS that in 2011 a new set of rules for economic and fiscal surveillance was adopted, the so-called "six-pack", the fiscal elements of which aimed at strengthening the Stability and Growth Pact by ensuring a more effective enforcement of the rules i.a. by reinforcing the Commission's power of initiative on fiscal surveillance. In 2013, the so-called "two-pack" was adopted to further strengthen the annual budgetary surveillance cycle;
6. STRESSES that under the current institutional set-up which privileges the right of initiative of the Commission, it is important that the Commission's fiscal surveillance is based on the commonly agreed rules included in the Code of Conduct and that the rules are applied to ensure equal treatment;
7. RECALLS that the Commission proposed in 2015 a set of implementation rules on flexibility, which were subsequently commonly agreed by the Member States and EMPHASISES that eligibility criteria aim to avoid that the temporary deviations become permanent. NOTES that the Court concludes that the cumulative effect of the flexibility allowances and the unusual event clause have resulted in multi-annual delays in reaching the MTO. but UNDERLINES that many Member States have made adequate progress towards the MTO or have reached it already; and further NOTES the Commission's argument that the rules on flexibility as commonly agreed in the Code of Conduct in February 2016 were justified in view of the unique nature of the crisis;
8. AGREES on the need to focus closely on debt developments in fiscal surveillance, thereby contributing to long-term sustainability of public finances; RECALLS that, following amendments to the SGP in 2011, the debt requirement has been put on an equal footing with the deficit requirement;
9. NOTES that the Commission considers compliance with the preventive arm a key relevant factor in assessing a breach of the debt criterion of the EDP. EMPHASISES that a predictable, transparent and consistent implementation of the EDP by the Commission and the Council is key to fully enforce commitments, to ensure that all Member States are treated equally and to preserve the credibility of the SGP;

10. AGREES that the accuracy and transparency of the estimation of fiscal measures is of utmost importance and WELCOMES the Commission's continuous efforts in that regard; INVITES the Commission to propose any necessary changes to make further improvements in this area;
11. AGREES with the Court's recommendation that CSRs should contain clear and explicit adjustment requirements in the enacting part of the recommendations and the recitals should provide a clear explanation of the rationale for such adjustments;
12. RECALLS the importance of improving the predictability and transparency of the SGP and avoiding undue complexity while ACKNOWLEDGING the need for the SGP to remain adaptable to the economic situation, with the ultimate aim of improving the effectiveness and credibility of the European Union's fiscal framework;
13. INVITES the Commission to reflect on the findings and recommendations of the Court of Auditors report back to the Council within two years.
