



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community

(presented by the Commission)

EXPLANATORY MEMORANDUM

The proposal has the objective of making amendments to Council Regulation (EC) No 3605/93 which are necessary following the introduction of the European System of National and Regional Accounts in the Community (ESA 95).

The existing regulation provides precise definitions of the public finance aggregates monitored in the excessive deficit procedure by reference to the classification codes of the European System of Integrated Economic Accounts (ESA 79). The replacement of ESA 79 by the European System of National and Regional Accounts in the Community (ESA 95) during 1999 in accordance with Council Regulation (EC) No 2223/96 makes it necessary to amend Regulation (EC) No 3605/93 at Articles 1, 4 and 7.

No major changes are being made to the definition of government debt nor to its valuation basis, which according to the Protocol (No 5) on the excessive deficit procedure is at nominal value. However, the components of the debt are to be slightly adjusted to take into account the new ESA 95 financial asset categories. It should be noted that financial derivatives, a relatively new type of financial instrument covered for the first time by ESA 95, will not be included in total debt because they do not have a nominal value like other debt instruments. However, for liabilities denominated in foreign currency which are subject to agreements fixing the exchange rate the conversion to national currency must take account of this rate. This also applies when agreements relate to the exchange rates between foreign currencies.

A small change is also made by the proposed regulation in relation to "interest payments" (Article 5 of the existing regulation) to make it clear that these should be reported on a consolidated basis.

The definition of gross domestic product at market prices, which is used in the calculation of the ratios of the government deficit and debt to gross domestic product, is made in Article 2 of the existing regulation by reference to Council Directive 89/130/EEC, Euratom, and is in practice on an ESA 79 basis. The proposed regulation adopts a definition of gross domestic product according to ESA 95, in order to ensure full coherence between the figures used for the calculation of the ratios.

As foreseen in Regulation (EC) No 2223/96 the old ESA continues to be used in the context of the excessive deficit procedure up to the reporting of 1 September 1999. It is proposed that the amending regulation come into force on 1 January 2000 so that the first reporting of 2000 (1 March) will be on the new ESA 95 basis.

Article 7 of Regulation (EC) No 3605/93 allows the Commission to introduce new references to ESA in Articles 1 and 4 of that regulation. However, small amendments are also being proposed for some of the other articles of the regulation; the proposed Council regulation therefore covers all the necessary amendments. The legal basis for the proposed regulation is the third subparagraph of Article 104(14) (ex Article 104c(14)), which requires the consultation of the European Parliament.

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amending Regulation (EC) No 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 104(14),

Having regard to the proposal from the Commission¹,

Having regard to the opinion of the European Parliament²,

- (1) Whereas the definitions of “government”, “deficit” and “investment” are laid down in the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community and in Council Regulation (EC) No 3605/93 of 22 November 1993³ by reference to the European System of Integrated Economic Accounts; whereas Council Regulation (EC) No 2223/96 of 25 June 1996⁴ replaced that system with the European System of National and Regional Accounts in the Community (hereinafter referred to as “ESA 95”);
- (2) Whereas the definition of “government debt” laid down in the Protocol on the excessive deficit procedure and in Council Regulation (EC) No 3605/93 needs to be further amplified by a reference to the classification codes of ESA 95; whereas, in the case of financial derivatives, as defined in ESA 95, there is no nominal value identical to that for other debt instruments; whereas, therefore, financial derivatives must not be included with the liabilities making up government debt for the purposes of the Protocol on the excessive deficit procedure; whereas for liabilities denominated in foreign currency which are subject to agreements fixing the exchange rate, this rate should be taken into account in the conversion into national currency and this approach should similarly apply to agreements relating to the exchange rates between foreign currencies;

¹ OJ C

² OJ C

³ OJ L 332, 31.12.1993, p. 7.

⁴ OJ L 310, 30.11.1996, p. 1.

- (3) Whereas the calculation of the ratios of government deficit to gross domestic product and of government debt to gross domestic product referred to in Article 104 of the Treaty should also be rendered coherent on the basis of ESA 95; whereas ESA 95 provides an appropriate, detailed definition of gross domestic product at current market prices;
- (4) Whereas consolidated government interest expenditure is an important indicator for monitoring the budgetary situation in the Member States; whereas interest expenditure is intrinsically linked to government debt; whereas government debt to be reported to the Commission by the Member States has to be consolidated within the government sector; whereas the levels of government debt and of interest expenditure should be made mutually consistent; whereas the methodology of ESA 95 (point 1.58) recognises that, for certain kinds of analysis, consolidated aggregates are more significant than overall gross figures; whereas the way in which the figures on interest expenditure are to be provided to the Commission by the Member States should be clarified;
- (5) Whereas the definitions and classification codes of ESA 95 may be subject to revision in the context of the necessary harmonisation of national statistics or for other reasons; whereas revisions of ESA 95 or amendments to its methodology are decided by the Council or the Commission in accordance with the rules on competence and procedure laid down in the Treaty and in Council Regulation (EC) No 2223/96;
- (6) Whereas Article 8(2) of Council Regulation (EC) No 2223/96 stipulates that the former European System of Integrated Economic Accounts is to continue to be used for the purposes of the excessive deficit procedure during a transitional period until the reporting exercise of 1 September 1999,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 3605/93 is hereby amended as follows:

1. Articles 1 and 2 are replaced by the following text:

“Article 1

1. For the purposes of the Protocol on the excessive deficit procedure and of this Regulation, the terms given in the following paragraphs are defined according to the European System of National and Regional Accounts in the Community (hereinafter referred to as “ESA 95”), adopted by Council Regulation (EC) No 2223/96 of 25 June 1996. The codes in brackets refer to ESA 95.
2. “Government” means the sector of “general government” (S.13), that is “central government” (S.1311), “state government” (S.1312), “local government” (S.1313) and “social security funds” (S.1314), to the exclusion of commercial operations, as defined in ESA 95.

The exclusion of commercial operations means that the sector of “general government” (S.13) comprises only institutional units producing non-market services as their main activity.

3. “Government deficit (surplus)” means the net borrowing (net lending) (B.9) of the sector of “general government” (S.13), as defined in ESA 95. The interest comprised in the government deficit is the interest (D.41), as defined in ESA 95.
4. “Government investment” means the gross fixed capital formation (P.51) of the sector of “general government” (S.13), as defined in ESA 95.
5. “Government debt” means the total gross debt at nominal value outstanding at the end of the year of the sector of “general government (S.13), with the exception of those liabilities the corresponding financial assets of which are held by the sector of “general government” (S.13).

Government debt is constituted by the liabilities of general government in the following categories: currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33) and loans (AF.4), as defined in ESA 95.

The nominal value of a liability outstanding at the end of the year is the face value.

The nominal value of an index-linked liability corresponds to its face value adjusted by the index-related increase in the value of the principal accrued to the end of the year.

Liabilities denominated in foreign currencies shall be converted to the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year, except for those liabilities where the foreign exchange rate risk is covered through contractual agreements. These liabilities shall be converted into national currency at the rate agreed upon in these contracts.

Article 2

For the purposes of the Protocol on the excessive deficit procedure and of this Regulation, gross domestic product means gross domestic product at current market prices (GDP mp) (B.1*g), as defined in ESA 95.”

2. In Article 4(2) the codes for subsectors S61, S62 and S63 given at the end of the second subparagraph are replaced by the codes S.1311, S.1312, S.1313 and S.1314.
3. At the end of Article 5, the words “and interest expenditure” are replaced by the words “and interest expenditure (consolidated)”.
4. Article 7 is replaced by the following text:

“Article 7

In the event of a revision of ESA 95 or of an amendment to its methodology to be decided on by the Council or the Commission in accordance with the rules on competence and procedure laid down in the Treaty and in Regulation (EC) No 2223/96, the Commission shall introduce the new references to ESA 95 into Articles 1, 2 and 4.”

Article 2

This Regulation shall enter into force on 1 January 2000.

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

Done at Brussels,

*For the Council
The President*