



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.03.1997  
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96/0247 (SYN)

Amended proposal for a

COUNCIL REGULATION (EC)

**on the strengthening of the surveillance and coordination of budgetary policies**

(presented by the Commission pursuant to Article 189 a (2)  
of the EC-Treaty)



## EXPLANATORY MEMORANDUM

The amended Commission proposals for Council Regulations on *the strengthening of the surveillance and coordination of budgetary policies* and on *speeding up and clarifying the implementation of the excessive deficit procedure* form part of the Stability and Growth Pact. They are revised versions of the proposals earlier adopted by the Commission on 16 October 1996 in COM(96)496 final. They include the amendments proposed by the European Parliament which have been accepted by the Commission and the agreements reached in the European Council in Dublin in December 1996. The first proposed Regulation also now includes the proposals of the Commission on non-participating Member States and their convergence programmes, in response to the invitation from the Dublin European Council. Both texts further incorporate a number of drafting changes agreed by the Commission in the light of the ongoing discussions in the Council Working Group on EMU which has been examining the proposals.

The Commission is presenting these proposals now in advance of the informal Ecofin Council at Noordwijk in April and with a view to final agreement on the stability and growth pact at the Amsterdam European Council in June.

**Amended proposal for a  
COUNCIL REGULATION (EC) No ...**

.....

**on the strengthening of the surveillance and coordination of budgetary policies**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103(5) thereof,

Having regard to the proposal from the Commission,

In cooperation with the European Parliament,

(1) Whereas for economic and monetary union to function smoothly it is necessary not only that the convergence criteria be fulfilled but also that economic and budgetary performances prove stable and durable; whereas the maintenance of sound budgetary positions in the Member States contributes in the medium and long term to the creation of the appropriate conditions for the sustained growth of output and employment; whereas budgetary discipline will be required in the third stage of economic and monetary union to safeguard monetary stability;

(2) Whereas national budgetary policies need to be set so as to create room for manoeuvre in adapting to exceptional and cyclical disturbances and so as to avoid excessive deficits;

(3) Whereas in the context of the single currency the closer coordination of budgetary and other economic policies assumes more importance;

(4) Whereas the reference value for the government deficit of 3% of GDP specified in Article 1 of Protocol n° 5 on the excessive deficit procedure is to be seen as a ceiling in normal circumstances; whereas, therefore, government budgets in the medium term should aim for positions close to balance or in surplus, taking due account of differences in national characteristics;

(5) Whereas the multilateral surveillance procedure of Article 103 (3 and 4) should be developed to provide an early warning system, in which the Council would alert a Member State to the need to take corrective action to prevent a government deficit becoming excessive; whereas this multilateral surveillance procedure should continue to monitor the full range of economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad guidelines referred to in Article 103(2);

(6) Whereas the present Regulation forms part of the *stability and growth pact* for ensuring budgetary discipline in stage three of EMU; whereas the pact includes two main elements (i) strengthening the surveillance and coordination of budgetary policies and (ii) speeding up and clarifying the implementation of the excessive deficit procedure; whereas the second of these elements provides time limits on the implementation of the excessive deficit procedure which will apply to all Member States and a specification of the imposition of sanctions, which will apply only to Member States adopting the single currency;

(7) Whereas the rules for such a speeding up and clarifying of the excessive deficit procedure have been laid down in Council Regulation [...];

(8) Whereas there is a need to build upon the useful experience gained during the first two stages of economic and monetary union with convergence programmes as instruments for setting objectives and providing a basis for monitoring;

(9) Whereas the Member States which will adopt the single currency shall have been found in accordance with Article 109j to have achieved a high degree of sustainable convergence and in particular a sustainable government financial position; whereas the maintenance of sound budgetary positions in these Member States will be required to ensure monetary stability and to create appropriate conditions for the sustained growth of output and employment; whereas these Member States are to be referred to as participating Member States; whereas it is important to place a requirement on participating Member States to submit medium-term budgetary programmes (to be called stability programmes) and it is necessary to define the principal contents of such programmes;

(10) Whereas the Member States not adopting the single currency will nevertheless need to pursue policies aimed at achieving stable prices, sound public finances and monetary conditions and a sustainable balance of payments in accordance with the guiding principles established in Article 3a of the Treaty and with a view to possible future adoption of the single currency; whereas these Member States are to be referred to as non-participating Member States; whereas it is important to place a requirement on these Member States to submit convergence programmes and it is necessary to define the principal contents of such programmes;

(11) Whereas it is necessary to lay down time limits for the submission of stability programmes and convergence programmes and their updates;

(12) Whereas in the interest of transparency and informed public debate Member States should be required to make public their stability programmes or convergence programmes;

(13) Whereas there is a need to define rules for the examination of stability programmes and convergence programmes by the Council;

(14) Whereas the monitoring of stability programmes and convergence programmes should be carried out as part of the multilateral surveillance within the framework of the broad economic policy guidelines; whereas particular attention should be given to slippages from the programme targets for the general government surplus/deficit which risk jeopardising the proper functioning of economic and monetary union; whereas in order to prevent a serious deterioration in the deficit position of a Member State it would be appropriate for the Council to recommend that the Member State take corrective action; whereas in the event of persistent budgetary slippage the Council should consider it appropriate to reinforce and make public its recommendation; whereas for non-participating Member States such recommendations might also deal with measures to prevent slippage from other convergence objectives;

(15) Whereas the requirements to be placed on participating and non-participating Member States and the rules for monitoring them, although similar in many respects, are to be differentiated because non-participating Member States may not yet have achieved a high degree of sustainable convergence; whereas the Regulation therefore contains separate chapters dealing firstly with participating Member States and their stability programmes and then with non-participating Member States and their convergence programmes,

**HAS ADOPTED THIS REGULATION:**

**CHAPTER I**

**Purpose and definitions**

*Article 1*

This Regulation sets out the rules covering the submission, examination and monitoring of stability programmes and convergence programmes as part of the multilateral surveillance to be undertaken by the Council so as to prevent at an early stage the occurrence of excessive government deficits and to promote the surveillance and coordination of economic policies within the framework of the broad economic policy guidelines.

*Article 2*

For the purpose of this Regulation “participating Member States” shall mean those Member States which adopt the single currency in accordance with the Treaty and “non-participating Member States” shall mean those which have not adopted the single currency.

**CHAPTER II**

**Stability programmes**

**SECTION 1**

**Submission and contents of stability programmes**

*Article 3*

1. Each participating Member State shall submit to the Council and the Commission information necessary for the purpose of the regular multilateral surveillance under Article 103 in the form of a “stability programme”.
2. A stability programme shall contain the following information:
  - (a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit as a ratio to GDP and the expected path for the general government debt ratio,
  - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the stability programme, such as real GDP growth, employment and inflation,
  - (c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget,
  - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position,
  - (e) commitment to take additional measures when necessary to prevent slippage from targets.
3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

#### *Article 4*

1. Stability programmes shall be submitted before 1 January 1999. Thereafter, updated programmes shall be submitted annually. A Member State adopting the single currency at a later stage shall submit a stability programme within six months of the Council decision on its participation in the single currency.
2. Member States shall make public their stability programmes and updated programmes.

### SECTION 2

#### **Surveillance of budgetary positions and early warning system**

#### *Article 5*

1. Based on assessments by the Commission and the Committee provided for in Article 109c, the Council shall, within the framework of multilateral surveillance under Article 103, examine whether, having regard to specific national characteristics of participating Member States, the medium-term budgetary objective in the stability programme is compatible with the safety margin needed to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective. The Council shall examine whether the contents of the stability programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.
2. The Council shall make the examination of the stability programme referred to in paragraph 1 within at most two months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee provided for in Article 109c, shall as a rule deliver an opinion on the programme. Where the Council considers that the objectives and contents of a programme should be strengthened, the Council shall as a rule make a recommendation in accordance with Article 103(4) to the Member State concerned to adjust its programme.
3. Updated stability programmes shall be examined by the Committee provided for in Article 109c on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure of paragraphs 1 and 2.

#### *Article 6*

1. As part of the multilateral surveillance in accordance with Article 103(3), the Council shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Committee provided for in Article 109c, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term objective, or the adjustment path towards it, set in the programme for the general government surplus/deficit.
2. In the event of identified significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, the Council shall as a rule with a view to giving an early warning, if needed to prevent the occurrence of an excessive deficit, make a recommendation in accordance with Article 103(4) to the Member State concerned to take the necessary adjustment measures.

3. In the event that in subsequent monitoring the divergence of the budgetary position from the medium-term objective, or the adjustment path towards it, is seen to persist or worsen, the Council shall as a rule make a recommendation to the Member State concerned to take prompt corrective measures and, as provided for by Article 103(4), may make its recommendation public.

## CHAPTER III

### Convergence programmes

#### SECTION 3

#### Submission and contents of convergence programmes

##### *Article 7*

1. Each non-participating Member State shall submit to the Council and the Commission information necessary for the purpose of the regular multilateral surveillance under Article 103 in the form of a "convergence programme".
2. A convergence programme shall contain the following information, in particular on variables related to the convergence criteria:
  - (a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit as a ratio to GDP; the expected path for the general government debt ratio; and the medium-term monetary policy objectives, particularly with regard to the inflation rate and the exchange rate,
  - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the convergence programme, such as real GDP growth and employment,
  - (c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget,
  - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position,
  - (e) commitment to take additional measures when necessary to prevent slippage from budgetary targets and other medium-term objectives,
3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

##### *Article 8*

1. Convergence programme shall be submitted before 1 January 1999. Thereafter, updated programmes shall be submitted annually.
2. Member States shall make public their convergence programmes and updated programmes.



## SECTION 4

### Surveillance of budgetary positions and early warning system

#### *Article 9*

1. Based on assessments by the Commission and the Committee provided for in Article 109c, the Council shall, within the framework of multilateral surveillance under Article 103, examine whether, having regard to specific national characteristics of non-participating Member States, the medium-term budgetary objective is compatible with the safety margin needed to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective and to achieve sustained convergence. The Council shall examine whether the contents of the convergence programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.
2. The Council shall make the examination of the convergence programme referred to in paragraph 1 within at most two months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee provided for in Article 109c, shall as a rule deliver an opinion on the programme. Where the Council considers that the objectives and contents of a programme should be strengthened, the Council shall as a rule make a recommendation in accordance with Article 103(4) to the Member State concerned to adjust its programme.
3. Updated convergence programmes shall be examined by the Committee provided for in Article 109c on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure of paragraphs 1 and 2.

#### *Article 10*

1. As part of the multilateral surveillance in accordance with Article 103(3), the Council shall monitor the implementation of convergence programmes, on the basis of information provided by non-participating Member States and of assessments by the Commission and the Committee provided for in Article 109c, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term objective, or the adjustment path towards it, set in the programme for the general government surplus/deficit. In addition, the Council shall monitor inflation and exchange rate developments in the light of convergence programme objectives.
2. In the event of identified significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, the Council shall as a rule with a view to giving an early warning, if needed to prevent the occurrence of an excessive deficit, make a recommendation in accordance with Article 103(4) to the Member State concerned to take the necessary adjustment measures.
3. In the event that in subsequent monitoring the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is seen to persist or worsen, the Council shall as a rule make a recommendation to the Member State concerned to take prompt corrective measures and, as provided for by Article 103(4), may make its recommendation public.

## CHAPTER IV

### **Common provisions**

#### *Article 11*

Without prejudice to the assessment of the budgetary positions of individual Member States, the Council, as part of the multilateral surveillance in accordance with Article 103(3), shall also assess the budgetary stance implied by stability and convergence programmes and updated programmes for the single currency area and for the European Community as a whole.

#### *Article 12*

In their reports to the European Parliament in accordance with the second sub-paragraph of Article 103(4) the President of the Council and the Commission shall include the results of the surveillance carried out in the framework of this Regulation.

#### *Article 13*

This Regulation shall enter into force on 1 July 1998.

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



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