



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.10.1996
COM(96) 496 final

96/0247 (SYN)
96/0248 (CNS)

Proposal for a

COUNCIL REGULATION (EC)

on the strengthening of the surveillance and coordination of budgetary positions

Proposal for a

COUNCIL REGULATION (EC)

on speeding up and clarifying the implementation of the excessive deficit procedure

(presented by the Commission)

STABILITY PACT FOR ENSURING BUDGETARY DISCIPLINE IN STAGE THREE OF EMU

Explanatory memorandum

THE BENEFITS OF BUDGETARY DISCIPLINE FOR GROWTH AND EMPLOYMENT

Sound and disciplined public finances are an essential condition for strong and sustainable growth with improved employment creation.

Low budget deficits reduce the public claims on the national product and lessen the burden put on monetary policy ; in addition they contribute to low and stable inflationary expectations. In such a context, monetary policy can deliver low interest rates. This fosters growth and employment via crowding-in of private investment with beneficial supply side effects. Moreover, fiscal discipline, by curbing public debt ratios and hence reducing the interest burden on public debt, will allow government spending to be restructured, by devoting a higher share of public money to political priorities such as infrastructures and education which are important to build long-run growth and employment.

DURABLE BUDGETARY CONVERGENCE IN EMU

In order to harvest the benefits of the single currency, economic and monetary convergence in EMU must be durable. This implies, *inter alia*, low budget deficits on a sustained basis. These views, which are widely shared and enshrined in the Treaty, led the German Government to present a proposal for a "stability pact for Europe" to ensure budgetary discipline in the final stage of EMU. The Madrid European Council in December 1995 confirmed the crucial significance of budgetary discipline and noted the Commission's intention "*to present its conclusions on ways to ensure budgetary discipline and coordination in the monetary union...*".

The issue has been actively discussed since then benefiting, *inter alia*, from the progress report presented by the Commission to the European Council in Florence in June 1996, according to which any new arrangements should (i) be achieved in the context of the Treaty (ii) the requirements for participation in EMU (either in the first group or at a later date) should in no way be changed and (iii) they should be agreed at EU level, even though full application would only concern the Member States participating in the single currency.

During the informal Ecofin Council in Dublin in September 1996 these basic principles and the main features of a future *stability pact* gained wide acceptance.

The Commission proposals for a *stability pact*, in line with its progress report, respect these principles. They take the form of secondary legislation which strengthens and clarifies Treaty provisions related to multilateral surveillance and budgetary discipline. In order to be effective, this will need to be complemented by a strong political commitment from all those involved to apply rigorously the procedures of the Treaty, as further specified and clarified by secondary legislation. This commitment could be enshrined in a declaration by the European Council.

A PREVENTIVE AND DISSUASIVE APPROACH

National budgetary policies in the third stage of EMU 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. In addition, national budgetary policies must be supportive of the stability oriented single monetary policy. The appropriate way for Member States' budgetary policies to ensure such a wide role is through pursuing **medium term budgetary objectives of close to balance or surplus**. The 3% of GDP reference value for the deficit is therefore to be seen as an upper limit in normal circumstances.

In order to make sure that excessive deficits are avoided, the Commission proposes to have a twin-track strategy: a *preventive, early-warning system* for identifying and correcting budgetary slippages before they bring the deficit above the 3% ceiling and a *dissuasive set of rules*, with a sufficient deterrent effect to put pressure on Member States to avoid excessive deficits or to take measures to correct them quickly if they do occur.

Improving prevention: the strengthening of budgetary surveillance

Using the possibilities for secondary legislation provided by Article 103(5), the budgetary aspects of multilateral surveillance need to be reinforced so as to provide an **early warning system**. This enhanced monitoring would rely on an obligation on Member States having adopted the single currency to submit **stability programmes** setting out national medium-term budgetary objectives and other relevant information. National medium-term budgetary targets should be set close to balance or in surplus, but a certain differentiation between countries would be appropriate. This would not be at odds with historical experience, as a majority of the Member States had a budgetary position close to balance before the first oil crisis. These medium term targets would enable Member States to respect the 3% ceiling in all circumstances, apart from unusually severe economic downturns or other exceptional conditions. Stability programmes should be made public.

Departures from the budgetary objectives of close to balance or surplus set in the stability programmes would prompt a warning from the Commission. This could lead to Council recommendations to the Member State concerned with a view to take the necessary measures so as to avoid the risk of breaching the 3% ceiling.

The strengthening of surveillance procedures at Community level will also allow to give more attention to the coordination of budgetary policies at EMU level to ensure that the different budgetary positions form a coherent picture.

Enhancing dissuasion: the strengthening of the excessive deficit procedure

The application of the excessive deficit procedure (including the final step of sanctions) needs to be clarified and accelerated so that it acts as a genuine deterrent. The main elements of the proposed legislation include:

- setting time limits for the key steps of the procedure so that sanctions would be imposed, where appropriate, within the calendar year following the year in which the excessive deficit occurs;
- in this context, defining the "exceptional and temporary" circumstances when the reference value can be breached;
- pre-determining the scale of the pecuniary sanctions.

The Commission considers that the scope of its proposals for secondary legislation requires the use of Article 104c(14), 2nd subparagraph as legal basis. Under this subparagraph, which covers any aspect of the excessive deficit procedure, the Council must act unanimously, after consulting both the European Parliament and the ECB. The Commission believes that the credibility of the stability pact, in which all countries commit themselves to budgetary stability, will benefit from a unanimous vote of the Member States. Accordingly, the proposed regulation and the provisions of Protocol n° 5, whose present content is left unchanged, will form a new integrated set of rules.

The excessive deficit procedure can be speeded up substantially by setting time limits for the completion of key steps. It is suggested that in the standard scenario (see Annex 1) the decision on the existence of an excessive deficit and the issuing of recommendations should be completed by May in the year following that in which an excessive deficit emerges; in the event that the Council judges that insufficient effective action is being taken by a Member State to correct the excessive deficit, then the remaining steps of the procedure and the imposition of sanctions should be completed by December of the same year. It would be possible to activate the procedure earlier in situations where planned deficits already exceed the 3% limit and/or recommendations to take corrective action have already been made by the Council using the early warning system of Article 103 procedures; however, the decision on the existence of an excessive deficit should normally be taken on the basis of the data reporting in March.

In the context of the identification of the existence of an excessive deficit, some of the definitions of Article 104c can be clarified to remove uncertainty, although there will always have to remain some room for Council discretion. In particular, the interpretation of the term "exceptional and temporary" can be clarified to a degree. Although it is unlikely that all possible relevant situations can be covered explicitly, an attempt is made to illustrate quantitatively what a severe economic downturn may mean.

Speeding up the later steps of the procedure will rely crucially on how "effective action" is to be assessed. The Commission proposes to consider publicly announced government decisions as the basis for assessing the appropriateness of the corrective measures. The association of national parliaments to the enactment of such measures, when required by national law, should not hinder the expeditious application of the excessive deficit procedure and detract from its urgency. It is therefore suggested that

there would be a relatively short period by the end of which a government should have adopted measures (e.g. at most four months after the issuing by the Council of the Article 104c(7) recommendation). If the government brought forward no measures within the time limit or the measures proposed were judged by the Council to be insufficient, then the next step of the procedure would be engaged. If, subsequent to a favourable Council assessment of a package of measures, a government withdrew measures or they were voted down by parliament without other sufficient measures being substituted, then the Council could immediately decide to move on to the next step of the procedure.

In any event, the maximum length of the overall procedure including the presumed decision on sanctions should not exceed ten months. While the time delays according to the above schedule may at first sight seem short, it should be recognised that the issuing of a Council recommendation or the later steps of the procedure will come as no surprise to a government, which will effectively have had a much longer period in which to prepare corrective measures. Moreover, the seriousness in stage three of moving into excessive deficit should call for urgent action from all those involved.

Further specification of how sanctions would be applied is also necessary. To this end, it is proposed that, as a rule, a non-interest-bearing deposit will be required whenever sanctions are triggered, possibly supplemented by the non-pecuniary sanctions foreseen by the Treaty, to be decided at the discretion of the Council.

The scale of the deposits, which are to be calculated as a % of GDP, should be sufficiently high in order to have a deterrent effect, without however becoming unbearable and thereby losing credibility or being counterproductive. According to these principles, the Commission proposes that annual deposits would include a fixed component, equal to 0.2% of GDP, and a variable component equal to one tenth of the excess of the deficit over the 3% reference value, and would be subject to a ceiling of 0.5% of GDP. These values imply that any deficit above 6% of GDP would not carry a proportionally higher sanction. The graph in annex depicts the quantitative implications of the proposed rule.

The initial deposit would be transformed into a fine if, after two years, sufficient action to correct the excessive deficit has not been taken. Deposits would be lodged with the Community and the interest on deposits, and fines, would be resources of the general budget of the European Communities.

How the excessive deficit procedure would work beginning in March

Annex 1

Year N

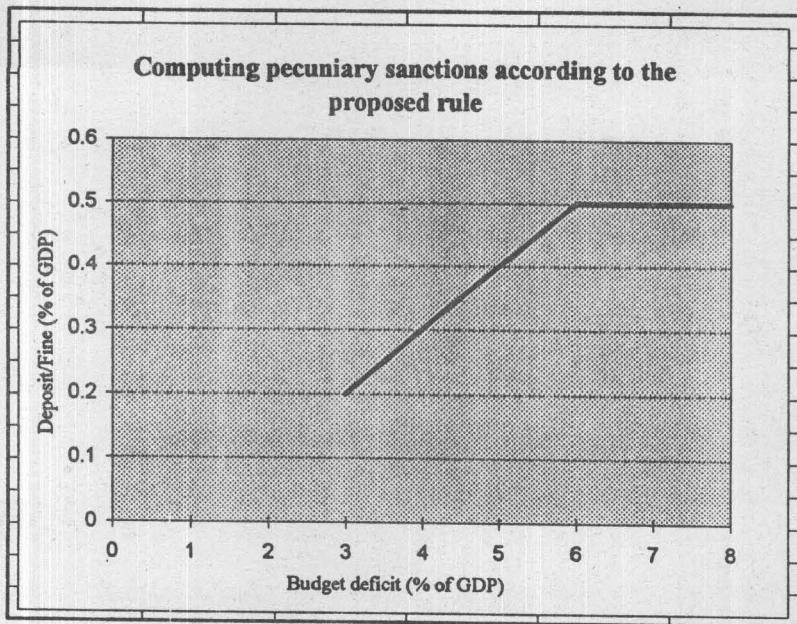
Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
		Member States submit data(1)	Mon. Cttee. formulates opinion	Ecofin decides on excessive deficit and issues recomm.				Ecofin assesses "effective actions" and may decide to publish recomm.	Ecofin gives notice of specific measures		Ecofin decides to apply sanctions
		Comm. prepares report	Comm. prepares opinion					Member States submit data(1)			

N+1 and thereafter

Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
		Member States submit data(1)	Ecofin decides to abrogate or intensify sanctions					Member States submit data(1)			

- (1) According to Council Regulation EC/3605/93 Member States must submit budgetary data twice a year : first until the 1st of March at the latest, afterwards until the 1st of September at the latest.

5



Proposal for a
COUNCIL REGULATION (EC)

96/0247 (SYN)

on the strengthening of the surveillance and coordination of budgetary positions

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 the maintenance of sound budgetary positions in the Member States creates 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 ensure 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 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 positions 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 and a specification of the imposition of sanctions,

(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 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 Member States without a derogation in accordance with Article 109k,

(9) 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; whereas it is important to place a requirement on Member States without a derogation to submit medium-term budgetary programmes (to be called stability programmes) and it is necessary to define the principal contents of such programmes; whereas it is necessary to lay down time limits for the submission of stability programmes and their updates,

(10) Whereas in the interest of transparency and informed public debate Member States without a derogation should be required to make public their stability programmes;

(11) Whereas there is a need to define rules for the examination of stability programmes by the Council,

(12) Whereas the monitoring of stability programmes should be carried out in the framework of the multilateral surveillance; whereas particular attention should be given to slippage from the programme targets for the government surplus/deficit; whereas in order to prevent a serious deterioration in the deficit position of a Member State without a derogation 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;

(13) Whereas it will also be necessary to make similar rules covering the programmes and surveillance of the other Member States,

HAS ADOPTED THIS REGULATION:

SECTION 1

Stability programmes

Article 1

1. Each Member State without a derogation shall submit to the Council and Commission a "stability programme".
2. A stability programme shall contain:
 - (a) medium-term objective and adjustment path for the government surplus/deficit as a ratio to GDP; expected path for the government debt ratio,
 - (b) main assumptions about expected economic developments such as real GDP growth, employment/unemployment, inflation, and other important economic variables,
 - (c) description of budgetary measures being taken to achieve the objectives of the programme,
 - (d) commitment to take additional measures when necessary to prevent slippage from targets,
3. The information about paths for the 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 2

1. Stability programmes shall be submitted before 1 January 1999. Thereafter, updated programmes shall be submitted each year, not later than two months after the presentation of annual budget proposals by a Member State government to its national parliament. A Member State for which an initial derogation is subsequently abrogated according to Article 109k(2), shall submit a stability programme within six months of the decision on abrogation.
2. Member States shall make public their stability programmes and updated programmes.

SECTION 2

Surveillance of budgetary positions and early warning system

Article 3

1. Based on assessments by the Commission and the Committee provided for in Article 109c, the Council shall examine whether, having regard to specific national characteristics, the medium-term budget objective in the stability programme is close to balance or in surplus, 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 objective.
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 after consulting the Committee provided for in Article 109c, may endorse the stability programme. Where the Council considers that the objectives and contents of a programme should be strengthened, the Council, as provided for by Article 103(4), shall in general make a recommendation 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 4

1. As part of the multilateral surveillance in accordance with Article 103(3), the Council shall monitor the implementation of stability programmes, based on information provided by Member States and on assessments by the Commission and the Committee provided for in Article 109c, in particular with a view to identifying actual or expected divergence from the medium-term objective (or the adjustment path towards it) set in the stability programme for the government surplus/deficit.
2. In the event of identified divergence from the medium-term objective (or the adjustment path towards it), the Council shall in general, as provided for by Article 103(4), make a recommendation to the Member State concerned to take budgetary adjustment measures.
3. In the event that in subsequent monitoring the divergence from the medium-term objective (or the adjustment path towards it) is seen to persist or worsen, the Council shall in general make a recommendation to the Member State concerned to take specific corrective action and, as provided for by Article 103(4), may make its recommendation public.
4. As part of the multilateral surveillance in accordance with Article 103(3), the Council shall also assess the overall actual and forecast budgetary positions for the EMU area as a whole implied by national stability programmes and updated programmes.

Article 5

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 6

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.

4

10

Proposal for a

COUNCIL REGULATION (EC)

96/0248 (CNS)

.....
on speeding up and clarifying the implementation of the excessive deficit procedure

THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular the second subparagraph of Article 104c, paragraph 14, thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the European Monetary Institute,

(1) Whereas the maintenance of sound budgetary positions in the Member States creates 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 ensure 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; whereas there is a case for giving a rigorous interpretation to the concept of exception and temporary circumstances which could involve quantifying the concept of significantly negative real growth.

(3) Whereas the Protocol N° 5 on the excessive deficit procedure contains provisions relating to the implementation of the procedure foreseen in Article 104c; whereas further implementing provisions are necessary; whereas, according to the second subparagraph of Article 104c(14), the Council shall adopt the appropriate provisions to that effect; whereas the provisions of this Regulation together with those of the Protocol constitute a new integrated set of rules,

(4) Whereas, according to Article 109k(3), Articles 104c(9) and (11) only apply to those Member States having adopted a single currency,

(5) Whereas there is a need to establish deadlines for the application of the excessive deficit procedure in order to ensure its expeditious and effective application; whereas there is a need to specify how the sanctions foreseen in Article 104c of the Treaty could be imposed on Member States which persistently fail to correct an excessive deficit situation in order to ensure the effective application of the excessive deficit procedure,

(6) Whereas the present regulation forms part of the *stability 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 positions and (ii) speeding up and clarifying the implementation of the excessive deficit procedure; whereas the first of these elements provides an early warning system in which divergences from Member States medium-term budgetary paths are identified and

recommendations made by the Council to take corrective action well before a deficit position seems excessive,

(7) Whereas the rules for such a strengthening of the surveillance and coordination of budgetary positions have been laid down in Council Regulation [...],

(8) Whereas the reinforced surveillance in the terms of Regulation [...] together with the Commission's monitoring of budgetary positions in accordance with paragraph 2 of article 104c provide a basis for a rapid implementation of the excessive deficit procedure,

(9) Whereas, in the light of the above, an overall maximum period of ten months from the reporting date or any other activation of the procedure until, if necessary, the imposition of sanctions seems both feasible and appropriate in order to exert pressure on the Member State to implement corrective measures; in the event of a procedure starting in March this could lead to sanctions being imposed within the calendar year in which the procedure has been started,

(10) Whereas the issuing of a Council recommendation or the later steps of the excessive deficit procedure will come as no surprise to a government, which will effectively have had a much longer period in which to prepare corrective measures. Whereas the seriousness of moving into excessive deficit in stage three should call for urgent action from all those involved,

(11) Whereas when acting with a view to correct the excessive deficit the government of the Member State concerned will, if required by national law, take measures associating the national parliament; whereas the national decision-making process in accordance with article 3 of the Protocol n° 5, should not, as such, hinder the expeditious implementation of the excessive deficit procedure,

(12) Whereas it is considered that, in order to ensure that the excessive deficit procedure has a sufficient deterrent effect, a non interest bearing deposit of appropriate size should be required from the Member State concerned when the Council decides to impose a sanction,

(13) Whereas the definition of sanctions on a prescribed scale removes uncertainties and would thus allow those involved in the procedure to have full information about it; whereas it is appropriate to relate the amount of the deposit to the GDP of the Member State concerned; whereas it is appropriate that the deposit should consist of a fixed component due in all cases when pecuniary sanctions are imposed and a variable component proportional to the excess of the deficit over the 3% of GDP reference value; whereas it is also appropriate to fix a maximum amount, as a percent of GDP, to the sanctions for the latter not to have counterproductive effects,

(14) Whereas in the event that the constitution of a non-interest-bearing deposit does not induce the Member State concerned to correct its excessive deficit then it is appropriate to intensify the sanctions; whereas it is therefore appropriate to transform the deposit into a fine in such an event and require the Member State concerned to constitute a new non-interest-bearing deposit.

(15) Whereas action by the Member State concerned with a view to correcting its excessive deficit is the first step towards abrogation of sanctions; whereas significant progress in correcting the excessive deficit should allow for some lifting of sanctions in accordance with paragraph 12 of article 104c; whereas the abrogation of all outstanding sanctions should only occur once the excessive deficit has been corrected;

(16) Whereas Council Regulation EC n° 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community¹ sets detailed rules for the reporting of budgetary data by the Member States,

¹ OJ n° L 332, 31.12.93, p.7.

(17) Whereas, according to Article 109f(8), where the Treaty provides for a consultative role for the European Central Bank (ECB), references to the ECB shall be read as referring to the European Monetary Institute before the establishment of the ECB,

HAS ADOPTED THIS REGULATION:

SECTION 1

Speeding up the excessive deficit procedure

Article 1

1. The Council shall decide on the existence of an excessive deficit in accordance with Article 104c(6), within three months of the reporting dates established in Articles 4.2 and 4.3 of Council Regulation EC/3605/93. Where it decides on the existence of an excessive deficit in accordance with Article 104c(6) the Council shall issue recommendations to the Member State concerned in accordance with Article 104c(7) at the same time.
2. The excess of a government deficit over the reference value shall be considered exceptional and temporary, in accordance with Article 104c(2a) 2nd indent, when resulting from an unusual event outside the control of the relevant Member State and which has a major impact on the financial position of the general government, or when resulting from a severe economic downturn, in particular in the case of significantly negative annual real growth. In addition, if the unusual event or the severe economic downturn has come to an end or if it is forecast that it will come to an end in the calendar year following the year in which the deficit exceeds the reference value, budgetary forecasts provided by the Commission must indicate that the deficit would fall below the reference value in this same following year.

Article 2

1. Any Council decision to make its recommendations public having established that no effective action has been taken in accordance with Article 104c(8) shall be taken within four months of the decision on the existence of an excessive deficit taken in accordance with Article 104c(6) and the issuing of recommendations in accordance with Article 104c(7).
2. The Council, when considering whether effective action has been taken in response to its recommendations issued in accordance with Article 104c(7), may base its decision on official public decisions by the Government of the Member State concerned. If these official public decisions are not, if necessary, enacted by national legislatures within a time limit to be defined by the Council in its recommendations issued in accordance with Article 104c(7), or if the decisions are modified substantially during the adoption process, then the Council shall reconsider whether effective action has been taken.

Article 3

Any Council decision to give notice to the Member State to take measures for the deficit reduction in accordance with Article 104c(9) shall be taken within one month of the Council decision that no effective action has been taken in accordance with Article 104c(8).

6

13

Article 4

Where the conditions to apply Article 104c(11) are met, the Council will, as a rule, decide to impose sanctions in accordance with Article 104c(11). Any such decision shall be taken no later than two months after the Council decision to give notice to the Member State to take measures in accordance with Article 104c(9).

Article 5

The total time between the reporting dates referred to in Article 1 of this Regulation and a Council decision on the imposition of sanctions referred to in Article 4 of this Regulation shall not exceed ten months.

Article 6

Any Council decision to intensify sanctions (other than the imposition of fines dealt with in Article 9 of this Regulation) in accordance with Article 104c(11), or to abrogate some or all of its decisions in accordance with Article 104c(12), shall be taken no later than two months after the reporting dates pursuant to Council Regulation EC/3605/93.

SECTION 2

Sanctions

Article 7

Whenever the Council decides to apply sanctions to a Member State in accordance with Article 104c(11), a non-interest-bearing deposit would, as a rule, be required. The Council may decide to supplement this deposit by the measures foreseen in the first and second indents of Article 104c(11).

Article 8

When the excessive deficit results from non-compliance with the criterion relating to the government deficit ratio in Article 104c(2a), the amount of the deposit shall comprise of a fixed component equal to 0.2% of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP of the year in which such deficit was deemed excessive and the reference value. An upper limit of 0.5% of GDP is set for the annual amount of deposits.

When the excessive deficit results only from non-compliance with the criterion relating to the government debt ratio in Article 104c(2b), the amount of the deposit shall comprise of a fixed component equal to 0.2% of GDP.

Article 9

The initial deposit will, as a rule, be converted into a fine if within the two subsequent years the excessive deficit has, in the view of the Council, not been corrected. The Council may decide to supplement this fine by the measures foreseen in the first and second indents of Article 104c(11) if the latter had not been applied at the moment of imposing sanctions. At the same time the Member State should be required to make a new non-interest-bearing deposit calculated according to the rule set out in Article 8 of this Regulation.

Article 10

In accordance with Article 104c(12), the Council may decide to abrogate some or all the sanctions defined in the first and second indents of Article 104c(11) to the extent that the Member State is making significant, though not yet sufficient progress in correcting the excessive deficit.

Article 11

In accordance with Article 104c(12), the Council shall abrogate all outstanding sanctions if the decision on the existence of an excessive deficit is abrogated. Fines imposed in accordance with Article 9 of this Regulation will not be returned to the Member State concerned.

Article 12

Deposits as specified in Article 8 of this Regulation shall be lodged with the Commission. Interest on the deposits, and fines specified in Article 9 of this Regulation constitute resources of the general budget of the European Communities.

Article 13

This Regulation shall enter into force on 1 January 1999.

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

ISSN 0254-1475

COM(96) 496 final

DOCUMENTS

EN

09 01 10

Catalogue number : CB-CO-96-523-EN-C

ISBN 92-78-10367-5

Office for Official Publications of the European Communities

L-2985 Luxembourg

16
