



# EUROPEAN UNION

THE EUROPEAN PARLIAMENT

THE COUNCIL

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## LEGISLATIVE ACTS AND OTHER INSTRUMENTS

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Subject: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

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**REGULATION (EU) No .../2011**  
**OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**of**

**amending Council Regulation (EC) No 1466/97**  
**on the strengthening of the surveillance of budgetary positions**  
**and the surveillance and coordination of economic policies**

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 121(6) thereof,

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Central Bank<sup>1</sup>,

Acting in accordance with the ordinary legislative procedure<sup>2</sup>,

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<sup>1</sup> OJ C 150, 20.5.2011, p. 1.

<sup>2</sup> Position of the European Parliament of 28 September 2011 (not yet published in the Official Journal) and decision of the Council of ....

Whereas:

- (1) The coordination of the economic policies of the Member States within the Union, as provided for by the Treaty on the Functioning of the European Union (TFEU) should entail compliance with the guiding principles of stable prices, sound public finances and monetary conditions and a sustainable balance of payments.
- (2) The Stability and Growth Pact (SGP) initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup>, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>2</sup> and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact<sup>3</sup>. Regulations (EC) No 1466/97 and (EC) No 1467/97 were amended in 2005 by Regulations (EC) No 1055/2005<sup>4</sup> and (EC) No 1056/2005<sup>5</sup> respectively. In addition, the Council Report of 20 March 2005 on 'Improving the implementation of the Stability and Growth Pact'<sup>6</sup> was adopted.

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> OJ L 209, 2.8.1997, p. 6.

<sup>3</sup> OJ C 236, 2.8.1997, p. 1.

<sup>4</sup> Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 174, 7.7.2005, p. 1).

<sup>5</sup> Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 174, 7.7.2005, p. 5).

<sup>6</sup> See document st7423/3/05.

- (3) The SGP is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.
- (4) The preventive part of the SGP requires that Member States achieve and maintain a medium-term budgetary objective and submit stability and convergence programmes to that effect. It would benefit from more stringent forms of surveillance in order to ensure Member States' consistency and compliance with the Union's budgetary coordination framework.
- (5) The content of the stability and convergence programmes as well as the procedure for their examination should further be developed both at national and at the level of the Union in the light of the experience gained with the implementation of the SGP.
- (6) The budgetary targets in the stability and convergence programmes should explicitly take into account the measures adopted in line with the broad economic policy guidelines, the guidelines for the employment policies of the Member States and the Union and, in general, the national reform programmes.

- (7) The submission and assessment of stability and convergence programmes should be made before key decisions on the national budgets for the succeeding years are taken. Therefore, an appropriate deadline for submission of the stability and convergence programmes should be established. Taking into account the specificities of the budgetary year of the United Kingdom, special provisions for the date for submission of its convergence programmes should be established.
- (8) Experience gained and mistakes made during the first decade of the economic and monetary union show a need for improved economic governance in the Union, which should be built on a stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies.
- (9) The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and employment, in particular a Union strategy for growth and jobs, with particular focus on developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies (European Semester), an effective framework for preventing and correcting excessive government deficits (the SGP), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board.

- (10) The SGP and the complete economic governance framework complement and support the Union strategy for growth and jobs. Interlinks between the different strands should not provide for exemptions from the provisions of the SGP.
- (11) The strengthening of economic governance should include a closer and more timely involvement of the European Parliament and the national parliaments. While recognising that the counterparts of the European Parliament in the framework of the dialogue are the relevant institutions of the Union and their representatives, the competent committee of the European Parliament may offer an opportunity to participate in an exchange of views to a Member State which is the subject of a Council recommendation in accordance with Article 6(2) or Article 10(2). The Member State's participation in such an exchange of views is voluntary.
- (12) The Commission should have a stronger role in the enhanced surveillance procedure as regards assessments that are specific to each Member State, monitoring, on-site missions, recommendations and warnings.
- (13) The stability and convergence programmes and the national reform programmes should be prepared in a coherent manner and the timing of their submissions should be aligned. Those programmes should be submitted to the Council and to the Commission. They should be made public.

- (14) Under the European Semester the policy surveillance and coordination cycle starts early in the year with a horizontal review in which the European Council, based on input from the Commission and the Council, identifies the main challenges facing the Union and the euro area and gives strategic guidance on policies. Discussion should also take place in the European Parliament at the beginning of the annual cycle of surveillance in due time before the discussion takes place in the European Council. When preparing their stability or convergence programmes and national reform programmes, Member States should take into account the horizontal guidance by the European Council.
- (15) In order to enhance national ownership of the SGP, national budgetary frameworks should be fully aligned with the objectives of multilateral surveillance in the Union, and, in particular, with the European Semester.
- (16) In line with the legal and political arrangements of each Member State, national parliaments should be duly involved in the European Semester and in the preparation of stability programmes, convergence programmes and national reform programmes in order to increase the transparency and ownership of, and accountability for the decisions taken. Where appropriate, the Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee should be consulted within the framework of the European Semester. Relevant stakeholders, in particular the social partners, should be involved, within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.

- (17) Adherence to the medium-term objective for budgetary positions should allow Member States to have a safety margin with respect to the 3 % of GDP reference value in order to ensure sustainable public finances, or rapid progress towards sustainability, while leaving room for budgetary manoeuvre, in particular taking into account the need for public investment. The medium-term budgetary objective should be updated regularly on the basis of a commonly agreed method reflecting appropriately the risks of explicit and implicit liabilities for public finance, as embodied in the aims of the SGP.
- (18) The obligation to achieve and maintain the medium-term budgetary objective needs to be put into operation, through the specification of principles for the adjustment path towards the medium-term objective. Those principles should, inter alia, ensure that revenue windfalls, namely revenues in excess of what can normally be expected from economic growth, are allocated to debt reduction.
- (19) The obligation to achieve and maintain the medium-term budgetary objective should apply to all Member States.



- (20) Sufficient progress towards the medium-term budgetary objective should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures. In this regard, and as long as the medium-term budgetary objective is not achieved, the growth rate of government expenditure should normally not exceed a reference medium-term rate of potential GDP growth, with increases in excess of that norm being matched by discretionary increases in government revenues and discretionary revenue reductions being compensated by reductions in expenditure. The reference medium-term rate of potential GDP growth should be calculated according to a commonly agreed method. The Commission should make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth. The potentially very high variability of investment expenditure should be taken into account, especially in the case of small Member States.
- (21) A faster adjustment path towards the medium-term budgetary objective should be required for Member States faced with a debt level exceeding 60 % of GDP, or with pronounced risks in terms of overall debt sustainability.

- (22) A temporary departure from the adjustment path towards the medium-term budgetary objective should be allowed, when it results from an unusual event outside the control of the Member State concerned, which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term, in order to facilitate economic recovery. The implementation of major structural reforms should also be taken into account in allowing a temporary departure from the medium-term budgetary objective or the appropriate adjustment towards it, on condition of maintaining a safety margin with respect to the deficit reference value. Special attention should be paid in this context to systemic pension reforms, where the departure should reflect the direct incremental cost of the diversion of contributions from the publicly managed to the fully funded pillar. Measures transferring the assets of the fully funded pillar back to the publicly managed pillar should be considered one-off and temporary in nature and hence excluded from the structural balance used for assessing progress towards the medium-term budgetary objective.

(23) In the event of a significant deviation from the adjustment path towards the medium-term budgetary objective, a warning should be addressed by the Commission to the Member State concerned, to be followed within one month by an examination of the situation by the Council and a recommendation for the necessary adjustment measures. The recommendation should set a deadline of no more than five months for addressing the deviation. The Member State concerned should report to the Council on the action taken. If the Member State concerned fails to take appropriate action within the deadline set by the Council, the Council should adopt a decision establishing that no effective action has been taken and should report to the European Council. It is important that failures by Member States to take appropriate action are established in due time, in particular where the failure persists. The Commission should be able to recommend to the Council to adopt revised recommendations. The Commission should be able to invite the ECB to participate in a surveillance mission for euro area Member States and for Member States that are participating in the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of Economic and Monetary Union<sup>1</sup> (ERM2), when appropriate. The Commission should report to the Council on the outcome of the mission and, if appropriate, should be able to decide to make its findings public.

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<sup>1</sup> OJ C 73, 25.3.2006, p. 21.

- (24) The power to adopt individual decisions establishing non-compliance with the recommendations adopted by the Council on the basis of Article 121(4) TFEU establishing policy measures in case a Member State significantly deviates from the adjustment path towards the medium-term budgetary objective should be conferred on the Council. As part of the coordination of the economic policies of the Member States conducted within the Council, as provided for in Article 121(1) TFEU, those individual decisions are an integral follow-up to the referred recommendations adopted by the Council on the basis of Article 121(4) TFEU. The suspension of the voting rights of the members of the Council representing Member States whose currency is not the euro for adoption by the Council of a decision establishing non-compliance with the recommendations addressed to a Member State whose currency is the euro on the basis of Article 121(4) TFEU, is a direct consequence of such decision being an integral follow-up of that recommendation and the provision in Article 139(4) TFEU reserving the right to vote on such recommendations to the Member States whose currency is the euro.
- (25) In order to ensure compliance with the budgetary surveillance framework of the Union for Member States whose currency is the euro, a specific enforcement mechanism should be established on the basis of Article 136 TFEU for cases of significant deviation from the adjustment path towards the medium-term budgetary objective.
- (26) References contained in Regulation (EC) No 1466/97 should take account of the new Article numbering of the TFEU.
- (27) Regulation (EC) No 1466/97 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

## *Article 1*

Regulation (EC) No 1466/97 is hereby amended as follows:

- (1) Article 1 is replaced by the following:

### *"Article 1*

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council and the Commission so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union's objectives for growth and employment."

- (2) Article 2 is replaced by the following:

### *"Article 2*

For the purpose of this Regulation:

- (a) 'participating Member States' means those Member States whose currency is the euro;

(b) 'non-participating Member States' means Member States other than those whose currency is the euro."

(3) The following section is inserted:

"SECTION 1-A

EUROPEAN SEMESTER FOR ECONOMIC POLICY COORDINATION

*Article 2-a*

1. In order to ensure closer coordination of economic policies and sustained convergence of the economic performance of the Member States, the Council shall conduct multilateral surveillance as an integral part of the European Semester for economic policy coordination in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU).
2. The European Semester shall include:
  - (a) the formulation, and the surveillance of the implementation, of the broad guidelines of the economic policies of the Member States and of the Union (broad economic policy guidelines) in accordance with Article 121(2) TFEU;

- (b) the formulation, and the examination of the implementation, of the employment guidelines that must be taken into account by Member States in accordance with Article 148(2) TFEU (employment guidelines);
- (c) the submission and assessment of Member States' stability or convergence programmes under this Regulation;
- (d) the submission and assessment of Member States' national reform programmes supporting the Union's strategy for growth and jobs and established in line with the guidelines set out in point (a) and (b) and with the general guidance to Member States issued by the Commission and the European Council at the beginning of the annual cycle of surveillance;
- (e) the surveillance to prevent and correct macroeconomic imbalances under Regulation (EU) No .../2011 of the European Parliament and of the Council of ...<sup>+</sup> on the prevention and correction of macroeconomic imbalances\*.

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<sup>+</sup> OJ please insert the number and date of the Regulation in doc. PE-CONS 31/11, and complete the footnote.

3. In the course of the European Semester, in order to provide timely and integrated policy advice on macrofiscal and macrostructural policy intentions, the Council shall, as a rule, following the assessment of these programmes on the basis of recommendations from the Commission, address guidance to the Member States making full use of the legal instruments provided under Articles 121 and 148 TFEU, and under this Regulation and Regulation (EU) No .../2011<sup>+</sup>.

Member States shall take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years. Progress shall be monitored by the Commission.

Failure by a Member State to act upon the guidance received may result in:

- (a) further recommendations to take specific measures;
- (b) a warning by the Commission under Article 121(4) TFEU;
- (c) measures under this Regulation, Regulation (EC) No 1467/97 or Regulation (EU) No .../2011<sup>+</sup>.

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<sup>+</sup> OJ please insert the number of the Regulation in doc. PE-CONS 31/11.



Implementation of the measures shall be subject to reinforced monitoring by the Commission and may include surveillance missions under Article -11 of this Regulation.

4. The European Parliament shall be duly involved in the European Semester in order to increase the transparency and ownership of, and the accountability for the decisions taken, in particular by means of the economic dialogue carried out pursuant to Article 2-ab of this Regulation. The Economic and Financial Committee, the Economic Policy Committee, the Employment Committee and the Social Protection Committee shall be consulted within the framework of the European Semester where appropriate. Relevant stakeholders, in particular the social partners, shall be involved within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements.

The President of the Council, and the Commission in accordance with Article 121 TFEU, and, where appropriate, the President of the Eurogroup, shall report annually to the European Parliament and to the European Council on the results of the multilateral surveillance. These reports should be a component of the Economic Dialogue referred to in Article 2-ab of this Regulation.

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\* OJ L ....".

(4) The following section is inserted:

"SECTION 1-Aa

ECONOMIC DIALOGUE

*Article 2-ab*

1. In order to enhance the dialogue between the institutions of the Union, 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 invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss:
  - (a) information provided to the committee by the Council on the broad guidelines of economic policy pursuant to Article 121(2) TFEU;
  - (b) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance;
  - (c) any conclusions drawn by the European Council on orientations for economic policies in the context of the European Semester;
  - (d) the results of multilateral surveillance carried out under this Regulation;

- (e) any conclusions drawn by the European Council on the orientations for and results of multilateral surveillance;
  - (f) any review of the conduct of multilateral surveillance at the end of the European Semester;
  - (g) Council recommendations addressed to Member States in accordance with Article 121(4) TFEU in the event of significant deviation and the report made by the Council to the European Council as defined in Article 6(2) and Article 10(2) of this Regulation.
2. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.
  3. The competent committee of the European Parliament may offer the opportunity to a Member State which is the subject of a Council recommendation under Article 6(2) or Article 10(2) to participate in an exchange of views.
  4. The Council and the Commission shall regularly inform the European Parliament of the application of this Regulation."

- (5) Article 2a is replaced by the following:

*"Article 2a*

Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives may diverge from the requirement of a close to balance or in surplus position, while providing a safety margin with respect to the 3 % of GDP government deficit ratio. The medium-term budgetary objectives shall ensure the sustainability of public finances or a rapid progress towards such sustainability while allowing room for budgetary manoeuvre, considering in particular the need for public investment.

Taking these factors into account, for participating Member States and for Member States that are participating in ERM2 the country-specific medium-term budgetary objectives shall be specified within a defined range between -1 % of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures.

The medium-term budgetary objective shall be revised every three years. A Member State's medium-term budgetary objective may be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances.

The respect of the medium-term budgetary objective shall be included in the national medium-term budgetary frameworks in accordance with Chapter IV of Council Directive 2011/.../EU of ...<sup>+</sup> on requirements for budgetary frameworks of the Member States\*.

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\* OJ L ....".

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<sup>+</sup> OJ please insert the number and date of the Directive in doc. st14616/11, and complete the footnote.

(6) Article 3 is amended as follows:

(a) paragraph 1 is replaced by the following:

"1. Each participating Member State shall submit to the Council and to the Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 121 TFEU in the form of a stability programme, which provides an essential basis for the sustainability of public finances which is conducive to price stability, strong sustainable growth and employment creation.";

(b) in paragraph 2, points (a), (b) and (c) are replaced by the following:

"(a) the medium-term budgetary objective and the adjustment path towards that objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 5(1), the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures;

- (aa) information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with a potentially large impact on the general government accounts;
- (ab) information on the consistency of the stability programme with the broad economic policy guidelines and the national reform programme;
- (b) the main assumptions about expected economic developments and important economic variables which are relevant to the achievement of the stability programme, such as government investment expenditure, real GDP growth, employment and inflation;
- (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth;"

(c) the following paragraph is inserted:

"2a. The stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.

The exact nature of the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.";

(d) paragraph 3 is replaced by the following:

"3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, appropriately quantified, and the main economic assumptions referred to in points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following three years.



4. Each programme shall include information on its status in the context of national procedures, in particular whether the programme was presented to the national parliament, and whether the national parliament had the opportunity to discuss the Council's opinion on the previous programme or, if relevant, any recommendation or warning, and whether there has been parliamentary approval of the programme."

(7) Article 4 is replaced by the following:

*"Article 4*

1. Stability programmes shall be submitted annually in April, preferably by mid-April and not later than 30 April.
2. Member States shall make public their stability programmes."

(8) Article 5 is replaced by the following:

*"Article 5*

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 TFEU, examine the medium-term budgetary objectives presented by the Member States concerned in their stability programmes, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, including consideration of the accompanying path for the debt ratio, and whether the measures being taken or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle.

The Council and the Commission, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically-adjusted budget balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark. For Member States faced with a debt level exceeding 60 % of GDP or with pronounced risks of overall debt sustainability, the Council and the Commission shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures is higher than 0,5 % of GDP. The Council and the Commission shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort might be more limited in economic bad times. In particular, revenue windfalls and shortfalls shall be taken into account.

Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this end, the Council and the Commission shall assess whether the growth path of government expenditure, taken in conjunction with the effect of measures being taken or planned on the revenue side, is in accordance with the following conditions:

- (a) for Member States that have achieved their medium-term budgetary objective, annual expenditure growth does not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a reference medium-term rate of potential GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;
- (c) for Member States that have not yet reached their medium-term budgetary objective, discretionary reductions of government revenue items are matched either by expenditure reductions or by discretionary increases in other government revenue items or both.

The expenditure aggregate shall exclude interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess expenditure growth over the medium-term reference shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.

The reference medium-term rate of potential GDP growth shall be determined on the basis of forward-looking projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective, and in allowing a temporary deviation from this objective for Member States that have already reached it, provided that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Particular attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council and the Commission shall also examine whether the stability programme facilitates the achievement of sustained and real convergence within the euro area and the closer coordination of economic policies, and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines and the employment guidelines of the Member States and of the Union.

In the case of an unusual event outside the control of the Member State concerned which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the stability programme within at most three months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme."

(9) Article 6 is replaced by the following:

*"Article 6*

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission 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 Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.

2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 5(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within one month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than five months for addressing the deviation. The deadline shall be reduced to three months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.



If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after one month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within ten days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, only members of the Council representing participating Member States shall vote and the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 5(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

- (a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in two consecutive years;
- (b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in two consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the stability programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when it results from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term."

(10) Article 7 is amended as follows:

(a) paragraph 1 is replaced by the following:

"1. Each non-participating Member State shall submit to the Council and to the Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 121 TFEU in the form of a convergence programme, which provides an essential basis for the sustainability of public finances which is conducive to price stability, strong sustainable growth and employment creation.";

(b) in paragraph 2, points (a), (b) and (c) are replaced by the following:

- "(a) the medium-term budgetary objective and the adjustment path towards this objective for the general government balance as a percentage of GDP, the expected path of the general government debt ratio, the planned growth path of government expenditure, including the corresponding allocation for gross fixed capital formation, in particular bearing in mind the conditions and criteria to establish the expenditure growth under Article 9(1), the planned growth path of government revenue at unchanged policy and a quantification of the planned discretionary revenue measures, the medium-term monetary policy objectives, the relationship of those objectives to price and exchange rate stability and to the achievement of sustained convergence;
- (aa) information on implicit liabilities related to ageing, and contingent liabilities, such as public guarantees, with a potentially large impact on the general government accounts;
- (ab) information on the consistency of the convergence programme with the broad economic policy guidelines and the national reform programme;

- (b) the main assumptions about expected economic developments and important economic variables which are relevant to the achievement of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;
  - (c) a quantitative assessment of the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, comprising a cost-benefit analysis of major structural reforms, which have direct long-term positive budgetary effects, including by raising potential sustainable growth;"
- (c) the following paragraph is inserted:
- "2a. The convergence programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts.

The exact nature of the information included in points (a), (aa), (b), (c) and (d) of paragraph 2 shall be set out in a harmonised framework established by the Commission in cooperation with the Member States.";

(d) paragraph 3 is replaced by the following:

- "3. The information about the paths for the general government balance and debt ratio, the growth of government expenditure, the planned growth path of government revenue at unchanged policy, the planned discretionary revenue measures, appropriately quantified, and the main economic assumptions referred to in points (a) and (b) of paragraph 2 shall be on an annual basis and shall cover the preceding year, the current year and at least the following three years.
4. Each programme shall include information on its status in the context of national procedures, in particular whether the programme was presented to the national parliament, and whether the national parliament had the opportunity to discuss the Council opinion on the previous programme or, if relevant, any recommendation or warning, and whether there has been parliamentary approval of the programme."

(11) Article 8 is replaced by the following:

*"Article 8*

1. Convergence programmes shall be submitted annually in April, preferably by mid April and not later than 30 April.
2. Member States shall make public their convergence programmes."

(12) Article 9 is replaced by the following:

*"Article 9*

1. Based on assessments by the Commission and the Economic and Financial Committee, the Council shall, within the framework of multilateral surveillance under Article 121 TFEU, examine the medium-term budgetary objectives presented by the Member States concerned in their convergence programmes, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate, including consideration of the accompanying path for the debt ratio, and whether the measures being taken or proposed to respect that adjustment path are sufficient to achieve the medium-term budgetary objective over the cycle and to achieve sustained convergence.

The Council and the Commission, when assessing the adjustment path toward the medium-term budgetary objective, shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort might be more limited in economic bad times. In particular, revenue windfalls and shortfalls shall be taken into account. For Member States faced with a debt level exceeding 60 % of GDP or with pronounced risks of overall debt sustainability, the Council and the Commission shall examine whether the annual improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures, is higher than 0,5 % of GDP. For Member States that are participating in ERM2, the Council and the Commission shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0,5 % of GDP as a benchmark.



Sufficient progress towards the medium-term budgetary objective shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures. To this end, the Council and the Commission shall assess whether the growth path of government expenditure, taken in conjunction with the effect of measures being taken or planned on the revenue side, is in accordance with the following conditions:

- (a) for Member States that have achieved their medium-term budgetary objective, annual expenditure growth does not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures;
- (b) for Member States that have not yet reached their medium-term budgetary objective, annual expenditure growth does not exceed a rate below a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures. The size of the shortfall of the growth rate of government expenditure compared to a reference medium-term rate of potential GDP growth is set in such a way as to ensure an appropriate adjustment towards the medium-term budgetary objective;
- (c) for Member States that have not yet reached their medium-term budgetary objective, discretionary reductions of government revenue items are matched either by expenditure reductions or by discretionary increases in other government revenue items or both.

The expenditure aggregate shall exclude interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure.

The excess expenditure growth over the medium-term reference shall not be counted as a breach of the benchmark to the extent that it is fully offset by revenue increases mandated by law.

The reference medium-term rate of potential GDP growth shall be determined on the basis of forward-looking projections and backward-looking estimates. Projections shall be updated at regular intervals. The Commission shall make public the calculation method for those projections and the resulting reference medium-term rate of potential GDP growth.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective, and in allowing a temporary deviation from this objective for Member States that have already reached it, provided that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Particular attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the amount of the direct incremental impact of the reform on the general government balance, provided that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council and the Commission shall also examine whether the convergence programme facilitates the achievement of sustained and real convergence and the closer coordination of economic policies, and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines and the employment guidelines of the Member States and of the Union. In addition, for Member States that are participating in ERM2, the Council shall examine whether the convergence programme ensures a smooth participation in the exchange rate mechanism.

In the case of an unusual event outside the control of the Member State concerned, which has a major impact on the financial position of the general government or in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph, provided that this does not endanger fiscal sustainability in the medium term.

2. The Council and the Commission shall examine the convergence programme within at most three months of its submission. The Council, on a recommendation from the Commission and after consulting the Economic and Financial Committee, shall, if necessary, adopt an opinion on the programme. Where the Council, in accordance with Article 121 TFEU, considers that the objectives and the content of the programme should be strengthened with particular reference to the adjustment path towards the medium-term budgetary objective, the Council shall in its opinion invite the Member State concerned to adjust its programme."

(13) Article 10 is replaced by the following:

*"Article 10*

1. As part of multilateral surveillance in accordance with Article 121(3) TFEU, the Council and the Commission shall monitor the implementation of convergence programmes, on the basis of information provided by Member States with a derogation and of assessments by the Commission and the Economic and Financial Committee, in particular with a view to identifying actual or expected significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it.

In addition, the Council and the Commission shall monitor the economic policies of non-participating Member States in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event of a significant observed deviation from the adjustment path towards the medium-term budgetary objective referred to in the third subparagraph of Article 9(1) of this Regulation, and in order to prevent the occurrence of an excessive deficit, the Commission shall address a warning to the Member State concerned in accordance with Article 121(4) TFEU.

The Council shall, within one month of the date of adoption of the warning referred to in the first subparagraph, examine the situation and adopt a recommendation for the necessary policy measures, on the basis of a Commission recommendation, based on Article 121(4) TFEU. The recommendation shall set a deadline of no more than five months for addressing the deviation. The deadline shall be reduced to three months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the Commission, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

If the Member State concerned fails to take appropriate action within the deadline specified in a Council recommendation under the second subparagraph, the Commission shall immediately recommend to the Council to adopt, by qualified majority, a decision establishing that no effective action has been taken. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

In the event that the Council does not adopt the decision on the Commission recommendation that no effective action has been taken, and failure to take appropriate action on the part of the Member State concerned persists, the Commission, after one month from its earlier recommendation, shall recommend to the Council to adopt the decision establishing that no effective action has been taken. The decision shall be deemed to be adopted by the Council unless it decides, by simple majority, to reject the recommendation within ten days of its adoption by the Commission. At the same time, the Commission may recommend to the Council to adopt a revised recommendation under Article 121(4) TFEU on necessary policy measures.

When taking the decision on non-compliance referred to in the fourth and fifth subparagraphs, the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.

The Council shall submit a formal report to the European Council on the decisions taken accordingly.

3. A deviation from the medium-term budgetary objective or from the appropriate adjustment path towards it shall be evaluated on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures, as defined in Article 9(1).

The assessment of whether the deviation is significant shall, in particular, include the following criteria:

- (a) for a Member State that has not reached the medium-term budgetary objective, when assessing the change in the structural balance, whether the deviation is at least 0,5 % of GDP in a single year or at least 0,25 % of GDP on average per year in two consecutive years;
- (b) when assessing expenditure developments net of discretionary revenue measures, whether the deviation has a total impact on the government balance of at least 0,5 % of GDP in a single year or cumulatively in two consecutive years.

The deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls and the budgetary plans laid out in the convergence programme do not jeopardise that objective over the programme period.

Similarly, the deviation may be left out of consideration when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, on the condition that this does not endanger fiscal sustainability in the medium term."



(14) The following section is inserted:

"SECTION 3A

PRINCIPLE OF STATISTICAL INDEPENDENCE

*Article 10a*

With a view to ensuring that the multilateral surveillance is based on sound and independent statistics, Member States shall ensure the professional independence of national statistical authorities, which shall be consistent with the European statistics code of practice as laid down in Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European Statistics\*. As a minimum this shall require:

- (a) transparent recruitment and dismissal processes which must be solely based on professional criteria;
- (b) budgetary allocations which must be made on an annual or a multiannual basis;
- (c) the date of publication of key statistical information which must be designated significantly in advance.

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\* OJ L 87, 31.3.2009, p. 164."

(15) The following article is inserted:

*"Article -11*

1. The Commission shall ensure a permanent dialogue with the relevant authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular, carry out missions for the purpose of the assessment of the economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.
2. The Commission may undertake enhanced surveillance missions in Member States which are the subject of recommendations issued under Article 6(2) or Article 10(2) for the purposes of on-site monitoring. The Member States concerned shall provide all necessary information for the preparation and the conduct of those missions.
3. When the Member State concerned is a participating Member State or a Member State that is participating in ERM2, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.
4. The Commission shall report to the Council on the outcome of the missions referred to in paragraph 2 and, if appropriate, may decide to make its findings public.
5. When organising the missions referred to in paragraph 2, the Commission shall transmit its provisional findings to the Member States concerned for comments."

(16) The following article is inserted:

*"Article 12a*

1. By ...\* 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, particularly whether the provisions governing decision-making have proved sufficiently robust;
- (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU.

2. Where appropriate, this report shall be accompanied by a proposal for amendments to this Regulation, including to the decision-making procedures.

3. The report shall be forwarded to the European Parliament and the Council."

(17) All references to 'Article 99 of the Treaty' shall be replaced throughout the Regulation by references to 'Article 121 TFEU'.

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\* OJ: please insert date: three years after the entry into force of this Regulation.

*Article 2*

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 all Member States.

Done at,

*For the European Parliament*

*The President*

*For the Council*

*The President*

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